

Retail & Corporate Banking Segment

Private and corporate clients

The Retail & Corporate Banking Division of the LLB Group offers the entire spectrum of banking and financial services for private and corporate clients in Liechtenstein and Switzerland at all phases of life and the business life cycle. Traditionally, savings and mortgage lending business has always played an important role. This is supplemented by financial planning and corporate pension provisioning.

Furthermore, the Retail & Corporate Banking Division provides investment advice and asset management to clients having available assets of up to CHF 0.5 million. At the same time, it offers services for small and medium-sized enterprises (SMEs). Retail & Corporate Banking combines bank branches with mobile and web-based services. It has three business branches in Liechtenstein and 19 in the Swiss cantons of Zurich, St. Gallen, Schwyz and Glarus.

Business segment result

During the first half of 2016, the business volume in the Retail & Corporate Banking Business Segment rose by 1.7 percent to CHF 17.7 billion. Thanks to the continuing demand for real estate financing, loans to customers climbed by 1.0 percent. Assets under management increased by 2.5 percent to CHF 8.2 billion. Net new money stood at CHF 256 million. Inflows were registered from private and corporate clients in the two domestic markets of Switzerland and Liechtenstein.

On account of the low interest rate level, operating income fell by 9.1 percent to CHF 61.2 million. Operating expenses fell at the same time by 13.5 percent to CHF 39.6 million. The segment profit before tax remained constant at CHF 21.6 million.

Segment reporting

| in CHF thousands | First half 2016 | First half 2015 | + / - % |
|---|-----------------|-----------------|--------------|
| Net interest income | 41'418 | 46'354 | -10.6 |
| Credit loss (expense) / recovery | -865 | 461 | |
| Net interest income after credit loss expense | 40'553 | 46'815 | -13.4 |
| Net fee and commission income | 15'462 | 14'669 | 5.4 |
| Net trading income | 4'929 | 5'480 | -10.1 |
| Other income | 225 | 340 | -33.8 |
| Total operating income | 61'169 | 67'304 | -9.1 |
| Personnel expenses | -16'269 | -16'194 | 0.5 |
| General and administrative expenses | -851 | -1'519 | -44.0 |
| Depreciation and amortisation | -35 | -50 | -30.0 |
| Services (from) / to segments | -22'401 | -27'986 | -20.0 |
| Total operating expenses | -39'556 | -45'749 | -13.5 |
| Segment profit before tax | 21'613 | 21'555 | 0.3 |

Performance figures

| | First half 2016 | First half 2015 |
|--------------------------------------|-----------------|-----------------|
| Net new money (in CHF millions) | 256 | -7 |
| Growth of net new money (in percent) | 3.2 | -0.1 |
| Cost-Income-Ratio (in percent) * | 63.8 | 68.4 |
| Gross margin (in percent) ** | 70.7 | 78.1 |

* Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding credit loss expense).

** Operating income (excluding credit loss expense) relative to average monthly business volumes.

Additional information

| | 30.06.2016 | 31.12.2015 | + / - % |
|--|------------|------------|---------|
| Business volumes (in CHF millions) | 17'670 | 17'374 | 1.7 |
| Assets under management (in CHF millions) | 8'241 | 8'037 | 2.5 |
| Loans (in CHF millions) | 9'429 | 9'337 | 1.0 |
| Employees (full time equivalent, in positions) | 215 | 223 | -3.6 |

Private Banking Segment

Private Banking

The Private Banking Division of the LLB Group combines advisory quality and investment competence with modern technology. The focus lies on the onshore markets in Liechtenstein, Switzerland and Austria, our traditional, cross-border markets in Germany and Western Europe, as well as the growth markets in Central and Eastern Europe and the Middle East. In addition, the Private Banking Division is responsible for groupwide product management.

The Private Banking Division offers international clients investment advice, wealth management, asset structuring, financing facilities, as well as financial and retirement planning. The LLB Group has three banks in Liechtenstein (Vaduz), Switzerland (Uznach) and Austria (Vienna) as well as banking locations in Zurich-Erlenbach, Geneva, Abu Dhabi, Dubai and in Eastern Switzerland.

Business segment result

The Private Banking Business Segment reported new money inflows in the growth markets and in the domestic markets in the first half of 2016. Money outflows were registered in the traditional, cross-border markets. On balance, this resulted in a net money outflow of 0.1 percent. Due to performance-related factors, assets under management decreased to CHF 12.7 billion, while loans to clients rose to CHF 1.4 billion. The business volume stood at CHF 14.1 billion.

On account of the high level of liquidity held by clients and the persisting pressure on margins, income from interest business and income from fees and commissions declined. Operating income fell accordingly by 10.4 percent to CHF 43.8 million. The expansion of personnel through the recruitment of new client advisers led to higher personnel expenses. Operating expenses climbed to CHF 30.1 million. The segment result before tax decreased to CHF 13.8 million.

Segment reporting

| in CHF thousands | First half 2016 | First half 2015 | + / - % |
|---|-----------------|-----------------|--------------|
| Net interest income | 7'327 | 9'310 | -21.3 |
| Credit loss (expense) / recovery | 750 | 0 | |
| Net interest income after credit loss expense | 8'077 | 9'310 | -13.2 |
| Net fee and commission income | 31'577 | 34'770 | -9.2 |
| Net trading income | 4'183 | 4'869 | -14.1 |
| Other income | 1 | 2 | -50.0 |
| Total operating income | 43'838 | 48'951 | -10.4 |
| Personnel expenses | -14'647 | -12'294 | 19.1 |
| General and administrative expenses | -1'888 | -1'695 | 11.4 |
| Depreciation and amortisation | 0 | 0 | |
| Services (from) / to segments | -13'519 | -12'985 | 4.1 |
| Total operating expenses | -30'054 | -26'974 | 11.4 |
| Segment profit before tax | 13'784 | 21'977 | -37.3 |

Performance figures

| | First half 2016 | First half 2015 |
|---|-----------------|-----------------|
| Net new money (in CHF millions) | -16 | 52 |
| Growth of net new money (in percent) | -0.1 | 0.3 |
| Cost-Income-Ratio (in percent) [*] | 68.5 | 55.9 |
| Gross margin (in percent) ^{**} | 61.9 | 67.1 |

^{*} Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding credit loss expense).

^{**} Operating income (excluding credit loss expense) relative to average monthly business volumes.

Additional information

| | 30.06.2016 | 31.12.2015 | + / - % |
|--|------------|------------|---------|
| Business volumes (in CHF millions) | 14'144 | 14'448 | -2.1 |
| Assets under management (in CHF millions) | 12'744 | 13'128 | -2.9 |
| Loans (in CHF millions) | 1'400 | 1'320 | 6.1 |
| Employees (full time equivalent, in positions) | 148 | 137 | 8.0 |

Institutional Clients Segment

Intermediary and investment fund business, asset management

The Institutional Clients Division encompasses the intermediary and fund business, as well as asset management services in the Liechtenstein and Swiss markets. LLB Asset Management AG fulfils a central role within the LLB Group. It possesses extensive investment competence and takes care of portfolio management, the management of institutional mandates and investment fund management.

LLB Fund Services AG is one of the leading investment fund providers in Liechtenstein. It possesses comprehensive, broadly-based expertise. The LLB teams of experts for the care of fiduciaries, external asset managers and public institutions are distinguished by their holistic, partner-like client focus.

Business segment result

The Institutional Clients Segment manages around 40 percent, or CHF 24.6 billion, of the business volume of the LLB Group. As a result of large outflows of money from isolated custodian bank funds and in traditional, cross-border business, net new money amounted to minus CHF 277 million.

In a challenging market environment, operating income increased by 5.4 percent to CHF 37.7 million. Whereas value adjustments decreased, income from interest business and fees and commissions remained stable. Operating expenses rose by 11.1 percent to CHF 15.5 million. The segment profit before tax climbed by 1.8 percent to CHF 22.2 million.

Segment reporting

| in CHF thousands | First half 2016 | First half 2015 | + / - % |
|---|-----------------|-----------------|-------------|
| Net interest income | 4'568 | 4'512 | 1.2 |
| Credit loss (expense) / recovery | -25 | -4'730 | -99.5 |
| Net interest income after credit loss expense | 4'543 | -218 | |
| Net fee and commission income | 28'046 | 28'565 | -1.8 |
| Net trading income | 5'062 | 5'784 | -12.5 |
| Other income | 2 | 1'584 | -99.9 |
| Total operating income | 37'653 | 35'715 | 5.4 |
| Personnel expenses | -8'727 | -8'033 | 8.6 |
| General and administrative expenses | -1'054 | -1'050 | 0.4 |
| Depreciation and amortisation | 0 | 0 | |
| Services (from) / to segments | -5'683 | -4'830 | 17.7 |
| Total operating expenses | -15'464 | -13'913 | 11.1 |
| Segment profit before tax | 22'189 | 21'802 | 1.8 |

Performance figures

| | First half 2016 | First half 2015 |
|--------------------------------------|-----------------|-----------------|
| Net new money (in CHF millions) | -277 | -211 |
| Growth of net new money (in percent) | -1.1 | -0.8 |
| Cost-Income-Ratio (in percent) * | 41.0 | 34.4 |
| Gross margin (in percent) ** | 30.5 | 32.3 |

* Operating expenses (excluding provisions for legal and litigation risks) in relation to operating income (excluding credit loss expense).

** Operating income (excluding credit loss expense) relative to average monthly business volumes.

Additional information

| | 30.06.2016 | 31.12.2015 | + / - % |
|--|------------|------------|---------|
| Business volumes (in CHF millions) | 24'622 | 24'854 | -0.9 |
| Assets under management (in CHF millions) | 24'286 | 24'394 | -0.4 |
| Loans (in CHF millions) | 336 | 460 | -27.0 |
| Employees (full time equivalent, in positions) | 87 | 84 | 3.6 |

Corporate Center Segment

Controlling processes and risks

The Corporate Center bundles central functions within the LLB Group and supports the market-oriented divisions in conducting their activities and implementing their strategies. The focus lies on functions in the areas of communication, marketing, human resources, finance, risk and credit management, IT, trading, securities administration and payment services, corporate development, purchasing, as well as legal and compliance services.

The Corporate Center of the LLB Group steers, coordinates and monitors groupwide business activities, processes and risks. It ensures the Group's corporate development including information technology and enhances the efficiency and quality of the LLB Group's services.

Business segment result

The LLB Group reports income from financial investments, the structural contribution from interest business and the valuation of interest rate hedging instruments under the Corporate Center. Operating income increased from minus CHF 5.2 million to CHF 12.4 million. This was attributable firstly to higher earnings from interest business, the result of a higher structural contribution, and secondly to a valuation loss on interest rate swaps in trading income from the perspective of the reporting date.

The valuation of financial investments had a positive impact on operating income. The one-time proceeds from the sale of properties was included in other income. Operating expenses rose to CHF 23.4 million. The strategic expansion of personnel in the areas of innovation and compliance / risk management, as well as higher variable salary remuneration because of the share-based compensation model led to an increase in personnel expenses. The segment profit before tax amounted to minus CHF 11.0 million.

Segment reporting

| in CHF thousands | First half 2016 | First half 2015 | + / - % |
|---|-----------------|-----------------|--------------|
| Net interest income | 14'967 | 4'738 | 215.9 |
| Credit loss (expense) / recovery | 0 | 0 | |
| Net interest income after credit loss expense | 14'967 | 4'738 | 215.9 |
| Net fee and commission income | -3'736 | -2'477 | 50.8 |
| Net trading income | -14'919 | -5'260 | 183.6 |
| Net income from financial investments at fair value | 10'020 | -2'135 | |
| Share of net income of joint venture | 9 | -7 | |
| Other income | 6'067 | -44 | |
| Total operating income | 12'408 | -5'185 | |
| Personnel expenses | -25'611 | -19'822 | 29.2 |
| General and administrative expenses | -26'472 | -26'227 | 0.9 |
| Depreciation and amortisation | -12'935 | -14'253 | -9.2 |
| Services (from) / to segments | 41'603 | 45'801 | -9.2 |
| Total operating expenses | -23'415 | -14'501 | 61.5 |
| Segment profit before tax | -11'007 | -19'686 | -44.1 |

Additional information

| | 30.06.2016 | 31.12.2015 | + / - % |
|--|------------|------------|---------|
| Employees (full time equivalent, in positions) | 392 | 372 | 5.4 |