LEONTEQ AG

BASEL III PILLAR 3 DISCLOSURES
DECEMBER

2018

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1 Introduction

Leonteq AG (Leonteq or 'the Company') and its subsidiaries (hereinafter referred to as 'the Group') are independent experts for structured investment products and long-term savings and retirement solutions. This report provides Basel III pillar 3 disclosures for Leonteq on a consolidated basis as of 31 December 2018. The disclosures in this report are based on the Swiss regulatory requirements prescribed by the Financial Market Supervisory Authority ('FINMA') in its circular, 2016/1 'Disclosure – banks', last amended on 20 June 2018.

This report is intended to provide interested readers (including counterparties, analysts, regulators and rating agencies) with detailed information on Leonteq AG's risk and capital adequacy management.

List of disclosures

Leonteq Securities AG is the main operating subsidiary of Leonteq AG. Leonteq Securities AG is classified as a Category 5 authorised Swiss Securities Dealer and, as such, the following tables are to be published (on a consolidated group level, on an annual basis):

Table	Title
KM1	Key regulatory metrics
OV1 (simplified form)	Overview of risk-weighted assets
CR1	Credit risk: credit quality of assets
CR2	Credit risk: changes in stock of defaulted loans and debt securities
CRB	Credit risk: additional disclosure related to the credit quality of assets
CR3 (simplified form)	Credit risk: overview of mitigation techniques
CR5	Credit risk: exposures by exposure category and risk weights under the standardised approach
CCR3	Counterparty credit risk: standardised approach to CCR exposures by exposure category and risk weights
CCR5	Counterparty credit risk: composition of collateral for CCR exposure
ORA	General qualitative information on operational risk

The tables IRRBBA, IRRBBA1 and IRRBB1 do not need to be provided by securities dealers who do not run significant interest rate risk profiles within their banking book. The tables LIQA, LIQ1 and LIQ2 also do not need to be provided by securities dealers. The Group may provide simplified forms (partial disclosures) of OV1 and CR3. The Group does not hold any defaulted exposures, so the table CR2 is not included in these disclosures due to its lack of relevance.

2 Supporting information

Supporting information for these disclosures can be found in the Group's Annual Report published in the Investor Relations section of the Company's website at: www.leonteq.com. The disclosures for Leonteq Securities AG can also be found in this location.

Please note that the disclosures relating to corporate governance are included in the Annual Report and not in the pillar 3 disclosures.

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3 Disclosure tables

3.1 KM1 – Key regulatory metrics

This table provides an overview of the Group's prudential regulatory metrics covering available capital (including buffer requirements and ratios) and risk-weighted assets (RWA).

Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are not applicable to the Group. The quarterly data is also not applicable, as the Group is only required to provide this data on an annual basis.

		a	e
		31.12.2018	**31.12.2017**
Eligible capital (amounts in CHF thousands)			
1	Common equity tier 1 (CET1) capital	607,656	418,386
2	Tier 1 capital	607,656	418,386
3	Total BIS capital	610,606	419,696
Risk-weighted assets (amounts in CHF thousands)			
4	Total risk-weighted assets (RWA)	2,780,605	2,137,551
4a	Minimum capital requirements	222,448	171,004
Risk-based capital ratios (in % of RWA)			
5	CET1 ratio (%)	21.9%	19.6%
6	Tier 1 ratio (%)	21.9%	19.6%
7	**Total capital ratio (%)**	**22.0%**	**19.6%**
Additional CET1 buffer requirements (in % of RWA)			
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.9%	1.3%
9	Countercyclical buffer requirement (%)	0.0%	0.0%
10	Bank G-SIB[1] and/or D-SIB[2] additional requirements (%)	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	1.9%	1.3%
12	**CET1 available after meeting the bank's minimum capital requirements (%)**	**18.5%**	**16.1%**
Target capital ratios according to Annex 8 CAO[3] (in % of RWA)			
12a	Equity buffer according to Annex 8 CAO (%)	2.5%	2.5%
12b	Countercyclical buffers (Articles 44 and 44a CAO) (%)	0.0%	0.0%
12c	CET1 target ratio (in %) according to Annex 8 of the CAO plus countercyclical buffers according to Art. 44 and 44a CAO	7.0%	7.0%
12d	T1 target ratio (in %) according to Annex 8 of the CAO plus countercyclical buffers according to Art. 44 and 44a CAO	8.5%	8.5%
12e	Total capital target ratio (in %) according to Annex 8 of the CAO plus countercyclical buffers according to Art. 44 and 44a CAO	10.5%	10.5%
Basel III leverage ratio			
13	Total Basel III leverage ratio exposure (CHF thousands)	7,425,362	6,016,208
14	**Basel III leverage ratio (%) (Tier 1 capital in % of the total exposure)**	**8.2%**	**7.0%**

[1] Global Systemically Important Banks
[2] Domestic Systemically Important Banks
[3] Capital Adequacy Ordinance

Capital charges for market risks increased in 2018 due to the growth in issuance volume. Due to the Group's hedging strategy, market risks are primarily related to interest rates and equities. Capital requirements for credit risks also increased in 2018, driven by the higher issuance volume.

Risk weighted assets rose by 30% to CHF 2,781 million as a result of business growth, an increase in total assets, and higher market and credit risk exposures.

The leverage ratio improved by 1.2 percentage points in 2018 due to a 45% increase in the Tier 1 capital compared to a 23% increase in the leverage ratio exposure. The total assets grew by 68% due to an increase in issuance activity and financial market correction at the end of 2018.

3.2 OV1 – Overview of risk-weighted assets

This table provides an overview of total risk-weighted assets forming the denominator of the risk-based capital requirements.

The following approaches are applied when determining the regulatory capital requirements of the Group:

- Credit risk
  The international standardised approach (SA-BIS) is applied for calculating credit risk charges. Credit equivalents for derivatives are calculated according to the current exposure method. Collateral is recognised using the comprehensive approach. Requirements on potential credit valuation adjustments are calculated according to the standardised approach.
- Market risk
  The standardised approach is applied for calculating market risk charges. Requirements for general interest rate risk in the trading book are calculated according to the maturity method. Commodity inventory is dealt with under the maturity ladder approach (as of 31 December 2017, simplified approach). For options the delta-plus approach is applied.
- Operational risk
  The basic indicator approach is applied for calculating operational risk charges.
- Non-counterparty related risk
  The standardised approach is applied for calculating non-counterparty related risk charges.

CHF thousands		a	b	c
		Risk-weighted assets		Min. capital requirements
		31.12.2018	31.12.2017	31.12.2018
1	Credit risk	573,904	350,357	45,912
20	Market risk	1,726,360	1,329,743	138,109
24	Operational risk	417,084	399,095	33,367
25	Amounts below the thresholds for deductions (subject to 250% risk weight)	8,131	5,905	650
	Non-counterparty related risk[1,2]	54,497	52,451	4,360
	Cryptocurrencies[1,3]	629	—	50
29	**Total**	**2,780,605**	**2,137,551**	**222,448**

1 Leonteq Group also reports these risk items in its annual report, so they are included in addition to the required rows.
2 See the Capital Adequacy Ordinance, version as of 1 January 2019, Articles 78 and 79, for details on this risk component.
3 As of 31 December 2018, cryptocurrencies are risk-weighted by 800% according to the FINMA communication during the fourth quarter of 2018. For 31 December 2017, cryptocurrencies were reported as commodities (part of market risk) with a capital requirement of CHF 4 thousand.

Capital charges for market risks increased in 2018 due to the growth in issuance volume. Due to the Group's hedging strategy, market risks are primarily related to interest rates and equities. Capital requirements for credit risks also increased in 2018, driven by the higher issuance volume. The Company primarily has credit risk to banks and insurance companies as a result of its cash holdings, securities transactions, derivative exposures arising from positions in over-the-counter (OTC) and listed derivatives, as well as securities lending and borrowing activities. Exposure to counterparties resulting from the Group's OTC derivatives and securities lending and borrowing activities is typically mitigated through the use of mark-to-market collateral and close-out netting arrangements.

3.3 CR1 – Credit risk: credit quality of assets

This table shows the credit quality of the Group's (on- and off-balance sheet) assets but does not include receivables in the form of cash collateral delivered to counterparties on OTC derivative positions. The Group does not hold any defaulted exposures.

CHF thousands		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values a+b-c
		Defaulted exposures	Non-defaulted exposures		
1	Loans	—	721,358	—	721,358
2	Debt securities	—	—	—	—
3	Off-balance sheet exposures	—	42,124	—	42,124
4	**Total as of 31 December 2018**	**—**	**763,482**	**—**	**763,482**

3.4 CRB – Credit risk: additional disclosure related to the credit quality of assets

This section supplements the quantitative templates with information on the credit quality of the Group's assets. It is composed of qualitative information and quantitative information in the form of three tables which breakdown exposures by geographical areas, sectors and duration.

Qualitative disclosures

Due to the nature of Leonteq's businesses as a securities dealer, the Group does not offer retail or commercial lending facilities and therefore does not hold any related overdue items or other relevant items which would be considered impaired or restructured (in the sense of a credit event).

3.4.1 CRB – Credit risk: segmentation by geographical area

CHF thousands	31.12.2018
Switzerland	545,558
Europe, the Middle East and Africa (EMEA) (excluding Switzerland)	191,520
Asia-Pacific (APAC)	20,394
Americas	5,994
Total credit equivalents	**763,466**

3.4.2 CRB – Credit risk: segmentation by sectors

CHF thousands	31.12.2018
Central governments and central banks	—
Institutions	246,635
Banks and stockbrokers	374,556
Enterprises	99,765
Retail	—
Equity	—
Other exposures	42,510
Total credit equivalents	**763,466**

3.4.3 CRB – Credit risk: segmentation by duration

CHF thousands		31.12.2018
At sight		721,359
Cancellable		—
Due	up to 3 months	895
	from 3 months, up to 12 months	1,614
	from 12 months up to 5 years	38,347
	from 5 years	1,251
	no maturity	—
Total credit equivalents		**763,466**

3.5 CR3 – Credit risk: overview of mitigation techniques

This table discloses the extent of use of credit risk mitigation techniques.

CHF thousands	a	c	e&g
	Exposures unsecured: carrying amount	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees or credit derivatives, of which: secured amount
Loans (including debt securities)	435,341	39,382	246,635
Off-balance sheet	42,124	—	—
Total credit equivalents	**477,465**	**39,382**	**246,635**
of which defaulted	—	—	—

3.6 CR5 – Credit risk: exposures by exposure category and risk weights under the standardised approach

This table presents the breakdown of credit risk exposures under the standardised approach by exposure category and risk weight (corresponding to the riskiness attributed to the exposure according to the standardised approach).

CHF thousands		a	b	c	d	e	f	g	h	i	j
		0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post CCF and post-CRM)
Exposure category/risk weight											
1	Sovereigns and their central banks	50,194	—	2	—	1	—	—	—	—	50,197
2	Banks and securities firms	157,193	—	187,081	—	469	—	33	12	—	344,788
3	Public-sector entities and multilateral developments banks	40,450	—	211,982	—	—	—	—	—	—	252,432
4	Corporates	9,956	—	311	—	41,145	—	48,983	95	—	100,490
5	Retail	—	—	—	—	—	—	—	—	—	—
6	Equity securities	—	—	—	—	—	—	—	—	—	—
7	Other assets[1]	—	—	—	—	—	—	97,455	—	—	97,455
8	**Total as of 31 December 2018**	**257,793**	**—**	**399,376**	**—**	**41,615**	**—**	**146,471**	**107**	**—**	**845,362**
9	of which receivables secured by real estate	—	—	—	—	—	—	—	—	—	—
10	of which receivables past due	—	—	—	—	—	—	—	—	—	—

[1] Other assets includes non-counterparty related positions.

3.7 CCR3 – Counterparty credit risk: standardised approach to CCR exposures by exposure category and risk weights

This table provides a breakdown of counterparty credit risk exposures calculated according to the standardised approach by exposure category (type of counterparties) and by risk weight (riskiness attributed according to the standardised approach).

CHF thousands		a	b	c	d	e	f	g	h	i
		0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposures
Exposure category/risk weight										
1	Sovereigns and their central banks	21,433	—	—	—	—	—	—	—	21,433
2	Banks and securities firms	1,230,112	—	304,107	281,845	—	—	—	—	1,816,064
3	Public-sector entities and multilateral developments banks	—	—	523	—	—	—	—	—	523
4	Corporates[1]	1,316,319	—	—	8,766	—	37,368	—	1,187,072	2,549,525
5	Retail	—	—	—	—	—	—	—	—	—
6	Equity securities	—	—	—	—	—	—	—	—	—
7	Other assets	—	—	—	—	—	—	—	6,440	6,440
9	**Total as of 31 December 2018**	**2,567,864**	**—**	**304,630**	**290,611**	**—**	**37,368**	**—**	**1,193,512**	**4,393,985**

[1] Corporates includes the exposure to central counterparties

3.8 CCR5 – Counterparty credit risk: composition of collateral for CCR exposure

This table provides a breakdown of all types of collateral posted or received by the Group to support or reduce the counterparty credit risk exposures related to derivative transactions or to securities financing transactions (SFTs), including transactions cleared through a central counterparty (CCP).

CHF thousands	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency (CHF)	—	405,416	—	24,735	70,000	—
Cash – other currencies	—	1,270,038	—	825,085	119,511	83,778
Domestic sovereign debt	—	—	—	—	1,444	—
Other sovereign debt	20,789	586	348,813	—	—	81,527
Government agency debt	3,643	—	63,932	—	67	—
Corporate bonds	305,543	—	37,610	—	5	190,533
Equity securities	—	—	506,685	—	425,627	323,056
Other collateral	—	—	—	—	—	—
Total as of 31 December 2018	**329,975**	**1,676,040**	**957,040**	**849,820**	**616,654**	**678,894**

3.9 ORA – General qualitative information on operational risk

This table describes the main characteristics and elements of the Group's Operational Risk Framework. Operational risk is the risk of losses occurring due to inadequate or failed internal processes, people and systems, or due to external causes. Losses can take the form of direct financial losses, legislative sanctions or foregone revenues, e.g. due to the failure of a service or system. Such events may also lead to reputational damage that could have longer-term financial consequences.

Strategy, processes and organisation for the management of operational risks
The Group's management considers operational risk to be one of its major risks. A broad Operational Risk Framework has therefore been put in place to manage and control operational risk. The first line of defence is ownership of operational risk by the business management itself. Each division has its own dedicated operational risk reporting manager.

In addition to this, Operational Risk Control independently monitors the effectiveness of operational risk management and monitors operational risk-taking activities. This is all overseen by the Board of Directors, who also determine the risk appetite for significant sources of operational risk. Mandatory operational risk training for all employees and the promotion of a culture of ownership and responsibility are important elements of the Group's operational risk management.

Operational Risk Control is mandated by the Board of Directors and the Executive Committee to anticipate, identify, measure, monitor and control, as well as to report on operational risk to which the Group is or may be exposed in the context of its business activities. Moreover, it is charged with developing and maintaining an Operational Risk Framework and the policies and Operational Risk Taxonomy to guide this framework. It ensures that the level of operational risk tolerance defined by the Board of Directors is communicated across the firm and adhered to. Operational Risk Control promotes risk governance and a risk culture that is aligned with the Operational Risk Framework.

Business management performs its own periodic operational risk self-assessments within each of its areas of responsibility. It is responsible for logging items and events relating to operational risk in a Company-wide inventory. Risks must be logged with their root causes and plans for mitigation. Operational Risk Control independently reviews these risk assessments and proposes a list of top risks which is the basis for the prioritisation of mitigation plans.

The Group's operational risk profile and material risk exposure to losses are monitored by Operational Risk Control by various means, including the use of key risk indicators, and are regularly reported to the Board of Directors and Executive Committee. Strong operational risk management is promoted by the use of a robust and comprehensive internal control system across the firm.

Approach used for the operational risk capital calculation
The basic indicator approach is applied for calculating operational risk charges when determining the regulatory capital requirements of the Group.

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