Accounting principles (unaudited)

1 Basis for financial accounting

1.1 Basis for financial accounting

The interim financial reporting was prepared in accordance with the International Financial Reporting Standards (IFRS) and complies with the requirements of IAS 34 "Interim Financial Reporting". The significant accounting and valuation methods employed in the preparation of the unaudited interim financial reporting correspond to those used in the 2017 annual report. In addition, the regulations valid since 1 January 2018 have been applied.

The unaudited interim financial reporting does not encompass all the data contained in the audited 2017 consolidated financial statement and should, therefore, be read together with the audited consolidated financial statement as at 31 December 2017. The interim financial reporting was compiled in fulfilment of obligations under stock exchange law and, in addition, is provided for information purposes.

On account of detailed definitions in its presentation, the interim financial reporting can contain reclassifications. These have no effect on the business result. No further details of reclassifications are provided because the only adjustments concern the type of presentation.

1.2 Estimates made in the preparation of the interim financial reporting

In preparing the interim financial reporting in conformity with IFRS, management is required to make estimates and assumptions. These contain statements concerning the future, which provide no guarantee whatsoever about future developments. These statements include, but are not limited to, risks and uncertainties concerning future global business conditions, foreign exchange rates, regulatory provisions, market conditions, the activities of competitors, as well as other factors beyond the control of the company. This may have an impact on individual income and expense positions, on assets and liabilities, as well as on the disclosure of contingent assets and liabilities. Use of information available to the LLB on the balance sheet date and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates, and the differences could be material to the financial statements. The LLB is under no obligation to update the forward-looking statements made in this interim financial reporting. The IFRS contain guidelines, which require the LLB Group to make estimates and assumptions when preparing the interim financial reporting. Allowances for credit loss expense, goodwill, intangible assets, provisions for legal and litigation risks, fair value criteria for financial instruments and pension schemes are areas with a wide scope of discretion, with which estimates and assumptions could be of vital importance for the financial reporting. Explanations regarding this point are shown under note 12 and note 13 in the 2018 consolidated interim financial reporting and under note 13, note 19, note 26, note 34 and note 41 of the 2017 consolidated financial statement.

The LLB Group periodically reviews the actuarial assumptions and parameters used for the calculation of pension obligations. The actuarial assumptions and parameters used for the calculation of pension obligations in the 2017 annual financial statement were adjusted accordingly in the 2018 interim financial reporting.

1.3 Amended and new IFRS standards and their effects

New IFRS standards, as well as revisions and interpretations of existing IFRS standards, which must be applied for financial years beginning on 1 January 2018 or later, were published or in some cases came into effect.

The new standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers", which are dealt with in more detail in a separate section, as well as the amendments to IAS 1 "Presentation of Financial Statements" and IAS 40 "Investment Property" were designated as relevant for the LLB Group for the 2018 financial year. The application of the amendments to IFRS 15, IAS 1 and IAS 40 has no major effect on the financial reporting. In the case of both IFRS 9 and IFRS 15, the transition rulings enable a modified retroactive adjustment to be made. Effects arising from the transition to the new standard will be recognised in equity without affecting the income statement; no restatement of the comparison period will be made. The LLB Group has elected to adopt the simplified form for the initial application of these standards, i.e. the values for the prior comparison periods will be presented according to the old regulations. The transition from IAS 18 "Revenue" and the relevant interpretations of IFRS 15 do not result in a correction of equity because the balance sheet does not contain any positions that would be subject to the IFRS 15 regulations. Within the scope of the application of IFRS 9, the LLB Group decided in favour of the early implementation of the amendments to IFRS 9, which concern the right of early termination and which were published by the International Accounting Standards Board (IASB) in October 2017. The early application will have no material impact.

In comparison with the 2017 Annual Report, the International Accounting Standards Board (IASB) issued further regulations during the report period, which will be relevant for the LLB Group from 1 January 2019 or later. These encompass the Conceptual Framework and the amendments to IAS 19 "Employee Benefits".

If new or amended IFRS standards or interpretations, which are relevant for the LLB Group, have already been described in the 2017 Annual Report, only significant, new information compared with 31 December 2017 is provided here.

- IFRS 16 "Leasing" – In the first quarter of 2018 a project was started with the aim of ensuring an application of the standard in conformance with IFRS. In spite of the fact that currently there are only a few leasing contracts, which would convey the right to use an asset and lead to a leasing obligation, it was decided to install software for the proper presentation of these positions on the balance sheet. Approval and release of the software is planned for the third

quarter of 2018. Accordingly, in the fourth quarter all leasing contracts that fulfil the accounting criteria for a leasing contract and that currently represent operating leases will be recognised from 1 January 2019. Leasing contracts exist in the form of leases for office premises and properties. As a result of the takeover of the Semper Constantia Group from 4 July 2018, vehicle leasing contracts will be added to the existing portfolio. The simplified approach can serve as a transition method, meaning that no comparatives need to be restated. The effects of introducing the new standard on impairment of key figures is regarded as not being material.

- IAS 19 "Employee Benefits" – The amendments to IAS 19 were introduced to eliminate differences in accounting practices. Previously, rulings existed for how changes to contribution and benefit payments were to be considered for the calculation of net debt and net interest, but not however what procedure was to be adopted if amendments, curtailments, or settlements to defined benefit plans occurred during the report period. From now on it is stipulated that when an amendment, curtailment or settlement of a defined benefit plan occurs, the current service cost and the net interest for the period after the remeasurement are to be determined using the assumptions used for the remeasurement. In a first step, the effects of a plan amendment, curtailment or settlement are to be recognised without considering any possible effects in relation to the asset ceiling. The determination and possible adjustment of the asset ceiling will only follow in a second step. The amendments are valid for financial years beginning from 1 January 2019 and are to be applied prospectively. At the present time, the amendments are not regarded as being material for the LLB Group.
- Conceptual Framework – A new Conceptual Framework was published in March 2018. This aims to support the IASB both in developing new standards on the basis of uniform concepts and to help the persons preparing financial statements to formulate new accounting policies. In addition, it should assist all users to understand and interpret IFRS. The Framework is not a standard and does not override any specific regulation in the standards. The Framework is to be applied for financial years beginning on or after 1 January 2020. An earlier adoption is possible but the LLB Group will probably not choose to adopt this in advance. The possible effects are currently being analysed.

1.4 Initial application of IFRS 9

The LLB Group has applied IFRS since 1 January 2018 . IFRS 9 is structured in three phases by the IASB: "Classification and Measurement", "Impairment" and "Hedge Accounting". The following information relates only to classification and measurement as well as impairment. Under IFRS 9, macro-hedge accounting on the portfolio level, which the LLB Group currently applies, has not so far been regulated. Therefore, the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" continue to apply.

1.4.1 Classification and measurement

Under IFRS 9, there are three methods of measuring financial assets. How a financial asset is measured depends on the business model employed by the company and the cash flow characteristics of the financial asset.

Classification and measurement under IFRS 9

- Amortised Cost (AC) – In order for financial assets to be measured at amortised cost, a company must adopt a business model aimed at the collection of contractual cash flows ("Hold" business model). The cash flows are collected at specified time points and consist solely of payments of principal and interest (SPPI). Under this business model only very restricted sales are possible, and only when certain conditions are fulfilled.
- Fair Value through Other Comprehensive Income (FVOCI) – Financial assets are classified and measured at FVOCI if they are held in a business model whose objective is attained by both the collecting of contractual cash flows and the sale of financial assets ("Hold to Collect and Sell" business model). The cash flows are collected at specified times and consist solely of payments of principal and interest (SPPI). By adopting a business model of this type, the LLB Group brings into line various objectives such as managing daily liquidity requirements, ensuring a specific interest yield profile or matching the duration of financial assets with the duration of the liabilities that those assets are funding.
- Fair Value through Profit and Loss (FVTPL) – Assets that do not meet the criteria for AC or FVOCI are measured at fair value through profit and loss ("Others" business model). Furthermore, measurement at FVTPL is basically carried out in combination with the "Trading" business model. The aim of this business model is generally active buying and selling. The collection of contractual cash flows is not integral to, but rather of secondary importance for the fulfilment of this business model's objective.

It is always possible to designate a financial asset irreversibly at inception if there is an accounting mismatch and this can thereby be eliminated. In the case of debt instruments, the possibility exists of assigning them an FVTPL designation. Equity instruments are measured at FVTPL, provided they have not been given a FVOCI designation. The consequence of the latter is that in the event of the instruments being sold, no reclassifying of accrued unrealised income in other comprehensive income (OCI) is possible.

Basically, financial liabilities are classified at amortised cost, unless one of the exceptions mentioned in IFRS 9.4.2. applies, or the right to choose measurement at FVTPL is used.

The effects of the transition from IAS 39 to IFRS 9 on the classification of financial assets and financial liabilities

At the LLB Group, the application of IFRS 9 only has an impact on financial assets that are contained in the balance sheet position "Financial investments". For the LLB Group this is the only position where, as a result of broad discretionary scope and estimates in relation to the business model and the SPPI ability, the measurement under IFRS 9 can differ from that under IAS 39. For all the other balance sheet positions, for which IFRS 9 is applicable, the classification under IFRS 9 is identical to that under IAS 39.

Application of the business models

The management of the LLB Group specifies the strategy, and therefore the related business model, for all the Group companies. Two business models come into question for the financial assets that were contained in the Group's portfolio at the time of transition, i.e. the "Hold to Collect and Sell" and the "Others" business models. In addition, equities that fulfilled the definition criteria of equity instruments were irreversibly designated as FVOCI. The decision regarding the allocation to a business model or designation was made at the product level.

Debt instruments – Under IAS 39 these instruments were recognised both at fair value through profit and loss, as well as available for sale (AFS). Those debt instruments that were measured at fair value through profit and loss under IAS 39 were assigned to the "Others" business model. The debt instruments that were measured as available for sale under IAS 39 were allocated to the "Hold to Collect and Sell" business model. The primary aim of this allocation of debt instruments is the management of liquidity requirements. From 1 January 2018, all new debt instruments will be assigned to the "Hold to Collect and Sell" business model.

Equity instruments – Under IAS 39 equity instruments were measured at fair value through profit and loss. These included equity instruments with an infrastructure character and investment funds that were classified as equity. With the transition from IAS 39 to IFRS 9 equity instruments with an infrastructure character have been designated at FVOCI. Investment funds continue to be measured at FVTPL because they do not meet the criteria for SPPI cash flows but are now reported under debt instruments.

Assessment of the SPPI

The assessment of whether financial assets conform to SPPI criteria is a critical judgement. The SPPI test is particularly relevant in the case of complex products. Within the LLB Group, the assessment is decisive for the classification of debt instruments because the SPPI condition is a co-factor in deciding how a debt instrument is to be measured. The assessment of every debt instrument is made internally prior to the classification. The internal assessment is checked against a downstream external Bloomberg assessment.

Comparison of assessments under IAS 39 and IFRS 9

The adjacent table summarises the statements made and compares the measurements under IAS 39 and IFRS 9:

	Measurement under IAS 39	Measurement under IFRS 9
Assets		
Cash and balances with central banks	Amortised cost	Amortised cost
Due from banks	Amortised cost	Amortised cost
Loans	Amortised cost	Amortised cost
Trading portfolio assets	FVTPL	FVTPL
Derivative financial instruments	FVTPL	FVTPL
Financial investments at fair value		
Debt instruments	FVTPL	FVTPL
Debt instruments	Available for sale	FVOCI
Equity instruments	FVTPL	FVOCI
Accrued income and prepaid expenses	Amortised cost	Amortised cost
Liabilities		
Due to banks	Amortised cost	Amortised cost
Due to customers	Amortised cost	Amortised cost
Derivative financial instruments	FVTPL	FVTPL
Debt issued	Amortised cost	Amortised cost
Accrued expenses and deferred income	Amortised cost	Amortised cost

A transition of the carrying values is shown in Chapter 1.4.3 Quantitative disclosure.

Measurement of financial assets

Initial recognition is basically made at fair value and, in the case of financial assets that are not recognised at fair value, with the addition of transaction cost. This corresponds to a valuation at effective cost. Subsequent measurement may differ depending on which classification an asset has or whether a designation has been made.

In line with the simplified transition to IFRS 9, in the comparison year the measurement basis is shown according to IAS 39. This can be seen in the 2017 Annual Report.

- Financial assets at fair value through profit and loss – Financial assets are measured at fair value. Non-realised gains or losses are recognised at fair value through profit and loss in income from financial investments. The fair value of listed shares is measured on the basis of the current offer price. If there is no active market for a financial asset, or the asset is not listed on an exchange, the fair value is determined using suitable valuation methods. These encompass reference to recent transactions between independent business partners; the application of the current market prices of other assets, which are essentially similar to the assets being valued; the discounted cash flow procedure; external pricing models, which take into account the special circumstances of the issuer. See also note 13. Interest earnings from financial investments are recognised at fair value in net interest income, and income from dividends is recognised at fair value in income from financial investments. Interest is recognised on an accrual basis.
- Financial assets recognised at fair value through other comprehensive income (FVOCI) – Measurement differs depending on whether the positions are debt or equity instruments. Debt instruments are measured at amortised cost, whereby the effective interest rate method is applied minus any expected credit losses. Thereafter the value at amortised cost is adjusted to correspond to fair value. The fair value of these financial assets is measured on the basis of listed shares. If there is no active market, or if the assets are not listed on an exchange, the fair value is determined using suitable valuation methods similar to those used for assets measured at fair value through profit and loss. See also note 13. Possible gains or losses arising from value fluctuations are recognised in other comprehensive income. Interest on debt instruments is recognised on an accrual basis and reported using the effective interest method under interest income. Upon disposal of the debt instrument, the unrealised gains or losses reported in the statement of comprehensive income are reclassified in the income statement. Equity instruments are recognised at fair value. Changes in value, gains or losses are reported in other comprehensive income. The fair value of these financial assets is measured in exactly the same manner as with debt instruments. Dividend earnings are recognised in the income statement. Upon disposal of the equity instrument, the unrealised gains or losses reported in the statement of comprehensive income are not reclassified in the income statement. These are reclassified in retained earnings without affecting the income statement.

1.4.2 Impairment

The impairment regulations contained in IFRS 9, which are to be applied from 1 January 2018, are based on the expected credit loss model (ECL model) and supersede the incurred loss model (ICR model) stipulated in IAS 39. For all positions that are exposed to a credit loss risk and not recognised at fair value through profit and loss, in accordance with IFRS 9, an expected credit loss is to be calculated and recognised. Against the backdrop of IFRS 9, the LLB Group developed and implemented an impairment model in order to quantify expected credit losses. An expected credit loss is recognised initially in equity (retained earnings) without affecting the income statement.

Governance with respect to input factors, assumptions and estimation procedures

The impairment model for the determination of the expected loss requires a range of input factors, assumptions and estimation procedures that are specific to the individual institute. This in turn necessitates the establishment of a governance process. The Group Credit Risk Committee is responsible for the regular review, stipulation and approval of input factors, assumptions and estimation procedures, which must be carried out at least once a year. In addition, internal control systems at the LLB Group ensure the correct quantification of the expected loss as well as the conformance with IFRS.

Segmentation of the credit portfolio

The LLB Group segments its credit portfolio according to two criteria: by type of credit and by customer segment. The following types of credit are considered for the modelling of PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) calculation parameters:

- Mortgage loans
- Lombard loans
- Unsecured loans
- Financial guarantees
- Credit cards
- Bank deposits, secured
- Bank deposits, unsecured
- Financial investments
- SIC (Swiss National Bank)

In the case of the first five listed types of credit, a further differentiation is made between the customer segments: private clients, corporate clients and public sector debtors. Consequently, 19 segments were formed differing from each other in the modelling of the calculation parameters, to enable the LLB Group's credit portfolio to be segregated into risk groups that are as homogenous as possible.

Modelling principles and calculation parameters of expected credit loss

The calculation of the expected credit loss is based on the components: probability of default, (PD), exposure at default (EAD) and loss given default (LGD), whereby specific scenarios are used to determine these criteria. The most important differences in the modelling of the calculation parameters are shown in the following.

- PD: The probability of default is determined differently depending on the segment. In the case of corporate clients, the ratings are based on an external scoring model where the financial statements of the corporate clients serve as a basis for the calculation of the respective ratings and probability of default. With bank and financial deposits, the ratings and probability of default are obtained from external sources (Moody's). Basically, the probability of default is calculated at the position level. One exception is the private clients segment, where a global probability of default is applied for the entire client segment. In determining the portfolio probability of default, the only differentiation made is between the above-mentioned credit segments. Here the probability of default is based on internal historical default rates. A common factor with all the ratings is that the probability of default in all cases is determined on a through-the-cycle (TTC) basis, which is adjusted within the scope of micro-scenarios to take into consideration the expected economic conditions (point in time, PIT). For this purpose, in the case of private and corporate clients, the LLB Group estimates the development of interest rates as well as of gross domestic product, and models the impact of the expected economic development on the probability of default. In the case of bank and financial deposits with ratings from Moody's, the rating agency's outlook for the expected future development of the ratings is taken into consideration.
- EAD: Exposure at default is determined on the basis of the average amortised cost in the individual monthly period. The development of amortised cost is calculated on the basis of the initial credit exposure compounded with the effective interest, plus or minus additional inflows or outflows of resources such as amortisation payments. The average amortised cost of the individual periods is extrapolated from the overall development through integration and then division by the duration of the periods. The term of the loans is defined in the individual credit agreements. In the case of loans with an unspecified term, a model is used to ascertain the term. The period of notice is used as a basis for the calculation. Cash inflows (loan repayments) are defined on the basis of the planned amortisation payments. Cash outflows (loan increases) are dependent on the type of loan and the agreed-but-not-yet-utilised credit limit. Internal experts estimate a credit conversion factor, which is then employed to define the expected credit utilisation.
- LGD: Basically, there are three approaches for determining the loss given default (LGD): internal loss given default models (loans with real estate collateral), estimates made by internal experts (Lombard loans) and external studies from Moody's (bank and financial

deposits). In the case of loss given default models, the LGD of loans secured by mortgages is calculated on the basis of work-out procedures at the position level, taking into consideration the collateral provided. In this case, all the expected future cash flows are estimated and discounted. In addition, the value of the collateral provided is modelled on the basis of the expected development of real estate prices given various scenarios.

The expected credit loss is calculated as the sum of PD, EAD and LGD.

The form of the calculation is determined by the credit quality.

- Credit quality stage 1: No significant increase in the credit risk since initial recognition; the expected credit loss is calculated over one year.
- Credit quality stage 2: Significant increase in the credit risk since initial recognition; the expected credit loss is calculated over the remaining term of the loan.
- Credit quality stage 3: Default in accordance with the capital requirements regulation (CRR Art. 178); in the case of defaulted positions a specific value allowance is determined and recognised by the Group Recovery Department. The expected credit loss is calculated over the remaining term of the loan.

The assignment to a credit quality stage has a significant influence on the magnitude of the expected credit loss because in the case of stage 2 and stage 3 positions this can be substantially higher than with stage 1 positions, depending on the remaining term of the loan.

Credit quality stage, monitoring of significant increase in credit risk (SICR) and cure period

Loans are assigned to a credit quality stage. In addition to historical analysis, forward-looking factors are taken into consideration.

Historical analysis at the LLB Group considers, for example, whether the credit risk with a position has significantly increased since the beginning of the contractual term, or whether there are already payment arrears. Payments more than 30 days past due are assigned to credit quality stage 2; payments more than 90 days past due are assigned to credit quality stage 3. In the event of an increase of one percentage point in the default probability, the LLB Group assumes there will be a significant increase in the credit risk and accordingly calculates the expected credit loss for such positions over the remaining term of the loan.

In a forward-looking test, based on the development of a customer's cash flows, it is examined whether a deterioration in the creditworthiness of the customer is to be expected in the future. Furthermore, in the case of bank and financial deposits, for example, the expectations of rating agencies with respect to the future development of the ratings are considered in the assignment of a credit quality stage for a loan.

Loans in credit quality stage 2 are only reassigned to credit quality stage 1 following a sustained improvement in their credit quality. The LLB Group defines a sustained improvement in credit quality as being the fulfilment of the criteria for credit quality stage 1 for at least three months.

In the case of loans in credit quality stage 3, the Group Recovery Department is responsible for estimating the extent of a sustained improvement in credit quality. The decision is largely guided by whether the default, as defined by the LLB Group, still exists or not. Here too, in order for a position to be returned to credit quality stage 2, the criteria governing the credit quality stage must have been fulfilled for at least 3 months.

Upon initial recognition, all risky positions are assigned to stage 1 because no financial assets having a negative effect on credit quality are purchased or generated.

Macro-scenarios

Three scenarios are utilised for the measurement of the expected credit loss: a basic scenario as well as a negative and a positive scenario. The probability of a credit loss occurring is the same with all three scenarios. The average value derived from these three scenarios represents the final expected credit loss.

In determining the expected credit loss on the basis of the various scenarios, the LLB Group utilises the following three macro-factors, which have an influence on the creditworthiness of a debtor as well as on the value of the collateral provided for the loan:

- Gross domestic product
- Interest rate development
- Real estate price development

The impact of the macro-factors is based on estimates made by the Asset Management Division of LLB AG and the Risk Management Department of the LLB Group, whereby the macro-factors are also regularly submitted to the Group Credit Risk Committee for its approval.

Definition of default, determination of creditworthiness and write-off policy

Under IFRS 9, the LLB Group bases its definition of default on the capital requirements regulation (CRR) Art. 178 in order to ensure a uniform definition for regulatory and accounting policy purposes. On the one hand, claims which are more than 90 days past due are regarded as defaulted and, on the other, indications that a debtor is unlikely to pay its credit obligations can also lead to a loan being classified as in default.

The LLB Group regards a financial asset as being impaired when its recoverable value, which is determined on the basis of a calculation of the present value, is lower than the carrying value. The difference between the present value and the carrying value is recognised as a specific value allowance.

A cautious write-off policy is pursued with impaired assets because if a debt is waived it can no longer be recovered. A debt is written off

only when there is no reasonable expectation of recovery in the future, a pledge default certificate has been submitted, which enables, in spite of the write-off, the remaining debt or a part of the remaining debt to be claimed, and where agreement has been reached with the debtor that the LLB or a subsidiary within the LLB Group irrevocably waives a part of the debt.

Modification of contracts

The control process for managing credit quality stages was described in "Credit quality stage, monitoring of significant increase in credit risk (SICR) and cure period". A modification of the contractual terms implies a change in the existing risk estimate of a financial asset and therefore has an influence on the classification of the financial asset within the impairment model. This becomes problematic if, on account of the modification of the contractual terms, a financial asset in credit quality stage 3 is classified as fundamentally different. The derecognition and re-entry of the financial asset means that it is automatically classified in credit quality stage 1. However, this does not conform to the financial asset's risk profile so that following the modification it is again transferred to credit quality stage 3. The control process is followed in the case of financial assets of credit quality stages 1 and 2.

1.4.3 Quantitative disclosure

The following tables bring together the qualitative statements on classification and measurement as well as impairment and show the transition of the year-end totals for balance sheet positions under IAS 39 to the year-opening totals under IFRS 9 for the individual measurement categories:

Transition of the carrying value of financial assets and financial liabilities from IAS 39 to IFRS 9

in CHF thousands	Carrying amount IAS 39 as at 31.12.2017	Revaluation	Carrying amount IFRS 9 as at 01.01.2018
Amortised cost			
Assets			
Cash and balances with central banks			
Opening balance according to IAS 39 and closing balance according to IFRS 9	4'129'723		4'129'723
Due from banks			
Opening balance according to IAS 39	1'940'433		
Revaluation: ECL allowance		−120	
Closing balance according to IFRS 9			1'940'313
Loans			
Opening balance according to IAS 39	12'083'966		
Revaluation: ECL allowance		−10'679	
Closing balance according to IFRS 9			12'073'287
Accrued income and prepaid expenses			
Opening balance according to IAS 39 and closing balance according to IFRS 9	39'395		39'395
Total assets	**18'193'517**	**−10'799**	**18'182'718**
Liabilities			
Due to banks			
Opening balance according to IAS 39 and closing balance according to IFRS 9	943'316		943'316
Due to customers			
Opening balance according to IAS 39 and closing balance according to IFRS 9	15'652'158		15'652'158
Debt issued			
Opening balance according to IAS 39 and closing balance according to IFRS 9	1'169'027		1'169'027
Accrued expenses and deferred income			
Opening balance according to IAS 39 and closing balance according to IFRS 9	30'250		30'250
Total liabilities	**17'794'750**		**17'794'750**

The difference in the balance sheet positions resulting from the revaluation corresponds to the difference in the value allowance between IAS 39 and IFRS 9.

in CHF thousands	Carrying amount IAS 39 as at 31.12.2017	Reclassi-fication	Transfer	Carrying amount IFRS 9 as at 01.01.2018
At fair value through profit and loss				
Assets				
Trading portfolio assets				
Opening balance according to IAS 39 and closing balance according to IFRS 9	62			62
Derivative financial instruments				
Opening balance according to IAS 39 and closing balance according to IFRS 9	58'740			58'740
Debt instruments				
Bonds				
Opening balance according to IAS 39 and closing balance according to IFRS 9	915'108			915'108
Fund units				
Opening balance according to IAS 39	0			
Transfer from equities FVTPL *			234'502	
Closing balance according to IFRS 9				234'502
Equity instruments				
Equity instruments with infrastructure character				
Opening balance according to IAS 39	23'449			
Reclassification: from FVTPL to FVOCI **		–23'449		
Closing balance according to IFRS 9				0
Fund units				
Opening balance according to IAS 39	234'502			
Transfer to equity instruments FVTPL *			–234'502	
Closing balance according to IFRS 9				0
Other equity instruments				
Opening balance according to IAS 39 and closing balance according to IFRS 9	4'697			4'697
Total assets	**1'236'557**	**–23'449**	**0**	**1'213'109**
Liabilities				
Derivative financial instruments				
Opening balance according to IAS 39 and closing balance according to IFRS 9	117'448			117'448
Total liabilities	**117'448**			**117'448**

* Under IAS 39 fund units were reported under equity instruments. Under IFRS 9 they are reported under debt instruments. Because cash flows do not conform to SPPI criteria, these positions are measured at fair value through profit and loss.
** The reclassification causes a reclassification within equity. The effects are disclosed in the statement of changes in equity.

in CHF thousands	Carrying amount IAS 39 as at 31.12.2017	Reclassification	Carrying amount IFRS 9 as at 01.01.2018
At fair value through other comprehensive income			
Assets			
Debt instruments, available for sale			
Opening balance according to IAS 39	282'317		
Reclassification: from AFS to FVOCI		–282'317	
Closing balance according to IFRS 9			0
Debt instruments at fair value through other comprehensive income			
Opening balance according to IAS 39	0		
Reclassification: from AFS to FVOCI		282'317	
Closing balance according to IFRS 9			282'317
Equity instruments			
Equity instruments with infrastructure character			
Opening balance according to IAS 39	0		
Reclassification: from FVTPL to FVOCI *		23'449	
Closing balance according to IFRS 9			23'449
Total assets	**282'317**	**23'449**	**305'766**

* This causes a reclassification within equity. The effects are disclosed in the statement of changes in equity.

Transition of the value allowance for expected credit loss from IAS 39 / IAS 37 to IFRS 9

in CHF thousands	Valuation allowance according to IAS 39 as at 31.12.2017	Revaluation	Valuation allowance according to IFRS 9 as at 01.01.2018
Loans and receivables (IAS 39) / Amortised cost (IFRS 9)			
Due from banks	0	120	120
Loans	77'445	10'679	88'124
Total	**77'445**	**10'799**	**88'244**

in CHF thousands	Valuation allowance according to IAS 39 as at 31.12.2017	Revaluation	Valuation allowance according to IFRS 9 as at 01.01.2018
Available for sale (IAS 39) / FVOCI (IFRS 9)			
Debt instruments	0	41	41
Total	**0**	**41**	**41**

in CHF thousands	Provisions according to IAS 37 as at 31.12.2017	Revaluation	Provisions according to IFRS 9 as at 01.01.2018
Off-balance-sheet positions			
Credit cards	0	3	3
Financial guarantees	2'120	2'771	4'891
Total	**2'120**	**2'775**	**4'895**

In line with the changeover to IFRS 9, a reclassification of equity instruments with infrastructure character was made. These financial assets that were formerly recognised at fair value through profit and loss are now measured at fair value through other comprehensive income. Without the reclassification the operating income would have been CHF thousands 505 higher.

The following table shows the change in fair value:

in CHF thousands	
Reclassification carried out as at 1 January 2018: from FVTPL to FVOCI	
Equity instruments, recognised at fair value through profit and loss as at 31 December 2017	23'449
Fair value gain / (loss), which would have been recorded if no reclassification had been carried out	505
Fair value as at 30 June 2018	**23'954**

The following table shows the value allowance development for loans to customers in the first half of 2018:

	Stage 1	Stage 2	Stage 3	
in CHF thousands	Expected 12-month credit loss	Credit losses expected over the period without impairment of creditworthiness	Credit losses expected over the period with impairment of creditworthiness	Total
Loans				
Valuation allowance as at 1 January 2018 according to IAS 39			−77'445	−77'445
Revaluation effect according to first application IFRS 9	−8'944	−1'735		−10'679
Valuation allowance as at 1 January 2018 according to IFRS 9	−8'944	−1'735	−77'445	−88'124
Transfers				0
from Stage 1 to Stage 2	−7	7		0
from Stage 2 to Stage 1	−190	190		0
from Stage 2 to Stage 3	0	409	−409	
from Stage 3 to Stage 2	0	−346	346	0
Additions due to issuing loans	−1'026	−8	−364	−1'398
Disposals due to redemption of loans / waiving of claims	1'869	−188	1'570	3'251
Changes in PD / LGD / EAD and maturity effect	994	407	0	1'401
Foreign currency influences	1	0	−240	−239
Valuation allowance as at 30 June 2018	**−7'302**	**−1'265**	**−76'542**	**−85'109**

The following table shows the statement of the development of loans to customers related to the value allowance:

in CHF thousands	Stage 1 Expected 12-month credit loss	Stage 2 Credit losses expected over the period without impairment of creditworthiness	Stage 3 Credit losses expected over the period with impairment of creditworthiness	Total
Loans				
Gross carrying amount as at 1 January 2018 according to IAS 39	11'591'783	371'422	198'206	12'161'411
Transfers				
from Stage 1 to Stage 2	−33'297	33'297		0
from Stage 2 to Stage 1	138'829	−138'829		0
from Stage 2 to Stage 3		−1'490	1'490	0
from Stage 3 to Stage 2		1'112	−1'112	0
Additions due to issuing loans	2'800'781	18'125	2'245	2'821'151
Disposals due to redemption of loans / waiving of claims	−2'450'572	−43'486	−7'215	−2'501'273
Foreign currency influences	−748	0	75	−673
Gross carrying amount as at 30 June 2018	**12'046'777**	**240'151**	**193'689**	**12'480'617**

1.5 Initial application of IFRS 15

The LLB Group has applied IFRS 15 since 1 January 2018. The aim of the new standard is to enable the balance sheet reader to understand the type, scope, time point and uncertainty of the revenues and cash flows from contracts with customers. Here it has to be borne in mind that IFRS 15 only applies to revenues that are not related to financial instruments and other contractual rights or obligations that fall within the scope of IFRS 9 "Financial Instruments". With regard to the positions of the consolidated financial statement, this means that revenues relevant to IFRS 15 are recognised in fee and commission income and in other income.

The LLB earns revenues by providing various services. In accordance with IFRS 15, these revenues are recognised over a period or on a specific date when the power of disposal is transferred to the purchaser and when it is sufficiently certain that the revenues can also be collected in the amount recognised. In the case of variable revenues, this means that recognition may only take place once it has been ensured that at a time when there is no uncertainty, no significant cancellations of previously recognised revenues occurs.

Recognition of revenues over a specified period

Typical revenues earned from fees and services that are recognised over a period include, for example, fees for the provision of IT infrastructure to enable a client to carry out his transactions at home by online banking or via his smart phone when he is on the move, credit and debit card fees and fees from asset management.

In the case of services that are delivered over a period, the client also enjoys the benefit from the service over the period since the power of control is continually transferred with the provision of the service. Accordingly, the revenues obtained from the provision of the service are recognised over the period the service is provided. On account of the structure of the contracts at the LLB Group, a time period exists between the provision of the service and the payment by the client for it, which in general amounts to a maximum of one year. The payments made by clients are made on specific dates, usually at the end of a quarter.

The costs incurred in the provision of the service are recognised continually over the period because these are similar services that are required every day.

Recognition of revenues on a specific date

Typical revenues earned from fees and services that are recognised on a specific date include, for example, brokerage or processing fees for credit cards used abroad.

In the case of services that are delivered on a specific date, the power of control is transferred to the client. The resulting benefit for the client occurs once for the client on this date. Accordingly, the revenues obtained from the provision of the service are recognised once, i.e. in relation to this date.

In the case of services that are delivered over a period, but the payment for them is variable and a large degree of uncertainty exists concerning the amount of the revenues, the revenues are only recognised at that time when it is highly probable that no significant cancellation will occur with the recognised revenues. At the LLB Group, this situation can only arise in connection with performance fees.

The costs incurred in providing a service are generally recognised at the time point when the service is delivered. One exception is the costs in connection with performance fees because the service is continually provided over a period of time, but the attainment of specific objectives is uncertain due to external factors. Accordingly, in this case, the costs are not recognised at the same time as the revenue, but rather over the period the service is provided to achieve the objectives.

Recognition

The revenues recognised from fees and services are based on the service obligations specified in the contract and the payment to be made by the client for them. The payment may contain both fixed and variable components, whereby variable payments only occur in connection with asset management and are influenced by certain threshold values. The client may have to make an additional payment if, for example, a specified return is attained or he has decided to pay a previously stipulated percentage on his assets on a previously determined date as a fee. The recognition period basically amounts to a maximum of one year and the revenues are only to be recognised on the effective date. Only on this date will it be sufficiently clear that no significant cancellation of the revenues will occur.

Basically, the revenues are to be allocated to the individual service obligations. On account of the business model, this will not be possible for an immaterial part of the revenues because the client also has the option of paying an all-in fee for a range of different services. Apart from this case, the appropriate payments are separately disclosed for every type of service obligation.

If discounts have been granted within the scope of combinations of several products, these can be assigned to the individual service obligations.

2 Changes to the scope of consolidation

In the first half of 2018 changes occurred in the scope of consolidation. Retroactively from 1 January 2018, the companies LLB Beteiligungen AG, LLB Holding (Switzerland) AG and LLB Linth Holding AG merged, whereby as a result of the merger LLB Linth Holding AG emerged as the acquiring entity. After the merger, LLB Linth Holding AG changed its name to LLB Holding AG. LB(Swiss) Investment AG, which since May bears the new name LLB Swiss Investment AG, was included in the scope of consolidation for the first time. Further details about this acquisition are disclosed in the "Company acquisitions" section.

3 Foreign currency translation

Reporting date rate	30.06.2018	31.12.2017
1 USD	0.9912	0.9765
1 EUR	1.1571	1.1715
1 GBP	1.3073	1.3201

Average rate	First half 2018	First half 2017
1 USD	0.9680	0.9903
1 EUR	1.1661	1.0772
1 GBP	1.3235	1.2552

4 Risk management

In the course of its operating activity, the LLB Group is exposed to financial risks such as market risk, liquidity and refinancing risk, credit risk and operational risk. Usually, the interim financial reporting does not contain information on risk management. However, on account of the introduction of IFRS 9 for financial years beginning on or after 1 January 2018, relevant information is reported on "First application IFRS 9" in chapter 1.4 as an integral part of the accounting policies. We also refer the reader to the information on risk management provided in the 2017 Annual Report. With the exception of the changes in relation to credit risks, there were no significant changes in comparison with 31 December 2017.

5 Events after the balance sheet date

LLB took over complete control of Semper Constantia Privatbank AG (Semper Constantia) with registered office in Vienna on 4 July 2018. The expected purchase price amounted to EUR 195 million. Net assets of round EUR 107 million were acquired. A detailed disclosure will be made in the 2018 annual report. The purchase price allocation has not yet been completed. The definitive purchase price will be determined after the expiry of the earn-out period at the end of June 2019.

There were no further events after the balance sheet date which would require further information to be provided or necessitate an alteration of the 2018 consolidated interim financial reporting.

Segment reporting (unaudited)

The business activities of the LLB Group are divided into the following three business areas. These form the basis for the segment reporting.

- The Retail & Corporate Banking segment encompasses the universal banking business in the home markets of Liechtenstein and Switzerland.
- The Private Banking segment encompasses all the private banking activities of the LLB Group.
- The Institutional Clients segment encompasses the financial intermediary and investment fund business as well as the asset management and wealth structuring activities of the LLB Group.

The segments receive comprehensive support from the Corporate Center. It comprises the following functions: finance, credit and risk management, legal and compliance matters, trading and securities administration, payment services, human resources management, communication and branding, corporate development, as well as logistics and IT services.

Following the management approach of IFRS 8 "Operating Segments" operating segments are reported in accordance with the internal reporting provided to the Group Executive Management (chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the LLB Group meet the definition of a reportable segment under IFRS 8.

In accordance with the principle of responsibility and based on the organisational structure, income and expenditure are allocated to the business divisions. The market interest rate method is used to divide interest income into interest margin contributions and structural (mismatch) contributions. The interest margin contributions are allocated to the business segments on the basis of client responsibility. The structural contributions, the income from financial investments and the valuation of interest rate hedging instruments are reported under the Corporate Center. Indirect costs, resulting from services provided internally, are accounted for according to the principle of causation and are recorded as a revenue increase for the service provider and as a cost increase for the service beneficiary. The remaining income and expenditure for overriding services which cannot be assigned to the segments are shown under Corporate Center. Furthermore, consolidation adjustments are reported under Corporate Center.

Transactions between the segments are executed at standard market conditions.

First half of 2017

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	42'741	12'031	6'896	10'961	72'630
Credit loss (expense) / recovery	− 3'104	0	0	0	− 3'104
Net interest income after credit loss expense	39'638	12'031	6'896	10'961	69'526
Net fee and commission income	15'482	35'131	27'589	− 3'755	74'448
Net trading income	5'454	4'537	5'367	23'200	38'558
Net income from financial investments at fair value	0	0	0	5'178	5'178
Share of net income of joint venture	0	0	0	− 1	− 1
Other income	536	0	0	1'425	1'962
Total operating income *	**61'110**	**51'699**	**39'853**	**37'009**	**189'672**
Personnel expenses	− 15'214	− 15'885	− 8'981	− 36'788	− 76'867
General and administrative expenses	− 981	− 1'143	− 1'048	− 21'976	− 25'147
Depreciation and amortisation	− 34	0	0	− 13'955	− 13'989
Services (from) / to segments	− 24'952	− 13'768	− 6'700	45'420	0
Total operating expenses	**− 41'180**	**− 30'795**	**− 16'729**	**− 27'299**	**− 116'004**
Operating profit before tax	**19'930**	**20'904**	**23'124**	**9'710**	**73'668**
Tax expenses					− 13'678
Net profit					**59'990**

* There were no substantial earnings generated between the segments so that income between the segments was not material.

First half of 2018

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	44'841	16'698	9'156	6'083	76'777
Credit loss (expense) / recovery	2'665	− 110	637	0	3'192
Net interest income after credit loss expense	47'505	16'588	9'793	6'083	79'969
Net fee and commission income	15'737	36'296	29'384	− 3'783	77'634
Net trading income	5'541	4'396	5'673	18'775	34'385
Net income from financial investments at fair value	0	0	0	− 10'370	− 10'370
Share of net income of joint venture	0	0	0	− 2	− 2
Other income	711	2	1	1'204	1'918
Total operating income *	**69'495**	**57'281**	**44'850**	**11'908**	**183'534**
Personnel expenses	− 15'183	− 16'467	− 9'948	− 39'893	− 81'490
General and administrative expenses	1'957	− 1'563	− 1'561	− 30'960	− 32'128
Depreciation and amortisation	0	0	− 27	− 14'691	− 14'717
Services (from) / to segments	− 24'678	− 14'578	− 7'047	46'304	0
Total operating expenses	**− 37'904**	**− 32'608**	**− 18'583**	**− 39'240**	**− 128'335**
Operating profit before tax	**31'590**	**24'673**	**26'268**	**− 27'331**	**55'200**
Tax expenses					− 9'398
Net profit					**45'802**

* There were no substantial earnings generated between the segments so that income between the segments was not material.

Notes to the consolidated income statement (unaudited)

1 Net interest income

in CHF thousands	First half 2018	First half 2017	+ / – %
Interest income from financial instruments measured at amortised cost			
Interest income from banks	9'999	7'805	28.1
Interest income from loans	83'536	82'430	1.3
Loan commissions with the character of interest	1'408	1'983	– 29.0
Interest income from financial liabilities	4'300	2'574	67.1
Total interest income from financial instruments measured at amortised cost	**99'244**	**94'791**	**4.7**
Interest income from financial instruments at fair value through profit and loss			
Interest income from debt instruments	7'178	7'395	– 2.9
Interest rate derivatives	1'287	1'767	– 27.2
Total interest income from financial instruments at fair value through profit and loss	**8'465**	**9'162**	**– 7.6**
Total interest income	**107'709**	**103'953**	**3.6**
Interest expenses from financial instruments measured at amortised cost			
Interest expenses on amounts due to banks	– 362	– 325	11.2
Interest expenses on amounts due to customers	– 13'483	– 11'526	17.0
Interest income from financial assets	– 6'240	– 6'027	3.5
Total interest expenses from financial instruments measured at amortised cost	**– 20'085**	**– 17'878**	**12.3**
Interest expenses from financial instruments, recognised at fair value through other comprehensive income			
Interest expenses from debt instruments	– 289	– 549	– 47.4
Total interest expenses from financial instruments, recognised at fair value through other comprehensive income	**– 289**	**– 549**	**– 47.4**
Interest expenses from financial instruments measured at fair value			
Interest rate derivatives	– 10'558	– 12'896	– 18.1
Total interest expenses from financial instruments measure at fair value	**– 10'558**	**– 12'896**	**– 18.1**
Total interest expenses	**– 30'932**	**– 31'323**	**– 1.2**
Total net interest income	**76'777**	**72'630**	**5.7**

2 Net fee and commission income

in CHF thousands	First half 2018	First half 2017	+ / – %
Brokerage fees	23'912	25'939	– 7.8
Custody fees	15'859	15'533	2.1
Advisory and management fees	22'798	22'476	1.4
Investment fund fees	25'406	10'536	141.1
Credit-related fees and commissions	336	307	9.6
Commission income from other services	13'010	12'988	0.2
Total fee and commission income	**101'322**	**87'779**	**15.4**
Brokerage fees paid	– 4'426	– 4'902	– 9.7
Other fee and commission expenses	– 19'262	– 8'430	128.5
Total fee and commission expenses	**– 23'688**	**– 13'332**	**77.7**
Total net fee and commission income	**77'634**	**74'448**	**4.3**

3 Net trading income

in CHF thousands	First half 2018	First half 2017	+/– %
Trading portfolio assets	6	136	–95.3
Foreign exchange trading	28'645	25'503	12.3
Foreign note trading	–176	775	
Precious metals trading	401	607	–33.9
Interest rate instruments *	5'508	11'537	–52.3
Total net trading income	**34'385**	**38'558**	**–10.8**

* The LLB Group uses interest rate swaps for trading and hedging purposes. If the interest rate swaps do not fulfil the approval criteria according to IAS 39 in order to be booked as hedging transactions, they are treated as interest rate swaps for trading purposes.

4 Net income from financial investments at fair value through profit and loss

in CHF thousands	First half 2018	First half 2017	+/– %
Financial investments at fair value through profit and loss			
Dividend income	265	459	–42.3
Price gains *	–10'630	–463	
Total net income from financial investments at fair value through profit and loss	**–10'365**	**–3**	
Financial investments available for sale			
Realised gain		5'181	
Total net income from financial investments available for sale		**5'181**	
Financial investments, recognised at fair value through other comprehensive income			
Dividend income	235		
of which from financial investments held on the balance sheet date	235		
of which from financial investments sold during the reporting period	0		
Realised gain	–240		
Total financial investments, recognised at fair value through other comprehensive income	**–5**		
Total net income from financial investments at fair value	**–10'370**	**5'178**	

* The realised price gains for the first half of 2018 amounted to CHF thousands minus 684 (previous year: CHF thousands minus 7'903).

5 Other income

in CHF thousands	First half 2018	First half 2017	+/– %
Net income from properties	731	745	–1.9
Non-period-related and non-operating income	89	397	–77.6
Realised profits from sales of tangible assets *	276	106	160.9
Income from various services	822	715	15.0
Total other income	**1'918**	**1'962**	**–2.3**

* Includes income from sales of properties.

6 Personnel expenses

in CHF thousands	First half 2018	First half 2017	+ / − %
Salaries	−63'989	−60'288	6.1
Pension and other post-employment benefit plans	−9'019	−8'915	1.2
Other social contributions	−5'962	−5'784	3.1
Training costs	−677	−512	32.3
Other personnel expenses	−1'843	−1'368	34.7
Total personnel expenses	**−81'490**	**−76'867**	**6.0**

7 General and administrative expenses

in CHF thousands	First half 2018	First half 2017	+ / − %
Occupancy	−4'491	−5'183	−13.3
Expenses for IT, machinery and other equipment	−10'700	−8'599	24.4
Information and communication expenses	−7'197	−6'799	5.9
Marketing and public relations	−4'156	−3'166	31.2
Consulting and audit fees	−3'061	−2'379	28.7
Capital tax and other tax	141	310	−54.6
Material costs	−639	−616	3.7
Provisions for legal and litigation risks *	108	4'999	−97.8
Legal and representation costs *	−874	−327	167.5
Litigation costs	−165	−33	403.2
Supervision fees	−600	−514	16.7
Other general and administrative expenses	−493	−2'841	−82.6
Total general and administrative expenses	**−32'128**	**−25'147**	**27.8**

* See note 12 for details.

8 Tax expenses

in CHF thousands	First half 2018	First half 2017	+ / − %
Current taxes	−8'236	−9'108	−9.6
Deferred taxes	−1'162	−4'570	−74.6
Total tax expenses	**−9'398**	**−13'678**	**−31.3**

9 Earnings per share

	First half 2018	First half 2017	+ / − %
Net profit attributable to the shareholders of LLB (in CHF thousands)	42'146	57'292	−26.4
Weighted average shares outstanding	28'913'975	28'863'518	0.2
Basic earnings per share (in CHF)	**1.46**	**1.98**	**−26.6**
Net profit for diluted earnings per share attributable to the shareholders of LLB (in CHF thousands)	42'146	57'292	−26.4
Weighted average shares outstanding for diluted earnings per share	28'913'975	28'863'518	0.2
Diluted earnings per share (in CHF)	**1.46**	**1.98**	**−26.6**

Notes to the consolidated balance sheet and off-balance sheet transactions (unaudited)

10 Financial investments at fair value through profit and loss

in CHF thousands	30.06.2018	31.12.2017	+/−%
Financial investments at fair value through profit and loss (IFRS 9 / IAS 39)			
Debt instruments			
listed	774'455	915'108	−15.4
unlisted	228'215	0	
Total debt instruments	**1'002'671**	**915'108**	**9.6**
Equity instruments			
listed	0	0	
unlisted	4'526	262'648	−98.3
Total equity instruments	**4'526**	**262'648**	**−98.3**
Total financial investments at fair value through profit and loss (IFRS 9 / IAS 39)	**1'007'197**	**1'177'756**	**−14.5**
Financial investments available for sale (IAS 39)			
Debt instruments			
listed		282'317	
unlisted		0	
Total debt instruments		**282'317**	
Total financial investments available for sale (IAS 39)		**282'317**	
Financial investments, recognised at fair value through other comprehensive income (IFRS 9)			
Debt instruments			
listed	675'894		
unlisted	0		
Total debt instruments	**675'894**		
Equity instruments			
listed	0		
unlisted	23'954		
Total equity instruments	**23'954**		
Total financial investments, recognised at fair value through other comprehensive income (IFRS 9)	**699'848**		
Total financial investments at fair value	**1'707'045**	**1'460'073**	**16.9**

11 Debt issued

in CHF thousands	30.06.2018	31.12.2017	+/−%
Medium-term notes *	239'967	286'014	−16.1
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions **	959'575	883'014	8.7
Total debt issued	**1'199'542**	**1'169'027**	**2.6**

* The average interest rate was 0.63 percent as at 30 June 2017 and 0.66 percent as at 31 December 2017.
** The average interest rate was 1.10 percent as at 30 June 2018 and 1.16 percent as at 31 December 2017.

12 Provisions

in CHF thousands	Provisions for legal and litigation risks	Provisions for other business risks and restructuring	Total 2018	Total 2017
As at 31 December 2017	22'967	5'161	28'128	
ECL allowance (from first application of IFRS 9)	0	2'775	2'775	
As at 1 January	22'967	7'935	30'903	51'071
Provisions applied	−123	−505	−628	−20'337
Increase in provisions recognised in the income statement		105	105	3'134
Decrease in provisions recognised in the income statement	−108	−3'282	−3'389	−5'740
As at 30 June 2018 / 31 December 2017	**22'737**	**4'253**	**26'990**	**28'128**

The LLB Group is involved in various legal proceedings within the scope of normal banking business. It allocates provisions for ongoing and threatened legal proceedings if, in the opinion of LLB, payments or losses are likely and the amounts can be estimated.

As at 30 June 2018, the LLB Group was involved in various litigation and proceedings, which could have an impact on its financial reporting. The LLB Group endeavours to disclose the claims for damages, the scope of legal proceedings and other relevant information in order for the reader to be able to estimate the possible risk for the LLB Group.

LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., is among the category 1 banks that must achieve an individual solution with the US authorities to resolve the US taxation dispute. LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., with its registered office in Zurich-Erlenbach, is responsible for the proceedings. LLB (Switzerland) Ltd. ceased its banking operations at the end of 2013 and since October 2014 is no longer subject to supervision by the Swiss Federal Financial Market Authority (FINMA). LLB Verwaltung (Switzerland) AG is cooperating closely with the US authorities and is working with them to achieve a final settlement of the issue, while complying with the prevailing legal regulations. In the opinion of the management, the legal risk of an outflow of resources in connection with the possibility that LLB Verwaltung (Switzerland) AG may not have complied with US law, especially US tax law, was still not unlikely as at 30 June 2018. Based on the calculation criteria applied in the non-prosecution agreement between LLB AG, Vaduz, and the US authorities, as well as the latest information and payments made by other banks, a provision was recorded in the balance sheet by LLB Verwaltung (Switzerland) AG as at 30 June 2018. The management believes the provision set aside is sufficient.

At the start of 2015, LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., received two legal claims in connection with an investment project. Several persons, who have no connection with LLB Verwaltung (Switzerland) AG, had endeavoured to persuade an investor to invest a sum in an investment project. The investment project did not exist and the persons acting fraudulently were able to embezzle a part of the investment sum. The claimants have lodged claims against LLB Verwaltung (Switzerland) AG for the payment of damages in respect of a part of the embezzled amount plus interest. LLB Verwaltung (Switzerland) AG denies that the actions of a former employee of LLB Verwaltung (Switzerland) AG led to the loss. At the beginning of October 2017, the High Court of Justice in London ruled at first instance that there had been misconduct on the part of a former employee and that LLB Verwaltung (Switzerland) AG was jointly liable for his misconduct and for the damage caused by him. LLB Verwaltung (Switzerland) AG was not liable for misconduct itself. LLB Verwaltung (Switzerland) AG appealed against this first-instance decision. On account of the first-instance decision and the non-suspensive effect of the appeal, LLB Verwaltung (Switzerland) AG has deposited an amount of CHF 15.1 million with the court for damages, interest charges and third-party lawyer's fees. In conformance with IFRS, these costs were recognised in 2017 as general and administrative expenses. LLB Verwaltung (Switzerland) AG continues to believe that this damage is covered by the insurance company.

The provisions for restructuring relate to the StepUp2020 strategy of the LLB Group announced in October 2015. For rebuilding and restoration costs associated with this strategy, and expenses for social plans for employees, provisions amounting to CHF 0.9 million were recognised as at 30 June 2018.

13 Fair value measurement

Measurement guidelines

The fair value represents a market-based measurement and not an entity-specific valuation. It is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date on the principal market or the most advantageous market.

As far as possible, the fair value is determined on the basis of the quoted market prices in active markets accessible to the company on the measurement date. An active, accessible market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value is determined using significant and observable inputs. These are basically available in the case of quoted assets or liabilities. If a market for financial or non-financial assets or liabilities is inactive, or if no observable inputs, or insufficient observable inputs, are available, the LLB Group must employ techniques or processes (valuation methods or models) to determine the fair value. The valuation techniques contain assumptions, including estimates, to enable an exit price on the measurement date from the perspective of the market participant to be determined. However, such assumptions and estimates contain uncertainties, which at a later date can lead to substantial changes in the fair value of financial and non-financial assets and liabilities. In the case of financial and non-financial assets and liabilities, for which a valuation technique involving non-observable market data is used to determine the fair value, these are measured at the transaction price. This fair value can differ from the fair value determined on the basis of valuation techniques.

All financial and non-financial assets and liabilities measured at fair value are categorised into one of the following three fair value hierarchies:

Level 1

The fair value of listed securities and derivatives contained in the trading portfolio and financial investments is determined on the basis of market price quotes on an active market.

Level 2

If no market price quotes are available, the fair value is determined by means of valuation methods or models, which are based on assumptions made on the basis of observable market prices and other market quotes.

Level 3

For the remaining financial instruments neither market price quotes nor valuation methods or models based on market prices are available. Our own valuation methods or models are employed to measure the fair value of these instruments.

Valuation methods

Valuation methods and techniques are employed to determine the fair value of financial and non-financial assets and liabilities for which no observable market prices on an active market are available. These include, in particular, illiquid financial investments. If available, the LLB Group uses market-based assumptions and inputs as the basis for valuation techniques. If such information is not available, assumptions and inputs from comparable assets and liabilities are employed. In the case of complex and very illiquid financial and non-financial assets and liabilities, the fair value is determined using a combination of observable transaction prices and market information.

The LLB Group employs standardised and accepted valuation techniques to determine the fair value of financial and non-financial assets and liabilities which are not actively traded or listed. In general, the LLB Group uses the following valuation methods and techniques as well as the following inputs:

	Valuation model	Inputs	Significant, non-observable inputs
Level 2			
Trading portfolio assets	Market to model	Market prices of underlying assets	
Own investment funds	Market to model	Market prices of underlying assets	
Derivative financial instruments	Option model	Underlying assets of future contracts	
Due from banks	Present value calculation	Marktet price of congruent LIBOR interest rates	
Due to banks	Present value calculation	Marktet price of congruent LIBOR interest rates	
Loans	Present value calculation	Marktet price of congruent LIBOR interest rates	
Due to customers	Present value calculation	Marktet price of congruent LIBOR interest rates	
Debt issued	Present value calculation	Marktet price of congruent LIBOR interest rates	
Accrued income and prepaid expenses / Accrued expenses and deferred income	Fair value corresponds to carrying value on account of the short-term maturity	Price conditions; deferred income corresponds to deferrals on commissions and fees	
Level 3			
Financial investments at fair value through profit and loss	Market to model	Audited financial statements	Illiquidity, special micro-economic conditions
Financial investments, recognised at fair value through other comprehensive income	Market to model	Audited financial statements	Illiquidity, special micro-economic conditions
Investment property	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property.
Non-current assets held for sale	External expert opinions, relative values in market comparison	Prices of comparable properties	Assessment of special property factors, expected expenses and earnings for the property.

Measurement of fair values by active markets or valuation techniques

The following table shows the classification of the LLB Group's financial and non-financial assets and liabilities within the fair value hierarchy. All assets and liabilities are measured at fair value on a recurring basis in the statement of financial position. As at 30 June 2018, the LLB Group had no assets or liabilities that were measured at fair value on a non-recurring basis in the balance sheet. In the first half of 2018 there were no significant transfers between Level 1, Level 2 and Level 3 financial instruments.

in CHF thousands	30.06.2018	31.12.2017	+ / − %
Level 1			
Trading portfolio assets	1	52	−98.5
Financial investments at fair value through profit and loss	774'455	915'108	−15.4
Financial investments available for sale		282'317	
Financial investments, recognised at fair value through other comprehensive income	675'894		
Total financial instruments at fair value	**1'450'351**	**1'197'477**	**21.1**
Cash and balances with central banks	4'229'939	4'129'723	2.4
Total financial instruments not at fair value	**4'229'939**	**4'129'723**	**2.4**
Total Level 1	**5'680'289**	**5'327'201**	**6.6**
Level 2			
Trading portfolio assets	32	10	216.5
Derivative financial instruments	72'170	58'740	22.9
of which for hedging purpose	2'091	1'438	45.4
Financial investments at fair value through profit and loss	232'741	239'199	−2.7
Total financial instruments at fair value	**304'944**	**297'949**	**2.3**
Due from banks	2'232'385	1'940'433	15.0
Loans	12'395'508	12'083'966	2.6
Accrued income and prepaid expenses	48'743	39'395	23.7
Total financial instruments not at fair value	**14'676'635**	**14'063'794**	**4.4**
Total Level 2	**14'981'579**	**14'361'742**	**4.3**
Level 3			
Financial investments at fair value through profit and loss		23'449	
Financial investments, recognised at fair value through other comprehensive income	23'954		
Total financial instruments at fair value	**23'954**	**23'449**	**2.2**
Total financial instruments not at fair value	**0**	**0**	
Investment property	15'000	15'000	0.0
Non-current assets held for sale	3'504	6'734	
Total other assets at fair value	**18'504**	**21'734**	**−14.9**
Total Level 3	**42'458**	**45'183**	**−6.0**
Total assets	**20'704'326**	**19'734'126**	**4.9**

in CHF thousands	30.06.2018	31.12.2017	+/– %
Level 1			
Total Level 1	**0**	**0**	
Level 2			
Derivative financial instruments	121'238	117'448	3.2
of which for hedging purpose	2'211	1'795	23.2
Total financial instruments at fair value	**121'238**	**117'448**	**3.2**
Due to banks	1'436'968	943'316	52.3
Due to customers	16'175'315	15'652'158	3.3
Debt issued	1'199'542	1'169'027	2.6
Accrued expenses and deferred income	36'836	30'250	21.8
Total financial instruments not at fair value	**18'848'661**	**17'794'750**	**5.9**
Total Level 2	**18'969'899**	**17'912'198**	**5.9**
Level 3			
Total Level 3	**0**	**0**	
Total liabilities	**18'969'899**	**17'912'198**	**5.9**

Measurement of assets and liabilities classified as Level 3

For the recurring measurement of the fair value of investment property for which significant, non-observable inputs have been used and which are classified as Level 3, there were no effects on the income statement in the first half of 2018. A portion of the properties classified in non-current assets held for sale as at 31 December 2017 was sold as planned. No new assets were added to the portfolio. Accordingly, the change in value between the current and the comparison periods therefore relates solely to the change due to disposals.

The measurement process to determine the fair value of recurring and non-recurring Level 3 assets and liabilities, especially the significant non-observable inputs, as shown in the previous table, are explained in the following. The interrelationships between observable and non-observable inputs are not explained in the following, because such interrelationships have no significant influence on the measurement on fair value.

Financial investments at fair value through other comprehensive income

Following the changeover to IFRS 9, financial investments at fair value through profit and loss were designated FVOCI. This new designation means that only the recognition of the alteration in fair value changes, the measurement of the fair value remains the same.

Financial investments are periodically valued through profit and loss on the basis of market values provided by external experts. The financial investments consist of the non-listed shares of companies, which are periodically revalued on the basis of current company data or by third parties with the aid of valuation models. The valuation is made available to shareholders. An own valuation by shareholders based on observable or significant non-observable inputs is therefore unnecessary. How changes would affect the fair value, or how sensitively this would react, cannot be quantified or would have to be based on various assumptions to be made by LLB on how the company will develop. Since these are investments having an infrastructure character, whereby basically the fair value has changed in the last few years only by the amount of profit attained, a sensitivity analysis would bring no additional benefit for the reader of the financial statement. The financial investments do not diverge to highest or best use.

Investment property

Investment property is periodically valued by external experts or is valued on the basis of relative values in a market comparison. If no corresponding values for comparable properties are available on which to base a reliable calculation of the fair value, assumptions are made. These assumptions contain assessments and considerations of such circumstances as the location and condition of the property, as well as the expected costs and revenues with it. Properties are always revalued whenever on the basis of events or changed circumstances the fair value no longer reflects the market price, so that changes in the calculation of the fair value can be promptly determined and recognised in the accounts. Changes in the inputs, on which the measurement of the fair value is based, can lead to significant changes in it. It cannot be quantified to what extent changes influence the fair value and the sensitivity of fair value, because the valuation of a property is based on an individual measurement, which is influenced by various assumptions. Consequently, a significant change in the fair value can occur, which is not quantifiable. Investment properties do not diverge to highest and best use.

Non-current assets held for sale

Non-current assets held for sale encompass only wholly owned properties, which currently comprise bank branches and unused properties (see note 14 "Non-current assets held for sale"). These are valued in the same way as investment property.

Financial instruments not measured at fair value

The fair value hierarchy also includes details of financial assets and liabilities that are measured on a basis other than fair value, but for which, however, a fair value exists. In addition to their inclusion in the fair value hierarchy, basically a comparison between the fair value and the carrying value of the individual categories of financial assets and liabilities is to be shown.

The following table shows this comparison only for positions, which are not measured at fair value because for positions measured at fair value, the carrying value is the same as the fair value. On account of the maturity being longer than one year, for certain positions the present value was calculated on the basis of LIBOR interest rates appropriate for the duration. For all other positions, the carrying value represents a reasonable approximation of the fair value.

	30.06.2018		31.12.2017	
in CHF thousands	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and balances with central banks	4'229'939	4'229'939	4'129'723	4'129'723
Due from banks	2'232'385	2'232'409	1'940'433	1'944'825
Loans	12'395'508	12'902'788	12'083'966	12'595'887
Accrued income and prepaid expenses	48'743	48'743	39'395	39'395
Liabilities				
Due to banks	1'436'968	1'439'010	943'316	945'030
Due to customers	16'175'315	16'232'561	15'652'158	15'708'690
Debt issued	1'199'542	1'236'593	1'169'027	1'215'905
Accrued expenses and deferred income	36'836	36'836	30'250	30'250

14 Non-current assets held for sale

Wholly-owned properties, which currently encompass bank branches and unused properties, are to be sold. As at 30 June 2018, the carrying value of these positions was CHF 3.5 million. In the period under report, income amounting to CHF thousands 509 was earned from the sale of non-current assets held for sale.

15 Off-balance sheet transactions

in CHF thousands	30.06.2018	31.12.2017	+/–%
Contingent liabilities	69'739	54'598	27.7
Credit risks	256'481	256'865	–0.1
Contract volumes of derivative financial instruments	13'649'656	12'827'495	6.4
Fiduciary transactions	488'074	364'288	34.0
Securities received as collateral within the scope of securities lending or securities received in connection with reverse repurchase agreements, which are capable of being resold or further pledged without restrictions	482'675	395'266	22.1

Company acquisitions (unaudited)

As at 3 April 2018, LLB acquired 100 percent of LB(Swiss) Investment AG (LB(Swiss)). The acquisition was made within the scope of a share deal with the previous sole owner, the Frankfurter Bankgesellschaft (Switzerland) AG. LB(Swiss) offers efficient, made-to-measure investment fund management, compliance and risk management services.

With this acquisition LLB accomplishes its planned strategic market entry in Switzerland. The expertise of LB(Swiss) makes it possible for the LLB Group to offer classical investment fund services (51 funds with a gross fund volume of CHF 4.7 billion as at 31 March 2018), to act as representatives for foreign funds and to provide consulting services in the fields of compliance and risk management. LB(Swiss) is to be renamed "LLB Swiss Investment AG" and shall continue to operate in Switzerland as an independent company.

Acquired net assets	in CHF thousands
Cash and balances with central banks	8'484
Various receivables	596
Accrued income and prepaid expenses	302
Financial investments	1'180
Other fixed assets	26
Intangible assets	15'795
Deferred tax assets	327
Aquired assets	**26'709**
Various liabilities	51
Accrued expenses and deferred income	229
Derivative financial instruments	37
Pension benefit obligation	1'635
Deferred tax liabilities	3'084
Assumed liabilities	**5'036**
Aquired net assets	**21'673**
Total purchase price	**32'947**
Goodwill	**11'274**
Cash outflow from acquisitions	**16'456**

The purchase price for LB(Swiss) amounted to CHF 32.9 million as at 3 April 2018. This sum includes an earn-out obligation totalling CHF 1.9 million as well as a deferred purchase price payment of CHF 6.1 million due on 3 October 2019.

The valuation of assets and liabilities has not yet been completed. This is based on preliminary information and measurements, and is therefore reported only on a provisional basis for the moment.

The purchase price is composed of a cash payment on the acquisition date and a final payment on the earn-out closing date, 18 months after the completion date. The final payment includes a deferred purchase price payment resulting from the provisional goodwill compensation (30 % of the provisional goodwill compensation as at 3 April 2018) and earn-out components. The scope of the earn-out components depends on the development of assets under administration up to the earn-out closing date.

The individual factors comprising the measured goodwill include, in particular, the employees taken over, the available know-how, the strategic market entry in Switzerland and the growth associated with this, as well as synergy effects. On the earnings side, significant synergy effects will result from a more robust growth of net new assets. Goodwill and amortisation of goodwill are not tax deductible.

70 percent of goodwill is assigned to the CGU LLB Swiss Investment AG and 30 percent to the CGU LLB AG.

The costs relating to the acquisition amounting to CHF 0.8 million were recognised directly in the income statement under general and administrative expenses.

Measurement methods and input factors relating to the market value measurement of intangible assets, as well as sensitivity of input factors

The intangible assets were measured using the following methods and input factors:

- Client relationships: Measured using the multi-period excess earnings method. Sensitive input factors are the planned cash flows, the shrinkage rate with existing clients and the discount rate.
- Software: Measured using the cost approach. The sensitive input factor is the number of work days required to replicate the software.
- Licenses and permits: Measured using the cost approach. Sensitive input factors are the duration of the application procedure and the scope of the underlying cost components.

The "intangible assets" position encompasses the fair values of client relationships (CHF 13.6 million), software (CHF 1.9 million) and permits (CHF 0.3 million).

Since 3 April 2018, LLB Swiss Investment AG contributed CHF 0.3 million to Group net profit and CHF 1.7 million to total operating income as at 30 June 2018. If the business combination had occurred as at 1 January 2018, LLB Swiss would have contributed CHF 0.8 million to Group net profit and CHF 3.3 million to total operating income.