

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 significant accounting and valuation methods employed in the preparation of the unaudited interim financial reporting correspond to those used in the 2016 annual report. In addition, the regulations valid since 1 January 2017 have been applied.

The unaudited interim financial reporting does not encompass all the data, which are contained in the audited 2016 consolidated financial statement and should, therefore, be read together with the audited consolidated financial statement per 31 December 2016.

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

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 13 in the 2017 consolidated interim financial reporting and under note 19, note 34 and note 40 of the 2016 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 2016 annual financial statement were adjusted accordingly in the 2017 interim financial reporting.

On the basis of experience gained over recent years and the digitalisation strategy initiated by the LLB Group, the depreciation period for IT hard and software (tangible and intangible assets) was assessed in some cases as not corresponding to the effective useful life of the IT hard and software employed. With effect from the business year starting on 1 January 2017, the depreciation period was adjusted in line with the future useful economic life. An adjustment of this nature represents an accounting estimate in accordance with IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors". From an overall economic perspective, the adjustment of the depreciation period results in neither additional nor reduced expenses from depreciation and amortisation, however, for the individual reporting periods this alteration does affect operating expenses. In the period under report, the expenses from depreciation and amortisation were CHF 1.1 million lower than without the change. For the 2017 business year this means a reduction in operating expenses of CHF 2.2 million, and for the 2018 business year a reduction of CHF 0.9 million. The reduction in operating expenses in the 2017 and 2018 business years of CHF 3.1 million is reflected in higher expenses in the period 2019 to 2022 due to the extension of service life.

Numerous new IFRS standards, amendments and interpretations of existing IFRS standards were published or came into effect, which were to become effective for financial years starting 1 January 2017 or later.

Amendments, which are to be applied for financial years starting on 1 January 2017 or later and which are regarded as being relevant for the LLB Group, are amendments to IAS 7 "Statement of Cash Flows" within the scope of the Disclosure Initiative as well as amendments to IAS 12 "Income Tax". The implementation of the changes has no major influence on the financial statement.

In comparison with the 2016 annual report, the International Accounting Standards Board (IASB) issued a new standard and a new interpretation during the period under report. These are IFRS 17 "Insurance Contracts" and IFRIC 23 "Uncertainty over Income Tax Treatments".

New and amended IFRS standards and interpretations are of importance to the LLB Group. However, only important new information in comparison to statements made in the annual report per 31 December 2016 is shown in the following:

- IFRS 9 "Financial Instruments" – In relation to the project status at the end of 2016, the sub-projects for the implementation of the new standard were progressing according to plan.

Sub-project "Classification and Measurement": the definition of the business models for the individual financial instruments is currently being carried out, whereby the area of financial investments (see note 16 in the 2016 annual report) will have the largest impact, depending on the business model, during the transition from IAS 39 to IFRS 9. The strategy under IFRS 9, and therefore the classification of the individual financial investments, has not yet been definitely decided. However it is probable that debt instruments will be reported under a "Hold and Sell" business model, so that they can be recognised under IFRS 9 at fair value through other comprehensive income

(FVOCI), provided that the SPPI criterion is fulfilled. The determining factor for this is the possibility of active liquidity management with this business model in contrast to the "Hold" business model. Provided there are natural hedges between changes in value from interest rate swaps and debt instruments, recognition at fair value through profit and loss (FVTPL) is conceivable. The focus here is on the "Trading" business model. In the case of equities, it is likely that the FVOCI option will be used for certain positions, meaning that in addition to an FVTPL valuation, a certain number of equities would be measured using FVOCI, provided that all the relevant prerequisites were fulfilled. Currently, it is not possible to make quantitative statements about the possible effects because, on the one hand, the business strategy has not yet been definitively decided, and on the other, the implementation of the measurement procedure for the individual financial instruments has not yet been completed.

Sub-project "Impairment": IFRS 9 stipulates that losses from credit risks are to be reported independently of the occurrence of the loss event. In accordance with general practice, a risk provision for expected credit losses during the next 12 months is to be determined on the balance sheet reporting date. If after the first time recognition of the credit position a significant increase in the credit risk occurs, the expected loss is to be considered over the entire term. To determine the expected receivables losses at both the individual and the portfolio level, in future appropriate and reliable information is also to be taken into consideration, which includes forecasts about future economic conditions. The implementation of the expected credit loss according to IFRS 9 is based largely on internal LLB procedures and models. Missing information regarding credit default probability, loss given by default and credit commitments at the time of the default are determined using models at the portfolio level. The models are generally configured on a cycle-related basis (Through The Cycle, TTC) and adjustments are made to them to take into consideration current economic conditions (Point in Time, PiT). Forward-looking economic data are also considered. The LLB continued with the development of the most important models during the first half of 2017. The measurement and discounting of the expected credit loss in accordance with IFRS 9 are carried out with the use of external software. The LLB also employs the software within the scope of balance sheet structure management. This ensures a high level of data integrity. The necessity of including forward-looking information in the measurement of expected credit loss means that substantial discretionary decisions have to be made, which can influence the magnitude of the expected credit losses. In this respect, the LLB is concentrating on the development of a robust governance process to determine the expected credit loss. During the second half of 2017, the focus will be on carrying out impact analyses using the formulated forecasts, models and scenarios.

- IFRS 16 "Leasing" – In comparison with the end of 2016, further analyses were carried out to ascertain possible effects. Currently, the effects of a worsening of regulatory indicators when the new standard is introduced are assessed as having no major influence.

- IFRIC 23 "Uncertainty over Income Tax Treatments" – The interpretation provides guidelines regarding the treatment of taxable profit or taxable losses, tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty as to what extent the tax authorities will recognise the individual tax positions. In a first step it is to be determined whether each tax treatment should be considered independently or whether some tax treatments should be considered together. In doing so, it is to be evaluated whether it is likely that the tax authority will accept the tax treatment or combination of tax treatments that an entity has employed, or intends to employ, in its tax declaration. If an entity concludes that it is probable that a particular tax treatment will be accepted, the entity has to determine taxable profit (taxable loss), tax bases, unused tax credits or tax rates consistently with the tax treatment included in its income tax declarations. If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or expected value of the tax treatment. The standard comes into effect on 1 January 2019. An earlier implementation is possible, but the LLB will not do so. It will be applied fully retrospectively or retrospectively in a modified form. The effects of these changes on the LLB Group's financial reporting are currently being analysed.

Within the scope of its annual improvements, the IASB has published further improvements (Annual Improvements to IFRS 2014 – 2016 Cycle), which are valid from 1 January 2017 or become effective from 1 January 2018. 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 2017.

3 Foreign currency translation

Reporting date rate	30.06.2017	31.12.2016
1 USD	0.9590	1.0167
1 EUR	1.0945	1.0726
1 GBP	1.2477	1.2588

Average rate	First half 2017	First half 2016
1 USD	0.9903	0.9867
1 EUR	1.0772	1.0938
1 GBP	1.2552	1.4057

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 2016 annual report. There were no significant changes in comparison with 31 December 2016.

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 2017.

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.
- 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 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^o	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

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

First half 2017

in CHF thousands	Retail & Corporate Banking	Private Banking	Institutional Clients	Corporate Center	Total Group
Net interest income	42'741	12'031	6'896	4'116	65'784
Credit loss (expense) / recovery	-3'104	0	0	0	-3'104
Net interest income after credit loss expense	39'638	12'031	6'896	4'116	62'681
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	12'023	12'023
Share of net income of joint venture	0	0	0	-1	-1
Other income	536	0	0	1'425	1'962
Total operating income^o	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

^o 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 2017	First half 2016	+ / - %
Interest income from banks	7'855	8'309	-5.5
Interest income from loans	84'147	84'657	-0.6
Loan commissions with the character of interest	1'983	1'958	1.3
Interest income from financial liabilities	2'574	1'605	60.4
Total interest income	96'558	96'528	0.0
Interest expenses on amounts due to banks	-8'209	-9'226	-11.0
Interest expenses on amounts due to customers	-12'768	-12'889	-0.9
Interest income from financial assets	-9'797	-6'135	59.7
Total interest expenses	-30'774	-28'249	8.9
Total net interest income	65'784	68'279	-3.7

2 Net fee and commission income

in CHF thousands	First half 2017	First half 2016	+ / - %
Brokerage fees	25'939	24'405	6.3
Custody fees	15'533	14'766	5.2
Advisory and management fees	22'476	20'011	12.3
Investment fund fees	10'536	10'379	1.5
Credit-related fees and commissions	307	301	1.8
Commission income from other services	12'988	14'419	-9.9
Total fee and commission income	87'779	84'282	4.2
Brokerage fees paid	-4'902	-5'452	-10.1
Other fee and commission expenses	-8'430	-7'481	12.7
Total fee and commission expenses	-13'332	-12'933	3.1
Total net fee and commission income	74'448	71'349	4.3

3 Net trading income

in CHF thousands	First half 2017	First half 2016	+ / - %
Securities	136	166	-17.8
Foreign exchange trading	25'503	16'734	52.4
Foreign note trading	775	705	10.0
Precious metals trading	607	243	149.2
Interest rate instruments ^o	11'537	-18'593	
Total net trading income	38'558	-745	

^o 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 2017	First half 2016	+ / - %
Interest income	6'845	7'276	- 5.9
Dividend income	459	355	29.5
Price gains*	-463	987	
Total net income from financial investments at fair value through profit and loss	6'842	8'617	- 20.6
Realised gain from financial investments available for sale**	5'181	1'403	269.3
Total net income from financial investments available for sale	5'181	1'403	269.3
Total net income from financial investments at fair value	12'023	10'020	20.0

* The realised price gains for the first half 2017 amounted to CHF thousands minus 7'903 (previous year: CHF thousands minus 2'435).

** Contains realised gains from the sale of strategic investments amounting to CHF thousands 5'153.

5 Other income

in CHF thousands	First half 2017	First half 2016	+ / - %
Net income from properties	745	723	3.0
Non-period-related and non-operating income	397	107	272.5
Realised profits from sales of tangible assets*	106	4'683	-97.7
Income from various services	715	782	-8.6
Total other income	1'962	6'294	-68.8

* Contains income from sales of properties.

6 Personnel expenses

in CHF thousands	First half 2017	First half 2016	+ / - %
Salaries	-60'288	-59'239	1.8
Pension and other post-employment benefit plans*	-8'915	1'859	
Other social contributions	-5'784	-5'673	2.0
Training costs	-512	-550	-7.0
Other personnel expenses	-1'368	-1'650	-17.1
Total personnel expenses	-76'867	-65'253	17.8

* Contains a one-time reduction of the benefit expense due to the decrease in the pension conversion rates in 2016 of CHF thousands 10'202.

7 General and administrative expenses

in CHF thousands	First half 2017	First half 2016	+ / - %
Occupancy	-5'183	-4'301	20.5
Expenses for IT, machinery and other equipment	-8'599	-8'355	2.9
Information and communication expenses	-6'799	-6'574	3.4
Marketing and public relations	-3'166	-3'869	-18.2
Consulting and audit fees	-2'379	-3'065	-22.4
Capital tax and other tax	310	-72	
Material costs	-616	-503	22.3
Provisions for legal and litigation risks	4'999	-155	
Legal and representation costs	-327	-389	-16.0
Litigation costs	-33	-72	-54.6
Supervision fees	-514	-435	18.2
Other general and administrative expenses	-2'841	-2'474	14.8
Total general and administrative expenses	-25'147	-30'265	-16.9

8 Tax expenses

in CHF thousands	First half 2017	First half 2016	+ / - %
Current taxes	-9'108	-5'477	66.3
Deferred taxes	-4'570	1'924	
Total tax expenses	-13'678	-3'553	285.0

9 Earnings per share

	First half 2017	First half 2016	+ / - %
Net profit attributable to the shareholders of LLB (in CHF thousands)	57'292	42'282	35.5
Weighted average shares outstanding	28'863'518	28'832'635	0.1
Basic earnings per share (in CHF)	1.98	1.47	35.4
Net profit for diluted earnings per share attributable to the shareholders of LLB (in CHF thousands)	57'292	42'282	35.5
Weighted average shares outstanding for diluted earnings per share	28'863'518	28'832'635	0.1
Diluted earnings per share (in CHF)	1.98	1.47	35.4

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	30.06.2017	31.12.2016	+/- %
Financial investments at fair value through profit and loss			
Debt instruments			
listed	806'181	854'312	-5.6
unlisted	0	0	
Total debt instruments	806'181	854'312	-5.6
Equity instruments			
listed	10	4	172.9
unlisted	296'998	293'149	1.3
Total equity instruments	297'008	293'153	1.3
Total financial investments at fair value through profit and loss	1'103'189	1'147'465	-3.9
Financial investments available for sale			
Debt instruments			
listed	248'836	198'745	25.2
unlisted	0	0	
Total debt instruments	248'836	198'745	25.2
Equity instruments			
listed	0	0	
unlisted	0	92'408	-100.0
Total equity instruments	0	92'408	-100.0
Total financial investments available for sale	248'836	291'153	-14.5
Total financial investments at fair value	1'352'025	1'438'618	-6.0

11 Debt issued

in CHF thousands	30.06.2017	31.12.2016	+/- %
Medium-term notes*	407'025	437'200	-6.9
Shares in bond issues of the Swiss Regional or Cantonal Banks' Central Bond Institutions	831'566	790'836	5.2
Total debt issued	1'238'591	1'228'035	0.9

* The average interest rate per 30 June 2017 was 0.55 percent and per 31 December 2016 was 0.60 percent.

12 Provisions

in CHF thousands	Provisions for legal and litigation risks	Provisions for other business risks and restructuring	Total 2017	Total 2016
As at 1 January	46'957	4'114	51'071	25'354
Provisions applied	-18'681	-426	-19'107	-347
Increase in provisions recognised in the income statement	0	371	371	28'929
Release of provisions recognised in the income statement	-4'999	-11	-5'010	-2'865
As at 30 June 2017 / 31 December 2016	23'277	4'049	27'326	51'071

The provisions for restructuring relate to the StepUp2020 strategy announced in October 2015. As per 30 June 2017, provisions amounting to CHF 0.4 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 strategy.

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 per 30 June 2017, 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 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 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. 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 2017. 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 per 30 June 2017. The management believes the provision set aside per 30 June 2017 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 the opinion of the attorneys, the management of LLB Verwaltung (Switzerland) AG currently believes that it can successfully defend itself against both claims.

The Liechtensteinische Landesbank AG has reached an amicable agreement with the German authorities in connection with the untaxed assets of German clients. The LLB made a one-time payment of EUR 16.7 million in the first half of 2017. This payment is fully covered by provisions for legal and litigation risks and has no adverse effect on the interim financial result. The unrequired portion of the provision of CHF 5.0 million was released through profit and loss. The agreement reached with the authorities in North Rhine-Westphalia to settle the negative legacy of the past establishes clarity and legal certainty. It applies to all German states.

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			
Derivative financial instruments	Option model	Underlying assets of future contracts	
Own investment funds	Market to model	Market prices of underlying assets	
Level 3			
Financial investments at fair value through profit and loss	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 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 statement of financial position. As per 30 June 2017, 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 semester 2017 there were no significant transfers between Level 1, Level 2 and Level 3 financial instruments.

in CHF thousands	30.06.2017	31.12.2016	+ / - %
Level 1			
Trading portfolio assets	2'153	3'613	-40.4
Financial investments at fair value through profit and loss	806'191	831'390	-3.0
Financial investments available for sale	248'836	198'745	25.2
Total Level 1	1'057'180	1'033'749	2.3
Level 2			
Trading portfolio assets	7	168	-95.9
Derivative financial instruments	89'036	82'607	7.8
of which for hedging purpose	1'417	1'279	10.8
Financial investments at fair value through profit and loss	275'120	293'149	-6.2
Financial investments available for sale	0	92'408	-100.0
Total Level 2	364'163	468'332	-22.2
Level 3			
Financial investments at fair value through profit and loss	21'878	22'926	-4.6
Investment property	15'000	16'018	-6.4
Non-current assets held for sale	7'339	845	768.1
Total Level 3	44'217	39'789	11.1
Total assets	1'465'560	1'541'870	-4.9
Level 1			
Total Level 1	0	0	
Level 2			
Derivative financial instruments	162'718	161'976	0.5
of which for hedging purposes	1'956	2'178	-10.2
Total Level 2	162'718	161'976	0.5
Level 3			
Total Level 3	0	0	
Total liabilities	162'718	161'976	0.5

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 of the first half of 2017 are immaterial and are therefore not shown. The measurement or valuation also had no influence on other comprehensive income in the first half of 2017.

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 profit and loss

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, rental apartments 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

In addition to the financial assets and liabilities shown in the fair value hierarchy, details are to be disclosed of financial instruments, which are not measured at fair value. On account of the fact that their duration extends beyond a period of one year, a present cash value

calculation is made for different positions on the basis of swap rates appropriate for the duration. For all other positions, the carrying value represents a reasonable approximation of the fair value. The following table compares the carrying value and the fair value of these financial instruments:

in CHF thousands	30.06.2017		31.12.2016	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and balances with central banks	4'418'691	4'418'691	3'450'726	3'450'726
Due from banks	2'605'577	2'606'013	3'114'861	3'116'584
Loans	11'692'702	12'263'950	11'538'876	12'090'778
Accrued income and prepaid expenses	36'827	36'827	32'568	32'568
Liabilities				
Due to banks	923'533	924'368	622'932	624'153
Due to customers	16'111'178	16'178'217	15'860'465	15'939'393
Debt issued	1'238'591	1'290'418	1'228'035	1'289'599
Accrued expenses and deferred income	29'230	29'230	26'228	26'228

14 Non-current assets held for sale

Wholly owned properties, which currently comprise bank branches, rental apartments and unused properties, are to be sold. These are

recognised in the financial accounts at 30 June 2017 with a carrying value of CHF 7.3 million.

15 Off-balance sheet transactions

in CHF thousands	30.06.2017	31.12.2016	+ / - %
Contingent liabilities	56'060	62'839	-10.8
Credit risks	280'435	263'909	6.3
Contract volumes of derivative financial instruments	11'017'295	10'294'450	34.8
Fiduciary transactions	989'125	1'030'375	-4.0
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	407'863	622'876	-34.5