

Consolidated interim management report

Group financial statement

The consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

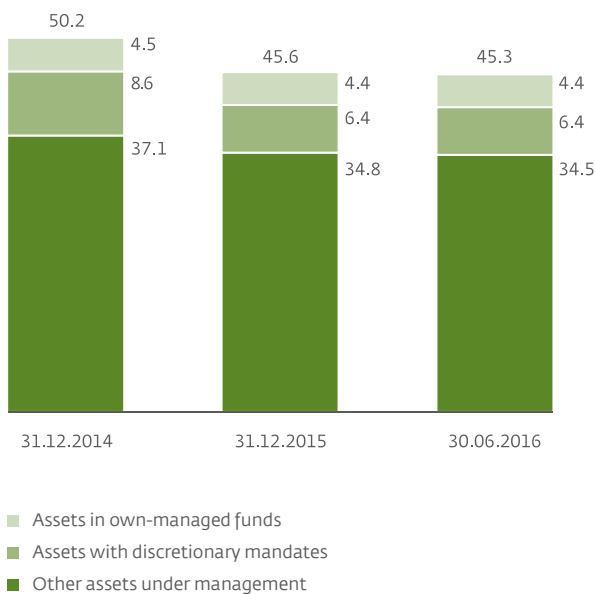
In the first half of 2016, the LLB Group earned a net profit of CHF 43.0 million (first half 2015: CHF 40.8 million). In comparison with the equivalent period in the previous year, the interim result increased by 5.5 percent or CHF 2.2 million.

In comparison with the first half of 2015, operating income rose by 5.6 percent and operating expenses by 7.3 percent. The profit attributable to the shareholders of LLB amounted to CHF 42.3 million (first half 2015: CHF 37.7 million). Earnings per share stood at CHF 1.47 (first half 2015: CHF 1.31).

Assets under management

As at 30 June 2016, assets under management stood at CHF 45.3 billion (31.12.2015: CHF 45.6 billion). Assets in own-managed funds remained constant at CHF 4.4 billion (31.12.2015: CHF 4.4 billion) as did assets with discretionary mandates at CHF 6.4 billion (31.12.2015: CHF 6.4 billion). On account of exchange-related factors, other client assets under management fell by 0.9 percent to CHF 34.5 billion (31.12.2015: CHF 34.8 billion.).

Assets under management (in CHF billions)



The LLB Group posted net new money outflows of CHF 42 million (first half 2015: minus CHF 166 million). In the last few years outflows have slowed consistently. The Retail & Corporate Banking Segment continued to generate gratifying inflows amounting to CHF 256 million. Private and corporate clients in the domestic markets of Switzerland and Liechtenstein were largely responsible for entrusting the LLB Group with new money in this segment. The Private Banking Segment registered an outflow of CHF 16 million. Outflows from the traditional, cross-border markets in this segment were almost completely offset by inflows in the growth and domestic markets. As a result of isolated large outflows with custodian bank funds and in the traditional, cross-border business, net new money in the Institutional Clients Segment stood at minus CHF 277 million.

Income statement

Operating income increased in comparison with the first half of 2015 by 5.6 percent to CHF 155.1 million (first half 2015: CHF 146.8 million).

Interest income before credit loss expense increased in the first half of 2016 by 5.2 percent to CHF 68.3 million (first half 2015: CHF 64.9 million). Compared with the previous year, interest business with clients climbed by 7.7 percent. The negative effects in interest income, caused by the extension of fixed interest loans at lower conditions, were compensated for by lower refinancing costs, targeted growth and an improved margin in mortgage lending business. In the current interest rate environment, the LLB Group in some cases pays negative interest on interest rate hedging instruments and money which is invested in the interbank market. In the first half of 2016, this amounted to CHF 4.5 million. Consequently, interest business with banks decreased by 53.5 percent or CHF 1.9 million. During the first half of 2016, net credit risk recovery of CHF 0.1 million (first half 2015: CHF 4.3 million) was recognised in the income statement.

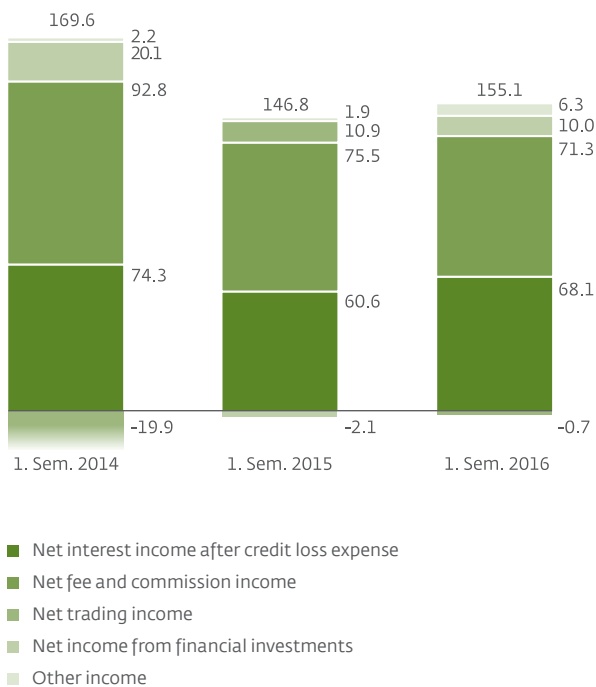
Net fee and commission income was down by 5.5 percent to CHF 71.3 million (first half 2015: CHF 75.5 million). Persisting uncertainty on the financial markets due to the United Kingdom's decision to leave the EU, as well as the stock market turbulence in the first quarter of 2016, further induced clients to exercise restraint in stock market transactions, which in turn resulted in a net reduction of brokerage income of 17.1 percent compared with the previous year.

Net trading income stood at minus CHF 0.7 million (first half 2015: plus CHF 10.9 million). Client trading in foreign exchange, foreign notes and precious metals fell by 18.0 percent to CHF 17.7 million compared with previous year. This was attributable to a high volume of foreign exchange trading in the first six months of 2015 on account of the lifting of support for the Euro minimum exchange rate by the SNB in January 2015. In the first half of 2016, the valuation loss on interest rate hedging transactions amounted to CHF 18.6 million on the reporting date (first half 2015: CHF 10.8 million).

Net income from financial investments at fair value through profit and loss totalled CHF 10.0 million (first half 2015: minus CHF 2.1 million). Income from interest and dividend payments at CHF 7.6 million decreased by 12.1 percent compared with the previous year.

Other income amounted to CHF 6.3 million compared with CHF 1.9 million in the previous year. The increase compared with the equivalent period in the previous year was due to income from the sale of properties.

Operating income (in CHF millions)



Operating expenses amounted to CHF 108.5 million and were therefore 7.3 percent or CHF 7.4 million above the previous year's figure of CHF 101.1 million.

At CHF 65.3 million, personnel expenses were 15.8 percent or CHF 8.9 million higher than in the previous year (first half 2015: CHF 56.3 million). The increase is attributable to a strategic expansion of human resources to 842 full-time positions (31.12.2015: 816). Additionally, the increase takes into consideration higher variable salary remuneration on account of the share-price-based compensation model. Personnel expenses also include a one-time reduction of CHF 10.2 million resulting from the valuation of pension obligations (first half 2015: CHF 11.3 million).

General and administrative expenses at the LLB Group stood at CHF 30.3 million for the first half of 2016 and were therefore practically the same as in the previous year (first half 2015: CHF 30.5 million).

Depreciation and amortisation decreased by CHF 1.3 million to CHF 13.0 million (first half 2015: CHF 14.3 million). In the first half of 2016, the Cost-Income-Ratio stood at 69.8 percent (first half 2015: 66.6%). Without the market effects, i.e. without income from interest rate swaps and from financial investments, the Cost-Income-Ratio would have been 63.2 percent (first half 2015: 58.2%).

Balance sheet

In comparison with 31 December 2015, the consolidated balance sheet total remained practically unchanged at CHF 19.6 billion (31.12. 2015: CHF 19.7 billion). Loans to customers granted by the LLB Group posted an increase of 0.3 percent compared with 31 December 2015. Mortgage loans rose by 1.8 percent to CHF 9.8 billion.

Equity attributable to the shareholders of LLB stood at CHF 1.6 billion per 30 June 2016. The tier 1 ratio amounted to 20.3 percent (31.12.2015: 20.6%). The return on equity attributable to the shareholders of LLB stood at 5.2 percent (first half 2015: 4.6%).

Outlook

The LLB Group believes that the economic environment will continue to be challenging in the second half of 2016. Uncertainties generated by the Brexit decision in the United Kingdom, the strength of the Swiss Franc, negative market interest rates, volatile financial markets and increasing regulation will continue to challenge the banks. In realizing its StepUp2020 strategy, the LLB Group is pursuing sustainable, profitable growth. Thanks to its stable foundation, focused business model and clear strategy, the LLB Group is confident it can continue to achieve operative progress and attain a solid net profit.

Consolidated income statement (unaudited)

in CHF thousands	Note	First half 2016	First half 2015	+ / - %
Interest income	1	88'789	92'320	-3.8
Interest expenses	1	-20'510	-27'406	-25.2
Net interest income	1	68'279	64'914	5.2
Credit loss (expense) / recovery		-140	-4'269	-96.7
Net interest income after credit loss expense		68'138	60'645	12.4
Fee and commission income	2	84'282	88'367	-4.6
Fee and commission expenses	2	-12'933	-12'840	0.7
Net fee and commission income	2	71'349	75'527	-5.5
Net trading income	3	-745	10'873	
Net income from financial investments at fair value	4	10'020	-2'135	
Share of net income of joint venture		9	-7	
Other income	5	6'294	1'882	234.5
Total operating income		155'066	146'785	5.6
Personnel expenses	6	-65'253	-56'344	15.8
General and administrative expenses	7	-30'265	-30'491	-0.7
Depreciation and amortisation		-12'969	-14'303	-9.3
Total operating expenses		-108'487	-101'137	7.3
Operating profit before tax		46'579	45'648	2.0
Tax expenses	8	-3'553	-4'850	-26.7
Net profit		43'026	40'798	5.5
Of which attributable to:				
Shareholders of LLB		42'282	37'666	12.3
Non-controlling interests		744	3'132	-76.2
Earnings per share attributable to the shareholders of LLB				
Basic earnings per share (in CHF)	9	1.47	1.31	12.2
Diluted earnings per share (in CHF)	9	1.47	1.31	12.2

Consolidated statement of comprehensive income (unaudited)

in CHF thousands	First half 2016	First half 2015	+ / - %
Net profit	43'026	40'798	5.5
Other comprehensive income (net of tax), which can be reclassified to the income statement			
Foreign currency translation	-260	-3'456	-92.5
Value changes to financial investments available for sale	1'867	867	115.3
Reclassified (gains) / losses to the income statement from financial investments available for sale	-1'403	0	
Tax effects	70	0	
Total other comprehensive income (net of tax), which can be reclassified to the income statement	274	-2'589	
Other comprehensive income (net of tax), which can not be reclassified to the income statement			
Actuarial gains and losses according to IAS 19	-36'139	-20'756	74.1
Tax effects	4'651	2'527	84.1
Total other comprehensive income (net of tax), which can not be reclassified to the income statement	-31'488	-18'229	72.7
Comprehensive income for the period	11'812	19'980	-40.9
Of which attributable to:			
Shareholders of LLB	12'968	18'139	-28.5
Non-controlling interests	-1'156	1'841	

Consolidated balance sheet (unaudited)

in CHF thousands	Note	30.06.2016	31.12.2015	+/-%
Assets				
Cash and balances with central banks		2'579'196	2'559'972	0.8
Due from banks		4'226'241	4'254'074	-0.7
Loans		11'029'111	10'991'490	0.3
Trading portfolio assets		412	2'450	-83.2
Derivative financial instruments		88'683	62'013	43.0
Financial investments at fair value	10	1'329'684	1'438'608	-7.6
Investments in joint venture		57	47	19.5
Property and equipment		115'127	123'321	-6.6
Investment property		16'018	16'240	-1.4
Goodwill and other intangible assets	11	118'669	124'493	-4.7
Current tax assets		1'366	1'168	17.0
Deferred tax assets		31'267	23'669	32.1
Accrued income and prepaid expenses		32'490	45'927	-29.3
Non-current assets held for sale	15	2'065	0	
Other assets		30'027	26'653	12.7
Total assets		19'600'414	19'670'122	-0.4
Liabilities				
Due to banks		813'816	673'634	20.8
Due to customers		15'350'978	15'627'049	-1.8
Derivative financial instruments		206'434	151'593	36.2
Debt issued	12	1'240'214	1'213'244	2.2
Current tax liabilities		9'335	6'172	51.2
Deferred tax liabilities		22'576	21'617	4.4
Accrued expenses and deferred income		24'701	27'891	-11.4
Provisions	13	25'152	25'354	-0.8
Other liabilities		181'180	164'224	10.3
Total liabilities		17'874'386	17'910'777	-0.2
Equity				
Share capital		154'000	154'000	0.0
Share premium		24'968	25'785	-3.2
Treasury shares		-167'045	-168'584	-0.9
Retained earnings		1'703'925	1'709'205	-0.3
Other reserves		-93'101	-63'849	45.8
Total equity attributable to shareholders of LLB		1'622'746	1'656'558	-2.0
Non-controlling interests		103'282	102'787	0.5
Total equity		1'726'028	1'759'345	-1.9
Total liabilities and equity		19'600'414	19'670'122	-0.4

Consolidated statement of changes in equity (unaudited)

in CHF thousands	Attributable to shareholders of LLB						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Other reserves	Total		
As at 1 January 2015	154'000	25'785	-168'585	1'671'273	-44'108	1'638'366	101'522	1'739'888
Net profit				37'666		37'666	3'132	40'798
Other comprehensive income					-19'301	-19'301	-1'517	-20'818
Net movements in treasury shares						0		0
Dividend 2014, paid 2015				-43'233		-43'233		-43'233
Dividend to non-controlling interests 2014, paid 2015						0	-1'609	-1'609
Increase/(reduction) in non-controlling interests						0	1'124	1'124
Other changes				-1'378		-1'378		-1'378
As at 30 June 2015	154'000	25'785	-168'585	1'664'327	-63'407	1'612'121	102'653	1'714'774
As at 1 January 2016	154'000	25'785	-168'584	1'709'205	-63'849	1'656'558	102'787	1'759'345
Net profit				42'282		42'282	744	43'026
Other comprehensive income					-29'314	-29'314	-1'900	-31'214
Net movements in treasury shares		-817	1'539			722		722
Dividend 2015, paid 2016				-46'145		-46'145		-46'145
Dividend to non-controlling interests 2015, paid 2016						0	-1'623	-1'623
Increase/(reduction) in non-controlling interests				-1'418	62	-1'356	3'274	1'918
As at 30 June 2016	154'000	24'968	-167'045	1'703'925	-93'101	1'622'746	103'282	1'726'028

Consolidated statement of cash flows

(unaudited)

in CHF thousands	First half 2016	First half 2015
Cash flow from / (used in) operating activities		
Interest received (excluding financial investments)	134'482	120'900
Interest received from financial investments	7'276	8'801
Dividends received from financial investments	355	337
Interest paid	-25'469	-22'948
Fees and commission received	87'160	73'749
Fees and commission paid	-12'501	-2'422
Trading income	17'809	21'760
Other income	1'612	9'257
Payments for personnel, general and administrative expenses	-111'670	-95'739
Other expenses	-10'865	-10'856
Income tax paid	-6'797	-2'112
Cash flow from operating activities before changes in operating assets and liabilities	81'392	100'725
Net due from / to banks	362'387	1'271'162
Trading portfolio and net replacement values	11'655	-5'294
Loans / due to customers	-340'023	-267'661
Other assets	-2'207	13'984
Other liabilities	-12'786	-13'203
Changes in operating assets and liabilities	19'027	998'988
Net cash flow from / (used in) operating activities	100'419	1'099'714
Cash flow from / (used in) investing activities		
Purchase of property and equipment	-1'335	-12'675
Disposal of property and equipment	12'467	11'453
Purchase of investment property	-1'097	0
Disposal of investment property	0	4'832
Purchase of other intangible assets	-1'407	-410
Purchase of financial investments at fair value	-153'190	-263'915
Disposal of financial investments at fair value	283'167	205'517
Purchase of associates	0	-7
Sale of fully consolidated companies, net of cash	0	6'956
Net cash flow from / (used in) investing activities	138'605	-48'249

in CHF thousands	First half 2016	First half 2015
Cash flow from / (used in) financing activities		
Disposal of treasury shares	721	0
Dividends paid	-46'145	-43'233
Non-controlling interests	1'659	-485
Increase in shares of Group companies	0	-227
Decrease in shares of Group companies	-1'416	0
Issuance of medium-term debt	120'666	90'339
Repayment of medium-term debt	-93'696	-97'675
Net cash flow from / (used in) financing activities	-18'211	-51'281
Effects of foreign currency translation	-7'218	-57'498
Net increase / (decrease) in cash and cash equivalents	213'595	942'686
Cash and cash equivalents at beginning of the period	3'043'279	2'140'624
Cash and cash equivalents at end of the period	3'256'874	3'083'310
Cash and cash equivalents comprise:		
Cash and balances with central banks	2'579'196	2'554'435
Due from banks (due daily)	677'678	528'875
Total cash and cash equivalents	3'256'874	3'083'310