Accounting principles
(unaudited)

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 same accounting principles were applied as for the consolidated financial statement per 31 December 2015 with the exception of the changes mentioned below. The unaudited interim financial reporting should be read together with the audited 2015 consolidated financial statement. Management believes that all the necessary adjustments were made to provide a fair presentation of assets, liabilities, results of operations and cash flows.

In preparing the interim financial reporting in conformity with IFRS, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and 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 IFRS contain guidelines, which require the LLB Group to make estimates and assumptions when preparing the interim financial reporting. Goodwill, intangible assets, pension plans and fair value measurements for financial instruments are all areas which leave large scope for estimate judgements. Assumptions and estimates made with them could be material to the financial statement. Explanations regarding this point are shown under note 11 and note 14 in the 2016 consolidated interim financial reporting and under note 19, note 36 and note 41 of the 2015 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 2015 annual financial statement were adjusted accordingly in the 2016 interim financial reporting. The Personnel Pension Fund Foundation of LLB AG reduced the conversion rate for the pension plan. In the first half of 2016, this led to a one-time reduction in personnel expenses of CHF 10.2 million.

Numerous new IFRS standards, amendments and interpretations of existing IFRS standards were published, which were to become effective for financial years starting 1 January 2016 or later. The following new or revised IFRS standards or interpretations are of importance to the LLB Group:

- IFRS 9 "Financial Instruments" – IFRS 9 is divided into three phases: Classification and Measurement, Impairment and Hedge Accounting. The classification and measurement of financial instruments are made on the basis of the business model of the bank for the management of financial instruments and the contractual cashflow characteristics of the financial assets. The financial instruments are classified in the "Hold" business model and measured at amortised cost, if the purpose of the financial instrument is to generate interest earnings and payment of the principal upon maturity. If the financial instruments are held for liquidity management reasons, i.e. for the purpose of holding and sale, then the instruments are to be recognised at fair value through other comprehensive income. Gains and losses from this business model are booked to the statement of other comprehensive income and equity. On the basis of IFRS 9, impairments are to be recognised at an early stage (expected loss model). The amount of the impairment is determined on the basis of the classification of the financial instrument in one of the following three stages. In stage 1 there is no significant deterioration in credit quality and impairments amounting to the cash value of a 12-month expected credit loss are to be recognised. If there is no objective indication of an impairment, but a significant increase in credit risk has occurred, the impairment is to be recognised in the expected life-time credit loss (stage 2). In stage 3, there must be an objective indication of an impairment and a single allowance (life-time expected loss) is to be made for this financial instrument. These three stages are to be reviewed on every balance sheet key date. In addition, IFRS 9 regulates hedge accounting, whereby it seeks to standardise risk management and accounting. Hedges are to be better reflected in the financial accounts. The new standard comes into effect on 1 January 2018. The previous year does not have to be adjusted. The first-time adjustments will be made via the opening equity capital per 1 January 2018. The LLB has split its analysis of the effects of these changes into three parts, equivalent to the three stages of the IFRS. Up to the completion of the IASB project dealing with macro hedge accounting, the LLB can continue with its macro hedge accounting under IFRS 9 unchanged. The new rules regarding the classification and valuation of financial instruments will have no material influence on the LLB Group because the current classification and valuation of financial instruments remains largely unchanged. With respect to the third phase of IFRS regarding impairments (expected loss model), the LLB Group has formulated a concept (validation of scope) for the systematic calculation of periodic impairments. In this connection, the LLB Group will introduce a standard IT tool throughout the Group during the first half of 2017.

- IFRS 15 "Revenue from Contracts with Customers" – In May 2014, the IASB, together with the FASB, issued new regulations for the recognition of revenue, which completely replace the existing US-GAAP and IFRS rulings for the recognition of revenue. The recognition requires that revenue be shown as goods or services transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 contains a 5-step model to calculate the revenue, whereby the type of transaction or the industry, in which the company operates is irrelevant. The standard envisages additional disclosures. The new standard comes into effect on 1 January 2018. The effects of these changes on the LLB Group's financial reporting are currently being analysed.
- IFRS 16 "Leasing" – The new standard regulates the recognition and disclosure of leasing contracts. Leasing contracts are understood to be contracts that convey the right to use an asset for a period of time in exchange for a consideration. This can be, for example, the leasing of premises or equipment. The IFRS 16 contains no material threshold values for when a leasing contract is to be recognised as an asset, rather all substantial leasing contracts are basically to be entered in the accounts. The entering of leasing contracts in the financial accounts leads to a balance sheet extension, which basically has a negative impact on the regulatory required equity and also on the corresponding regulatory key figures, such as the tier 1 ratio. The standard comes into effect on 1 January 2019. The effects of these changes on the LLB Group's financial reporting are currently being analysed.
- Disclosure Initiative of the IASB – The IASB has started a project to explore how disclosures in IFRS financial reporting can be improved. This envisages a fundamental revision of IAS 1 ("Presentation of Financial Statements"), IAS 7 ("Statement of Cash Flows") and IAS 8 ("Accounting Policies, Changes in Accounting Estimates and Errors"). In addition, a general revision is to be made of appendix instructions in existing standards. The objective is to improve the materiality of disclosures in financial statements such as relevance and use of the figures for the reader, as well as increased company-specific disclosures.

Within the scope of its annual improvements, the IASB has published further improvements (Annual Improvements to IFRS 2012 – 2014 Cycle), which came into effect on 1 January 2016. The implementation of the amendments has no major influence on the financial statement of the LLB Group.

2 Changes to the scope of consolidation

There were no changes to the scope of consolidation in the first half of 2016.

3 Foreign currency translation

Reporting date rate	30.06.2016	31.12.2015
1 USD	0.9775	0.9989
1 EUR	1.0824	1.0871
1 GBP	1.2962	1.4783

Average rate	First half 2016	First half 2015
1 USD	0.9867	0.9505
1 EUR	1.0938	1.0687
1 GBP	1.4057	1.4554

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. The interim financial statement contains no risk information. We therefore refer to the risk management information provided in the 2015 annual report. There were no significant changes in comparison with 31 December 2015.

5 Events after the balance sheet date

There have been no material events after the balance sheet date which would require disclosure or adjustment of the consolidated interim financial statement for the first half of 2016.

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.

- Retail & Corporate Banking Segment encompasses the universal banking business in the home markets of Liechtenstein and Switzerland.
- Private Banking Segment encompasses all the private banking activities of the LLB Group, and groupwide product management.
- 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: financial 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 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 organizational structure, income and expenditure are allocated to the business divisions. 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 were executed at standard market conditions.

Since the second half of 2015, the LLB Group has carried out the settlement of services from / to other segments on the basis of a new internal accounting key. This provides a more efficient allocation of costs to the individual segments. The previous year's figures have been restated accordingly.

First half 2016

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	41'418	7'327	4'568	14'967	68'279
Credit loss (expense) / recovery	−865	750	−25	0	−140
Net interest income after credit loss expense	40'553	8'077	4'543	14'967	68'138
Net fee and commission income	15'462	31'577	28'046	−3'736	71'349
Net trading income	4'929	4'183	5'062	−14'919	−745
Net income from financial investments at fair value	0	0	0	10'020	10'020
Share of net income of joint venture	0	0	0	9	9
Other income	225	1	2	6'067	6'294
Total operating income*	**61'169**	**43'838**	**37'653**	**12'408**	**155'066**
Personnel expenses	−16'269	−14'647	−8'727	−25'611	−65'253
General and administrative expenses	−851	−1'888	−1'054	−26'472	−30'265
Depreciation and amortisation	−35	0	0	−12'935	−12'969
Services (from) / to segments	−22'401	−13'519	−5'683	41'603	0
Total operating expenses	**−39'556**	**−30'054**	**−15'464**	**−23'415**	**−108'487**
Operating profit before tax	**21'613**	**13'784**	**22'189**	**−11'007**	**46'579**
Tax expenses					−3'553
Net profit					**43'026**

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

First half 2015

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	46'354	9'310	4'512	4'738	64'914
Credit loss (expense) / recovery	461	0	−4'730	0	−4'269
Net interest income after credit loss expense	46'815	9'310	−218	4'738	60'645
Net fee and commission income	14'669	34'770	28'565	−2'477	75'527
Net trading income	5'480	4'869	5'784	−5'260	10'873
Net income from financial investments at fair value	0	0	0	−2'135	−2'135
Share of net income of joint venture	0	0	0	−7	−7
Other income	340	2	1'584	−44	1'882
Total operating income*	**67'304**	**48'951**	**35'715**	**−5'185**	**146'785**
Personnel expenses	−16'194	−12'294	−8'033	−19'822	−56'344
General and administrative expenses	−1'519	−1'695	−1'050	−26'227	−30'491
Depreciation and amortisation	−50	0	0	−14'253	−14'303
Services (from) / to segments	−27'986	−12'985	−4'830	45'801	0
Total operating expenses	**−45'749**	**−26'974**	**−13'913**	**−14'501**	**−101'137**
Operating profit before tax	**21'555**	**21'977**	**21'802**	**−19'686**	**45'648**
Tax expenses					−4'850
Net profit					**40'798**

* 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 2016	First half 2015	+ / – %
Interest income from banks	2'174	5'152	–57.8
Interest income from loans	84'657	85'587	–1.1
Loan commissions with the character of interest	1'958	1'580	23.9
Total interest income	**88'789**	**92'320**	**–3.8**
Interest expenses on amounts due to banks	–7'727	–8'770	–11.9
Interest expenses on amounts due to customers	–12'783	–18'636	–31.4
Other interest expenses	0	0	
Total interest expenses	**–20'510**	**–27'406**	**–25.2**
Total net interest income *	**68'279**	**64'914**	**5.2**

* The net interest income was reduced by CHF thousands 4'530 (previous year: CHF thousands 1'177) due to negative interest, principally from interest rate swaps.

2 Net fee and commission income

in CHF thousands	First half 2016	First half 2015	+ / – %
Brokerage fees	24'405	26'864	–9.2
Custody fees	14'766	16'147	–8.6
Advisory and management fees	20'011	20'617	–2.9
Investment fund fees	10'379	9'630	7.8
Credit-related fees and commissions	301	426	–29.3
Commission income from other services	14'419	14'682	–1.8
Total fee and commission income	**84'282**	**88'367**	**–4.6**
Brokerage fees paid	–5'452	–3'992	36.6
Other fee and commission expenses	–7'481	–8'848	–15.5
Total fee and commission expenses	**–12'933**	**–12'840**	**0.7**
Total net fee and commission income	**71'349**	**75'527**	**–5.5**

3 Net trading income

in CHF thousands	First half 2016	First half 2015	+ / – %
Securities	166	66	152.9
Foreign exchange trading	16'734	22'452	–25.5
Foreign note trading	705	–1'335	
Precious metals trading	243	459	–46.9
Interest rate instruments *	–18'593	–10'768	72.7
Total net trading income	**–745**	**10'873**	

* 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 2016	First half 2015	+ / − %
Interest income	7'276	8'349	−12.9
Dividend income	355	337	5.3
Price gains *	987	−10'821	
Total net income from financial investments at fair value through profit and loss	**8'617**	**−2'135**	
Realised gain from financial investments available for sale	1'403	0	
Impairment from financial investments available for sale	0	0	
Total net income from financial investments available for sale	**1'403**	**0**	
Total net income from financial investments at fair value	**10'020**	**−2'135**	

* The realised price gains for the first half 2016 amounted to CHF thousands minus 2'435 (previous year: CHF thousands minus 2'785).

5 Other income

in CHF thousands	First half 2016	First half 2015	+ / − %
Net income from properties	723	696	3.9
Non-period-related and non-operating income	107	−1'342	
Realised profits from sales of participations	0	1'584	−100.0
Realised profits from sales of tangible assets *	4'683	−24	
Income from various services	1'119	1'272	−12.0
Other ordinary income	−337	−304	10.8
Total other income	**6'294**	**1'882**	**234.5**

* Contains income from sales of properties.

6 Personnel expenses

in CHF thousands	First half 2016	First half 2015	+ / − %
Salaries	−59'239	−51'709	14.6
Pension and other post-employment benefit plans *	1'859	2'475	−24.9
Other social contributions	−5'673	−5'163	9.9
Training costs	−550	−524	5.0
Other personnel expenses	−1'650	−1'423	16.0
Total personnel expenses	**−65'253**	**−56'344**	**15.8**

* Contains a one-time reduction of the benefit expense due to the decrease in the conversion rates in 2016 of CHF thousands 10'202 and in 2015 of CHF thousands 7'938 as well as due to the closure of LLB (Switzerland) Ltd.

7 General and administrative expenses

in CHF thousands	First half 2016	First half 2015	+ / – %
Occupancy	– 4'301	– 3'575	20.3
Expenses for IT, machinery and other equipment	– 8'355	– 8'466	– 1.3
Information and communication expenses	– 6'574	– 6'301	4.3
Marketing and public relations	– 3'869	– 3'620	6.9
Consulting and audit fees	– 3'065	– 2'187	40.1
Capital tax and other tax	– 72	– 66	10.1
Provisions for legal and litigation risks	– 155	– 587	– 73.7
Material costs	– 503	– 476	5.9
Legal and representation costs	– 389	– 222	75.3
Litigation costs	– 72	– 1'861	– 96.1
Supervision fees	– 435	– 472	– 7.9
Other general and administrative expenses	– 2'474	– 2'657	– 6.9
Total general and administrative expenses	**– 30'265**	**– 30'491**	**– 0.7**

8 Tax expenses

in CHF thousands	First half 2016	First half 2015	+ / – %
Current taxes	– 5'477	– 2'931	86.9
Deferred taxes	1'924	– 1'919	
Total tax expenses	**– 3'553**	**– 4'850**	**– 26.7**

9 Earnings per share

	First half 2016	First half 2015	+ / – %
Net profit attributable to the shareholders of LLB (in CHF thousands)	42'282	37'666	12.3
Weighted average shares outstanding	28'832'635	28'821'798	0.0
Basic earnings per share (in CHF)	**1.47**	**1.31**	**12.2**
Net profit attributable to the shareholders of LLB (in CHF thousands)	42'282	37'666	12.3
Net profit for diluted earnings per share attributable to the shareholders of LLB (in CHF thousands)	42'282	37'666	12.3
Weighted average shares outstanding	28'832'635	28'821'798	0.0
Weighted average shares outstanding for diluted earnings per share	28'832'635	28'821'798	0.0
Diluted earnings per share (in CHF)	**1.47**	**1.31**	**12.2**

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	30.06.2016	31.12.2015	+/−%
Financial investments at fair value through profit and loss			
Debt instruments			
listed	768'733	776'407	−1.0
unlisted	0	0	
Total debt instruments	**768'733**	**776'407**	**−1.0**
Equity instruments			
listed	3	1	144.0
unlisted	365'360	366'028	−0.2
Total equity instruments	**365'363**	**366'029**	**−0.2**
Total financial investments at fair value through profit and loss	**1'134'095**	**1'142'436**	**−0.7**
Financial investments available for sale			
Debt instruments			
listed	136'442	236'238	−42.2
unlisted	59'147	59'935	−1.3
Total debt instruments	**195'589**	**296'172**	**−34.0**
Total financial investments available for sale	**195'589**	**296'172**	**−34.0**
Total financial investments at fair value	**1'329'684**	**1'438'608**	**−7.6**

11 Goodwill and other intangible assets

As of 30 June 2016, the LLB Group carried goodwill for the following segment:

in CHF thousands	30.06.2016	31.12.2015
Retail & Corporate Banking	55'620	55'620
Total	**55'620**	**55'620**

Goodwill impairment testing

Goodwill is tested twice a year for impairment – in the first quarter as a basis for the interim financial reporting at 30 June and in the third quarter as a basis for the annual financial reporting at 31 December. In order to determine a possible impairment, the recoverable amount of each cash generating unit, which carries goodwill, is compared with its balance sheet value. According to the calculations made, the recoverable amount of a cash generating unit always corresponds to the value in use. The balance sheet value or carrying value comprises equity before goodwill and intangible assets, as well as goodwill and intangible assets from the underlying purchase price allocation of this cash generating unit.

On the basis of the impairment testing carried out, management reached the conclusion that for the half year ended on 30 June 2016, the total goodwill of CHF 55.6 million allocated to the cash generating unit Retail & Corporate Banking remains recoverable. No impairment needs to be recognised because the recoverable amount exceeds the balance sheet value.

Recoverable amount

For determining the value in use, which corresponds to the recoverable amount of the respective cash generating units, the LLB Group employs a discounted cash flow (DCF) valuation model. The DCF model used by the LLB Group takes into consideration the special characteristics of banking business and the financial services sector, as well as the regulatory environment. With the aid of the model, and on the basis of the financial planning approved by management, the cash value of estimated free cash flow is calculated. If regulatory capital requirements exist for the cash generating unit, these capital requirements are deducted from the estimated free cash flows for the respective period and are available to the cash generating unit for distribution. This amount then corresponds to the theoretical sum that could be paid out to the shareholders. For the assessment of the forecasted earnings, management employs approved financial plans covering a period of five years. The results of all periods after the fifth year are extrapolated from the forecasted result or the free cash flow of the fifth year together with a long-term growth rate corresponding to the long-term inflation rate in Switzerland and Liechtenstein. Under certain circumstances, the growth rates may vary for the individual cash generating units because the probable developments and conditions in the respective markets are taken into account.

Assumptions

As far as possible, the parameters, on which the valuation model is based, are coordinated with external market information. In this context, the value in use of a cash generating unit is most sensitive to changes in the forecasted earnings, changes to the discount rate and changes in the long-term growth rate. The discount rate is determined on the basis of the capital asset pricing model (CAPM), which contains a risk-free interest rate, a market risk premium, a small cap premium, as well as a factor for the systematic market risk, i.e. the beta factor.

The long-term growth rates outside the five-year planning period (terminal value), on which the impairment tests for the interim financial reporting per 30 June 2016 were based and which were used for extrapolation purposes, as well as the discount rates for the individual cash generating units were unchanged from the parameters used at 31 December 2015. The parameters used are explained in note 19 of the 2015 annual report.

The discount rate is directly influenced by the fluctuation of interest rates. On account of the unchanged, historically low interest rate levels on the market, the discount rate of the cash generating units has not changed in comparison with the previous year. In a longer-term comparison, the present interest rate environment is also reflected in substantially lower interest income as well as corresponding lower annual earnings and free cash flows distributable to shareholders. On account of the fact that the discount rate is linked to current interest rate levels, when the latter rise, basically the discount rate, and interest income, will also rise. The cash generating units are exposed to only a limited level of risk because they operate in a local market, and only in retail and private banking with a limited risk profile.

Sensitivities

During the periodic preparation and execution of impairment tests, all the parameters and assumptions, on which the testing of the individual cash generating units is based, are reviewed and – if necessary – adjusted. A change in the risk-free interest rate has an influence on the discount rate, whereby a change in the economic situation, especially in the financial services industry, also has an impact on the expected or estimated results. In order to check these effects on the value in use of the individual cash generating units, the parameters and assumptions employed with the valuation model are subjected to a sensitivity analysis. For this purpose, the forecasted free cash flow attributable to shareholders is changed by 10 percent, the discount rate by 10 percent and the long-term growth rates by 10 percent. A reduction in the long-term growth rates of 10 percent or a reduction of the free cash flow of 10 percent would not lead to any impairment in the Retail & Corporate Banking segment. Likewise, an increase in the discount rate of 10 percent would not result in any impairment of goodwill.

In view of the challenging situation in the financial services industry, which is expected to persist in the future, the management estimates that an impairment of the goodwill in the Retail & Corporate Banking segment in the coming business years is not improbable. However, thanks to the relative strength in comparison with competitors as well as the realised and planned cost-cutting and efficiency improvement measures, a positive development of the segment is expected over the medium to long-term.

If the estimated earnings and other assumptions in future business years deviate from the current outlook due to political or global risks in the banking industry – such as for example due to uncertainty in connection with the implementation of regulatory provisions and the introduction of certain legislation, or a decline in general economic performance – this could result in an impairment of the goodwill in the future. This would lead to a reduction in the income statement of the LLB Group and a decrease in the equity attributable to shareholders and net profit. Such an impairment would not, however, have an impact on cash flows or on the Tier 1 ratio because – in accordance with Liechtenstein equity capital ordinance – goodwill must be deducted from capital.

12 Debt issued

in CHF thousands	30.06.2016	31.12.2015	+/–%
Medium-term notes *	461'304	443'244	4.1
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	778'910	770'000	1.2
Total debt issued	**1'240'214**	**1'213'244**	**2.2**

* The average interest rate per 30 June 2016 was 0.64 percent and per 31 December 2015 was 0.73 percent.

13 Provisions and contingent liabilities

in CHF thousands	Provisions for legal and litigation risks	Provisions for other business risks and restructuring	Total 2016	Total 2015
As at 1 January	24'036	1'318	25'354	33'330
Reclassification	−1'415	1'415	0	0
Provisions applied	−63	−294	−357	−4'555
Increase in provisions recognised in the income statement	590	0	590	2'216
Release of provisions recognised in the income statement	−435	0	−435	−783
Changes due to the deconsolidation of Group companies	0	0	0	−4'854
As at 30 June 2016 / 31 December 2015	**22'713**	**2'439**	**25'152**	**25'354**

The provisions for restructuring relate to the Focus2015 strategy announced by the LLB Group in March 2013 and the StepUp2020 strategy announced in October 2015. As per 30 June 2016, provisions amounting to CHF 0.8 million for restructuring, covering estimated rebuilding and restoration costs and expenses for social plans were allocated. No further significant provisions or restructuring costs are to be expected in connection with the announced strategies.

Within the scope of its normal business operations, the LLB Group is involved in various legal proceedings. It sets aside provisions for ongoing and threatened proceedings when, in the opinion of the competent specialists, payments or losses on the part of Group companies are likely and the amounts can be estimated.

As per 30 June 2016, 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.

The LLB Verwaltung (Switzerland) AG, formerly Liechtensteinische Landesbank (Switzerland) Ltd., is among the category 1 banks which 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 register- ed 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. As per 31 December 2012, in cooperation with our lawyers, on the basis of talks with the US authorities, and taking into consideration differing probabilities, various scenarios were discussed in relation to a possible outflow of resources. On the basis of these discussions, the management reached the conclusion that it is not unlikely that an outflow of resources will occur. Therefore, based on the simulated scenarios and a legal analysis as per 31 December 2012, a provision was set aside for a possible outflow of resources in connection with the investigation being carried out by the US authorities and the resulting possible payment or settlement to the latter. 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 per 30 June 2016. 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, the provision for LLB Verwaltung (Switzerland) AG was reviewed as per 30 June 2016.

A provision amounting to CHF 18.1 million was allocated as per 30 June 2016 for a possible outflow of resources in connection with payments in this regard to the US authorities, as well as for lawyers' fees, which may be incurred in this case for the provision of legal advice and support. The Management believes the provision set aside per 30 June 2016 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. Based on the facts of the case and on information from its external legal adviser, the management of LLB Verwaltung (Switzerland) AG currently believes that it can successfully defend itself against both claims. Consequently, management believes that no provisions need to be allocated as per 30 June 2016 for the claims for damages. LLB Verwaltung (Switzerland) AG has received an insurance commitment with respect to the costs of defending itself against the claims, so that management is of the opinion that no provisions need to be set aside for this purpose as per 30 June 2016.

The LLB Group had no contingent liabilities, either per 30 June 2016 or per 31 December 2015.

14 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 are 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 models or models based on market prices are available. Our own valuation methods or models with our own inputs 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 and financial liabilities from insurance contracts. 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 methods and techniques as well as the following inputs:

	Valuation model	Inputs	Significant, non-observable inputs
Level 2			
Own investment funds	Market to Model	Market prices of the underlying assets	
Derivative financial instruments	Option model	Underlying assets of future contracts	
OTC Structured Product	Discounted par value of capital protection based on discount rate	Market interest rates, prices of comparable assets	
Level 3			
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.

Measurement of fair values by active markets or valuation techniques

The following table shows the classification of fair value hierarchies of financial and non-financial assets and liabilities of the LLB Group. All assets and liabilities are measured at fair value on a recurring basis in the financial statement. As per 30 June 2016, the LLB Group had no assets or liabilities which were measured at fair value on a non-recurring basis in the balance sheet. In the first half of 2016 there were no significant transfers between Level 1 and Level 2 financial instruments.

in CHF thousands	30.06.2016	31.12.2015	+/−%
Level 1			
Trading portfolio assets	412	2'198	−81.3
Derivative financial instruments	0	0	
Financial investments at fair value through profit and loss	768'736	776'408	−1.0
Financial investments available for sale	136'442	236'238	−42.2
Total Level 1	**905'589**	**1'014'844**	**−10.8**
Level 2			
Trading portfolio assets	5	252	−97.9
Derivative financial instruments	88'683	62'013	43.0
of which for hedging purpose	131	392	−66.6
Financial investments at fair value through profit and loss	365'360	366'028	−0.2
Financial investments available for sale	59'147	59'935	−1.3
Total Level 2	**513'196**	**488'227**	**5.1**
Level 3			
Trading portfolio assets	0	0	
Derivative financial instruments	0	0	
Financial investments at fair value through profit and loss	0	0	
Financial investments available for sale	0	0	
Investment property	16'018	16'240	−1.4
Total Level 3	**16'018**	**16'240**	**−1.4**
Total assets	**1'434'803**	**1'519'311**	**−5.6**
Level 1			
Financial liabilities at fair value	0	0	
Derivative financial instruments	0	0	
Total Level 1	**0**	**0**	
Level 2			
Financial liabilities at fair value	0	0	
Derivative financial instruments	206'434	151'593	36.2
of which for hedging purpose	8'457	531	
Total Level 2	**206'434**	**151'593**	**36.2**
Level 3			
Financial liabilities at fair value	0	0	
Derivative financial instruments	0	0	
Total Level 3	**0**	**0**	
Total liabilities	**206'434**	**151'593**	**36.2**

Measurement of assets and liabilities classified as Level 3

For the recurring measurement of the fair value of financial and non-financial assets and liabilities for which significant non-observable inputs have been used and which are classified as Level 3, the effects on the income statement as per 30 June 2016 are immaterial and therefore they are not shown. The measurement and valuation had no influence on other comprehensive income for the first half of 2016.

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 of fair value.

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.

Structured products (OTC market)

Among its financial investments, the LLB Group has structured products with capital protection until final maturity, whose market value is estimated by the LLB Group with the aid of valuation models.

Structured products with capital protection until final maturity are periodically valued on the basis of an internal cash value model. On the basis of their characteristics up to maturity, the products correspond to zero coupon bonds. To calculate the discount interest rate in the cash value model, assumptions are made regarding the interest rate components, which are estimated periodically on the basis – among other criteria – of the market data of other bond issuers. Since no public market exists, assumptions are made regarding the redemption fees of issuers. These assumptions are periodically reviewed on the basis of data from various market participants and information from issuers regarding internal liquidity management.

Changes on the bond markets, for example due to monetary policy measures or the creditworthiness and internal liquidity of issuers, could lead, in the event of redemption during the life of the instrument, to changes in the valuation, especially in the bid / ask spread.

15 Non-current assets held for sale

One property, which is fully owned by a Group company and currently accommodates a branch of the bank and rental apartments, is to be sold. The transfer of ownership is to take place in the third quarter of 2016. The bank shall continue to use the bank branch on a rental basis. It is assumed the sale of the property, which is recognized per 30 June 2016 at a book value of CHF 2.1 million, will result in a profit of around CHF 3 million.

16 Off-balance sheet transactions

in CHF thousands	30.06.2016	31.12.2015	+/−%
Contingent liabilities	61'485	60'106	2.3
Credit risks	170'344	284'097	−40.0
Contract volumes of derivative financial instruments	9'773'154	9'650'207	1.3
Fiduciary transactions	1'121'174	1'073'540	4.4
Securities received as collateral or borrowed within the scope of securities lending or borrowing transactions, or securities received in connection with reverse repurchase agreements, which are capable of being resold or further pledged without restrictions	1'016'816	1'143'165	−11.1