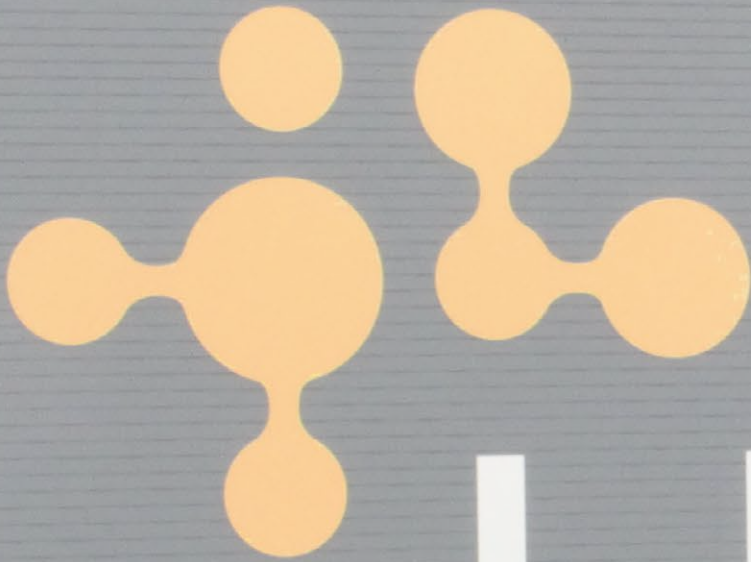


ANNUAL REPORT
2018



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FINANCIAL HIGHLIGHTS 2018

11 years since inception and 6 years on the stock exchange,
Leonteq continues the solid track record it has established.

FINANCIAL

Platform assets (in CHF billion)

11.9

11.4 AS OF 31 DECEMBER 2017

BIS total eligible capital (in CHF million)

610.6

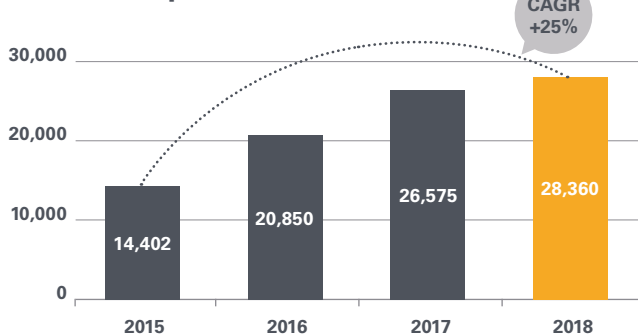
419.7 AS OF 31 DECEMBER 2017

Net fee income of CHF 272.5 million by region

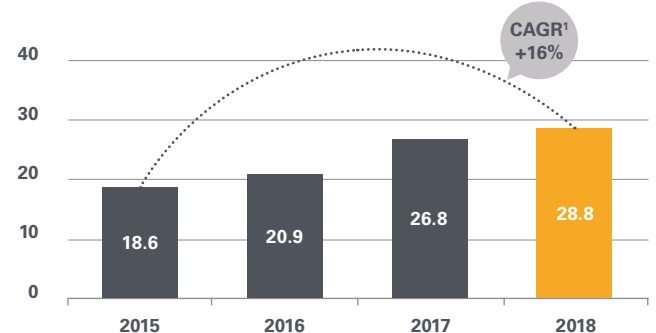


Switzerland	42%
Europe	46%
Asia	12%

Structured products issued



Turnover (in CHF billion)



Total capital ratio

22.0%

19.6% AS OF 31 DECEMBER 2017

Total operating income (in CHF million)

282.4

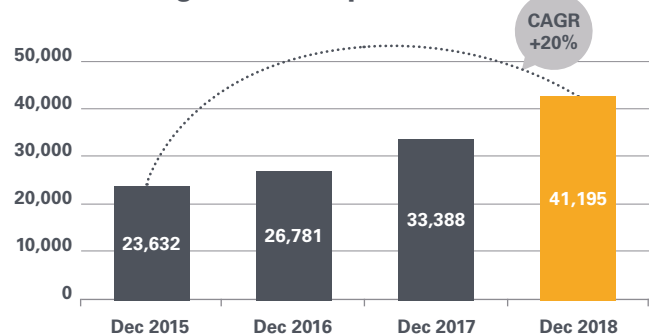
215.4 IN 2017

Net profit (in CHF million)

91.5

23.1 IN 2017

Outstanding insurance policies



¹ Compound annual growth rate

At a glance

	2018	2017	Change %
Group results (CHF million)			
Total operating income	282.4	215.4	31%
Profit before taxes	93.3	23.3	300%
Group net profit	91.5	23.1	296%
Key ratios (%)			
Cost/income ratio	67%	89%	(22 pp)
Return on equity	18%	6%	12 pp
Investment Solutions			
Platform assets (CHF billion) ¹	11.9	11.4	4%
Turnover (CHF billion)	28.8	26.8	7%
Fee income margin (bps)	86	84	2 bps
Number of clients	967	1,017	(5%)
Insurance & Wealth Planning Solutions			
Number of outstanding policies ¹	41,195	33,388	23%
Net new policies	7,807	6,607	18%
Balance sheet (CHF million)¹			
Total assets	10,690.2	6,347.9	68%
Total shareholders' equity	607.7	418.4	45%
Regulatory capital¹			
Risk-weighted assets (CHF million)	2,780.6	2,137.6	30%
Common equity tier 1 capital (CHF million)	607.7	418.4	45%
Total BIS eligible capital (CHF million)	610.6	419.7	45%
Common equity tier 1 ratio (%)	21.9%	19.6%	2.3 pp
BIS total capital ratio (%)	22.0%	19.6%	2.4 pp
Share information			
Market capitalisation (CHF million) ¹	776	1,005	(23%)
Number of shares outstanding ¹	18,934,097	15,944,504	19%
Share price (CHF) ¹	41.00	63.00	(35%)
Basic earnings per share (CHF)	5.40	1.47	267%
Diluted earnings per share (CHF)	5.33	1.45	268%
Employees			
Number of full-time equivalent employees ¹	486	440	10%
Credit rating			
Long-term issuer default rating (Fitch)	BBB-/positive ²	N/A	N/A

¹ At the end of the respective period.

² Rating assigned on 14 January 2019.



SHAREHOLDERS' LETTER

SHAREHOLDERS'

Dear shareholders

Leonteq performed well in 2018 and achieved the highest profits in the history of our company, consistently using business opportunities and taking advantage of volatile markets. We also improved revenue diversification, strengthened cooperation with our issuance partners and further advanced strategic initiatives to enhance the scalability of our platform, unlock additional value and support further growth. Furthermore, the investment grade rating obtained by Fitch marked a major strategic milestone for Leonteq.

Record financial results

Total operating income grew 31% year-on-year to CHF 282.4 million in 2018, primarily driven by a solid increase in net fee income of 10%, to CHF 272.5 million and positive contribution from hedging synergies. Total operating expenses decreased by 2% to CHF 189.1 million in 2018, slightly above previous cost guidance of approximately CHF 185 million.

Leonteq initiated the hiring of additional staff, including IT specialists, in the second half of 2018 to further improve client experience and to maintain its technological edge. As a result, headcount increased by 46 full-time equivalents (FTEs) to 486 FTEs as of 31 December 2018.

As a result of the increase in total operating income and cost management efforts, the cost/income ratio improved to 67% in 2018 compared to 89% in the prior year. Net profit improved to CHF 91.5 million in 2018 compared to CHF 23.1 million in the prior year and EPS more than tripled to CHF 5.40. As a result of higher retained earnings and the successful completion of the rights issue in August 2018, total BIS eligible capital increased to CHF 610.6 million as of 31 December 2018, compared to CHF 419.7 million as of 31 December 2017. 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. Return on equity was 18% in 2018 compared to 6% in 2017. In line with the dividend policy announced with the half-year 2018 results, the Board of Directors will propose to shareholders that no dividend be distributed for the financial year 2018.

Segmental and regional results

The Investment Solutions business line issued 28,360 structured products (+7%) in 2018 and grew its total turnover by 7% to CHF 28.8 billion. Total platform assets (volume outstanding) rose to CHF 11.9 billion as of 31 December 2018, up from CHF 11.4 billion at end-2017. Net fee income grew by 9% to CHF 246.7 million in 2018 and total operating income rose by 30% to CHF 250.2 million. Fee income margins were stable at 86 basis points in 2018 compared to 84 basis points in 2017.

In the Insurance & Wealth Planning Solutions business line, net fee income grew by 23% to CHF 25.8 million and total operating income rose by 31% to CHF 29.7 million. The number of outstanding policies serviced on the platform increased by 23% to 41,195 policies as of 31 December 2018.

In our home market Switzerland, we grew net fee income by 13% to CHF 115.3 million in 2018. In Europe, the business generated a 15% increase in net fee income to CHF 125.3 million over the same period. The Asia region saw a 12% decrease in net fee income year on year to CHF 31.9 million, reflecting reduced client activity on the back of macroeconomic uncertainty and increased competition.

Strategic progress

Leonteq has adopted a leaner, more systematic and agile approach to project management across the company. Significant investments in innovation and technology were made in 2018, with a focus on improving the client experience and unlocking additional value. We advanced our Smart Hedging and Issuance Platform (SHIP) project, further broadened and strengthened cooperation with existing platform partners and launched a new initiative that aims to expand our Web-based structured investment products platform.

We further launched a new initiative that aims to expand our Web-based structured investment products platform by connecting buyers and sellers of structured products in a unique digital ecosystem. The initiative is set to provide Leonteq clients with a completely new product discovery, pricing, execution and post-trade experience. At the same time, issuance partners will benefit from an increased efficiency across front-, middle- and back-office processes, more efficient implementation of new payoffs and a direct roll-out of new services.

With the obtained investment grade rating, we reached a major strategic milestone in the development of our company. 11 years after Leonteq's inception, the rating agency Fitch Ratings Ltd. has assigned Leonteq AG and Leonteq Securities AG a long-term issuer default rating (IDR) of "BBB-" with a Positive Outlook and a short-term IDR of "F3". This rating from an internationally renowned rating agency is a testimony to Leonteq's success and underlines our commitment and ambition to continue the solid track record we have established.

Enhanced transparency

With this annual report, we are taking a step further to enhance the transparency of the Company. It is important to us that we provide our readers, stakeholders, partners and employees with adequate insight into the company's business, strategy and performance. We are, therefore, reintroducing the section 'Our Business', which includes details on our strategic priorities, our products & services and what makes our technology platform unique.

A large part of Leonteq's success is also due to the workforce in front and behind every single business transaction. Highlighting this important aspect of the Company is something that we are also introducing for the first time and we provide information on how we manage, motivate, train and retain our employees. In the following pages, a detailed reporting of employee statistics can be found.

Over the past two years, the Board of Directors has significantly improved the company's governance framework and strengthened the independence of the Board and its committees. Following the streamlining of the structure of the Executive Committee in 2017 and the appointment of a new CEO as of May 2018, the redesign of Leonteq's compensation system for the Executive Committee marks the conclusion of an intense process but also defines the start of how we want to successfully shape our business in the future. The Nomination and Remuneration Committee worked intensively to transform Leonteq's compensation system which is transparent and is aligned with the key interests of Leonteq's stakeholders and its strategic goals, as well as its cultural and behavioural values.



Christopher M. Chambers
Chairman of the Board of Directors



Lukas T. Rufin
Chief Executive Officer

Last year's good results are a first proof that we have set the right course to generate sustainable value for clients and shareholders with our strengthened organisation, improved resilience and targeted growth initiatives. The Board of Directors and the Executive Committee remain fully committed to further develop our business with our innovational strength, cost discipline and client focus.

We thank all our stakeholders for their trust and continued support.

Christopher M. Chambers
Chairman of the Board of Directors

Lukas T. Rufin
Chief Executive Officer

OUR BUSINESS

Leonteq operates two business lines and has identified and initiated key priorities to further invest in innovation and technology, with a focus on improving the client experience and unlocking additional value.

BUSINESS

Leonteq is an independent expert in structured investment products and long-term savings and retirement solutions. We focus on industrialising the production process for structured investment products and unit-linked life insurance policies and on providing our clients and partners with high standards of service delivered by an international team of experienced industry professionals. We have a strong presence in our home market of Switzerland and in Europe, as well as an established footprint in Asia.

Business model

Since our company was founded in 2007, we have focused on developing an integrated technology platform that enables the automation of key processes in the value chain for the production of structured investment products and long-term savings and retirement solutions. In the first years after Leonteq was established, our value proposition centred on transparency of product documentation, service throughout the product lifecycle, liquidity in the secondary market, security through the innovation of COSI® products and sustainability. We subsequently entered our second phase as a platform business and white-labelling service provider. Taking advantage of major technology advancements and using state-of-the-art tools and services, the scalability of our platform increased, with automation enabling a rapid computation of two billion product combinations in two minutes. In 2018, we started to build a truly scalable and leading structured products platform with limited balance sheet consumption and we launched the Smart Hedging and Issuance Platform (SHIP) project to achieve capital scalability through external hedging providers. This should allow us to become one of the few, if not the only platform in the industry that is able to automate both the bond and the option component from third party providers. Our ambition is to leverage our established client, partner and hedging franchise and to become recognised as a leading player for structured products.

Leonteq's platform functionalities address changing client needs and the demand for more transparent and flexible solutions. In order to proactively meet these requirements and offer high standards of service, we focus on controlling and automating all key processes along the value chain, based on continuous enhancement of our technology platform through our inhouse development teams. As such, we are vertically integrated, covering the entire value chain from structuring, pricing, documentation, issuance, listing and settlement to risk management, market-making, lifecycle management, distribution, risk and regulatory reporting, and accounting services.

Our proprietary technology platform allows us to instantly calculate complex structured financial products, even when they are tailored to individual client needs, and to automatically produce all the necessary documentation in four languages. Our system accesses over 1,900 equities and around 150 indexes and exchange-traded funds, as well as credits, interest rates and major currencies and commodities as underlying assets.

We act as both an issuer of our own structured products and as a distributor of the products issued on the balance sheet of other financial institutions. Leonteq has developed a highly experienced sales force, which is based in eleven local offices and services our clients with customised structured investment products on a daily basis in more than 50 countries around the globe. We further enable life insurance companies to produce capital-efficient, unit-linked savings and drawdown solutions with guarantee and upside. Our system facilitates fully digital investment administration at individual policy level, with the mapping of all business transactions over the entire lifecycle of the policy.

Leonteq operates two business lines: Investment Solutions focuses on the manufacturing and distribution of structured investment products and on enabling and enhancing the structured product capabilities of its issuance partners. The second business line, Insurance & Wealth Planning Solutions, offers a digital platform to life insurers, enabling unit-linked retail products with financial protection and upside, providing a viable alternative to traditional guarantee product approaches.

Strategy

The traditional global banking and financial services landscape is being disrupted by the rapid emergence of financial technology. Being a contributor to the digital transformation of financial services, Leonteq is continuously reshaping its product and service offering to enhance its customer experience and real-time engagement. As such, Leonteq's strategic priorities are aimed at enhancing the scalability of its business lines, investing in sustainable growth by strengthening existing cooperation with platform partners, and continuing to invest in its technology platform to improve client experience by further automating pay-offs and front-to-back processes.

In response to continued margin pressures and the growth in platform assets – which, in turn, lead to a rise in risk-weighted assets and lower capital ratios – targeted measures have been implemented to increase scalability within Leonteq's business lines. The SHIP project was initiated to reduce the company's hedging exposure by outsourcing market risk to external hedging counterparties in an automated manner. Through this project, capital requirements for the outsourced volume are expected to gradually decrease due to reduced market risks and eventually also due to reduced credit risks.

Leonteq will continue to improve and strengthen cooperation with existing platform partners and is also taking targeted steps to grow its business through additional investments in innovation and technology. Our aim is to further improve the client experience and enhance efficiency and cost effectiveness. In our Investment Solutions business line, we intend to invest in the further automation of pay-offs, as well as in the digital development and expansion of capital-light client services. Furthermore, we plan to develop additional, complementary Web-based applications and tools for our clients and issuance partners, as well as expanding the level of technical integration of existing issuance partners on our platform. In this context, we launched a new initiative in 2018 that aims to expand our Web-based structured investment products platform. The initiative is set to provide Leonteq's clients a completely new product discovery, pricing, execution and post-trade experience. At the same time, issuance partners will benefit from an increased efficiency across front-, middle- and back-office processes, more efficient implementation of new payoffs and a direct roll-out of new services. To support this expansion, we increased headcount by 10% in 2018, with a focus on hiring IT specialists, and a further 5% increase in our workforce is currently underway. We plan to recruit further specialists during the next six to twelve months, subject to the continued solid development of the business.

In our Insurance & Wealth Planning Solutions business line, we intend to increase growth potential by continuous investment into the digital platform and the enablement of new product concepts for the issuance and investment administration of unit-linked life insurance policies. Furthermore, we intend to extend our platform and provide long-term savings products for retail banks and wealth managers.

Investment Solutions

In Investment Solutions, we focus on the manufacturing and distribution of structured investment products, which we offer to financial intermediaries and institutional and professional clients in more than 50 countries. We also enable and enhance the structured product capabilities of our issuance partners.

Structured investment products are manufactured and managed in our own name or for an issuance partner, which acts as the issuer or guarantor of the respective products. Our services cover the entire lifecycle of a structured product. Our clients are serviced by an experienced sales force and they can select from a variety of issuers, asset classes and pay-offs available on the platform.

Our structured investment product offerings are grouped into three main categories: capital protection, yield enhancement and participation. We offer our clients a variety of different pay-offs, all of which are managed on our own platform, enabling us to respond rapidly and efficiently to changes in demand.

The distribution of structured investment products is performed either by Leonteq or by our issuance partners. Our distribution capabilities are complemented by a dedicated in-house ideation, structuring, and trading team and include a digital and automated pricing engine.

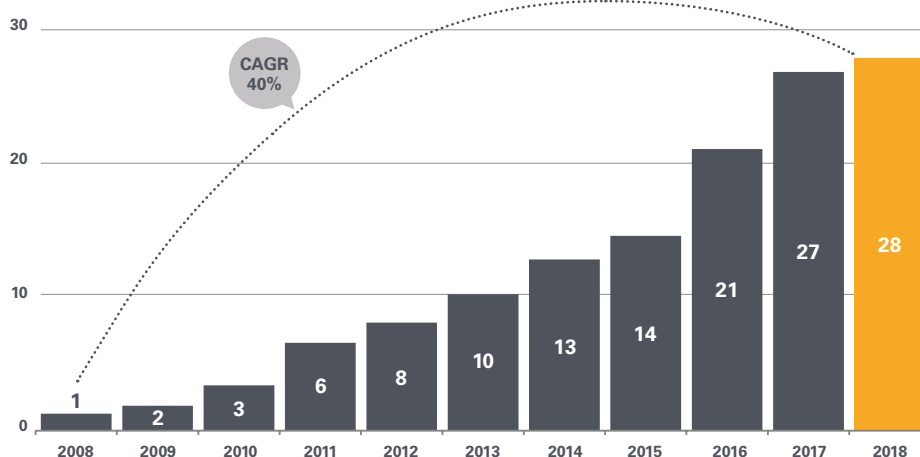
Our products

Structured products generally comprise pre-packaged, securitised investment solutions based on a single security, a basket of securities, options, indices, commodities, interest rates, debt issuance and/or foreign currencies, and, to a lesser extent, swaps.

While we offer a broad range of structured products, our focus is on products resulting from our issuance partner service offering as well as on products which we offer under our name. We define structured investment products as structured products, including yield enhancement, participation and capital protection, but excluding leverage products, that are often exchange-listed and have short-term maturities. The most popular products on Leonteq's platform are yield-enhancement products such as Barrier Reverse Convertibles and Autocallables. The most common underlying assets for structured investment products are equities, indices, commodities, foreign currencies, and interest rate and credit instruments.

Since our company was founded in 2007, we have launched over 130,000 structured products on our platform, of which approximately 55,000 were issued in 2017 and 2018.

Structured products issued (in thousands)



The structured investment products that are most relevant to our product offering can be grouped into three main categories:

Capital protection products

These products have a minimum redemption at expiry equivalent to the capital protection, and they therefore protect against losses resulting from a fall in the price of the underlying asset. Capital protection is defined as a percentage of the nominal value (e.g. 100%) and is guaranteed by the issuer or guarantor of the product. In addition, investors may participate in the price movements of the underlying, although they may be limited. Alternatively, the investor may be entitled to a coupon payment. During the lifetime of the product, its value may fall below its capital protection level.

Capital protection certificates with participation offer a guaranteed repayment of a predefined percentage of the denomination (usually 100%) as well as the opportunity to participate in price gains of the underlying instrument. However, depending on the capital protection level, the participation rate may vary and therefore be lower or higher than would be the case if the underlying security was owned outright. The investor is exposed to the credit risk of the issuer or the guarantor and is not entitled to receive any dividends on an underlying equity.

Investors in these products expect the underlying to rise but would, at the same time, like to be protected against significant drops in the price of the underlying.

Capital protection products are typically structured with a zero-coupon bond and the purchase of a call option (long position) with a strike at 100%. At redemption, the investor is entitled to a cash settlement in the respective product currency that equals the capital protection level multiplied by the denomination. In addition, the investor participates in the appreciation of the underlying.

Yield enhancement products

Investors in yield enhancement products expect sideways or slightly rising underlying prices. These products have a reduced level of risk compared to a direct investment in the underlying. Reverse convertibles and barrier reverse convertibles are the most common yield enhancement products. The buyer of a reverse convertible surrenders the potential upside exposure to the underlying asset in exchange for an enhanced coupon. The holder of the product generally remains exposed to the downside of the underlying asset.

A barrier reverse convertible offers the investor a coupon regardless of the performance of the underlying asset, combined with conditional downside protection. A barrier event occurs if the level of the underlying asset trades at or below the predefined barrier level. Depending on the terms of the product, the barrier event may occur at any time during the life of the product (American barrier) or only on a predefined observation date (European barrier).

If a barrier event does not occur, the investor receives the initial investment amount at maturity.

If a barrier event occurs and the underlying asset is at or below its strike level at maturity, the redemption of the product (physical or cash) will depend on the value of the underlying asset. If a barrier event occurs and the underlying asset at maturity is above its strike level, the investor receives a cash amount equal to the initial investment amount.

A typical barrier reverse convertible can combine two components: A fixed income security such as a bond (investment grade), which is due to be repaid at maturity, and an option-like instrument, which provides the specific pay-off in addition to the guaranteed coupon payments. The product is typically structured with a zero-coupon bond and the sale of a put (short position) in the form of a down-and-in put option with a strike at 100% and a barrier of 60%. The remaining capital is used to pay the annual coupons (10%) and the fee as well as commission expenses.

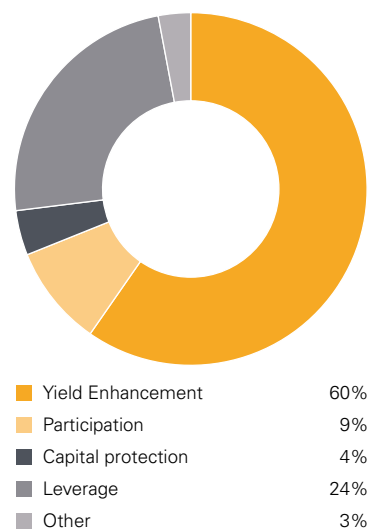
Participation products

In general, the performance of participation products is closely linked to the underlying asset's price movements, with no up or down limitations, and a comparable risk to a direct investment in the underlying. These products sometimes feature conditional capital protection (e.g. bonus certificates) or a leveraged upside participation (e.g. outperformance certificates). The most prevalent participation products are tracker certificates, which track the performance of the underlying asset on a 1:1 basis.

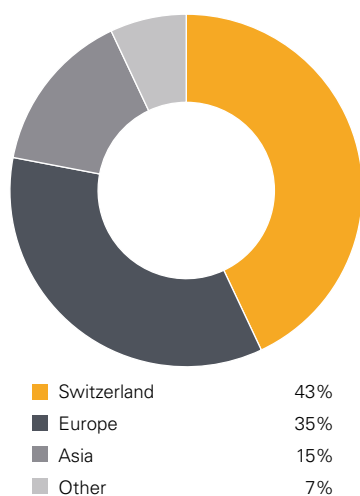
Investors buying a tracker certificate are seeking to broaden their investment spectrum and are looking for investment opportunities outside the traditional asset categories. Tracker certificates have the potential to tap into new markets or strategies that are otherwise difficult to access for the investor or entail high costs. Tracker certificates based on indices or baskets also enable broadly diversified investments with a single transaction. The investor is exposed to the credit risk of the issuer or the guarantor and is not entitled to receive any dividends on an underlying equity.

A participation product replicates the price movement of the underlying. In terms of risk, it is therefore comparable to a direct investment in the underlying. On the redemption date, the investor is entitled to a cash settlement equal to the final value of the underlying.

Turnover by product category (2018)

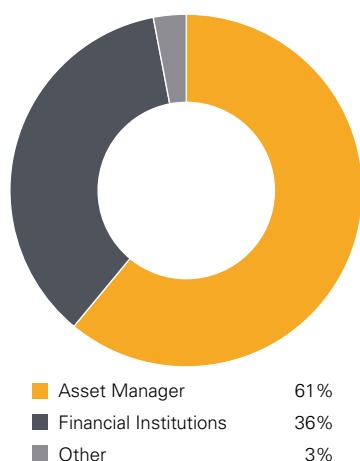


Economic fee income¹ by domicile of intermediary (2018)



¹ Economic fee income is defined as fees earned and is considered as recognised at trade date without any application of IFRS revenue recognition rules.

Economic fee income by type of intermediary (2018)



Our services

We offer our structured products to institutions and individual retail clients. Institutional clients are accessed through both direct and third-party distribution channels, and individual retail clients are typically accessed through third-party distribution channels. Our indirect distribution is built around multiple distribution channels, including asset managers, independent financial advisors, business introducers, insurance companies and brokers, banks and other financial institutions. Our clients are served by an experienced sales force with the support of a distribution system that includes a dedicated in-house ideation, structuring and trading team as well as a digital, automated pricing engine.

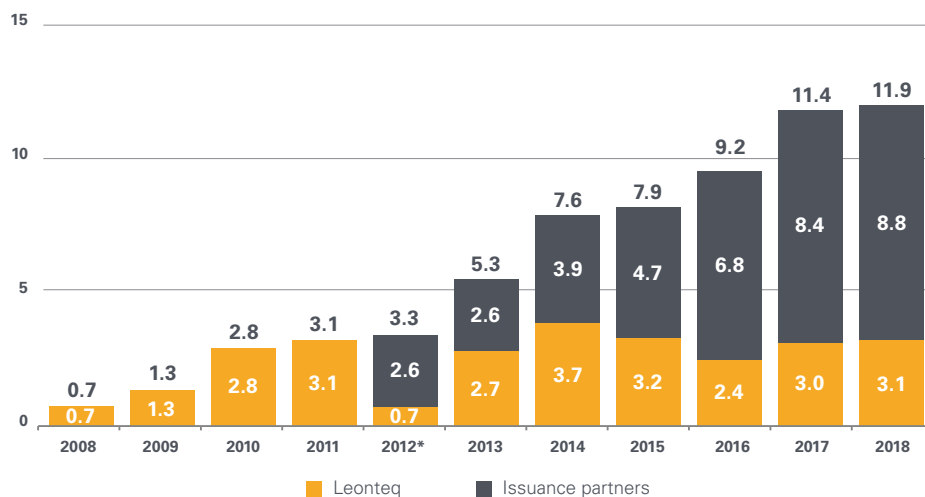
In 2018, 967 of our clients entered into at least one primary or secondary market transaction on account of their respective clients or for their own account. From a geographical perspective, 43% of our economic fee income in 2018 was generated through clients domiciled in Switzerland. In the same period, European clients generated 35% of our fee income, while clients domiciled in Asia and the rest of the world generated 15% and 7%, respectively. In terms of intermediary type, 61% of our economic fee income in 2018 was generated by asset managers, 36% by financial institutions and 3% by other parties.

In addition to structured investment products that we issue under our own name, we manufacture and manage structured investment products for issuance partners. Through this structured investment service platform, we provide our issuance partners with services that cover the entire product lifecycle and are customised to their individual needs. Consequently, the scope of cooperation with third-party banks can range from a semi-integrated set-up with only a few services and interfaces to a fully integrated set-up covering the entire product lifecycle. Our services include:

- Risk management, hedging, market-making and secondary-market servicing (e.g. monitoring of corporate actions, valuation, service hotline);
- Advice on structuring, establishment of an issuance program, and design of information and marketing material;
- Production of term sheets and documentation for individual trades;
- Listing and settlement of structured investment products;
- Provision of risk, regulatory and sales reporting related to structured investment products;
- Provision of corporate centre services (e.g. account postings, book entries and cash flow reports).

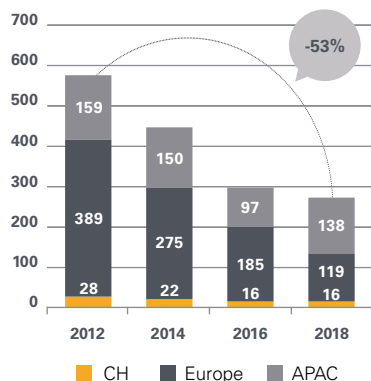
Since 2013, we have built a network of issuance and platform partners in Switzerland, Europe and Asia, and we currently work with the following financial institutions: Aargauische Kantonalbank, Cornèr Bank, Crédit Agricole Corporate and Investment Bank, Deutsche Bank, EFG International AG, J.P. Morgan, PostFinance, Raiffeisen Switzerland and Standard Chartered Bank. The issuance of structured products under a white-labelling cooperation arrangement provides our issuance partners with access to additional and diversified long-term funding and represents an additional revenue stream. At the same time, they are able to offer their clients structured products in their own name. By focusing on the platform business, we were able to significantly increase the volumes outstanding with issuance partners, resulting in a 74% contribution to the total outstanding volume. At the same time, Leonteq continued to offer its own products, which serve as its primary source of funding, while maintaining the flexibility to offer clients the full range of products and pay-offs with any additional features required. Since its inception in 2007, our platform assets have grown by an annual average of 33%. As of end-2018, we had CHF 11.9 billion of platform assets outstanding.

Platform assets (CHF billion)



* Before 2012, products were issued under the name EFG Financial Products; at the time of the IPO in 2012, Leonteq sold its Guernsey operations to EFG International; after the rebranding, in 2013, Leonteq started issuing products under its own name.

Number of structured products issuers



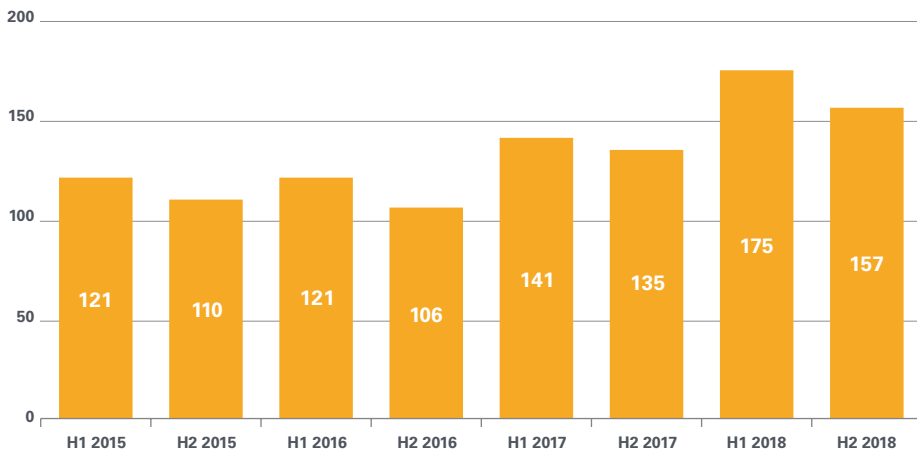
Source: Structured Retail Products; December 2018

Our market

We are primarily active in the structured investment product markets of Switzerland, Europe and Asia. The global market for structured investment products is fragmented and each region is characterised by different types of investor behaviour and product preferences.

According to the statistics published by the Swiss Structured Products Association (SSPA), taking into account both listed and unlisted products created in or for Switzerland and sold nationally and internationally, the turnover of structured products increased by 20% to CHF 331 billion in 2018 (following a rise in demand in 2017). This increase was primarily driven by leverage products and participation products, while yield enhancement products decreased by 1.3% to CHF 154 billion. From an asset class perspective, equity and foreign exchange were the dominant asset classes for structured products with a share of 54% and 27%, respectively in 2018, continuing the trend seen in 2017. The proportion of turnover derived from foreign exchange remained stable, while fixed income turnover grew by 29.4%. With a contribution of 62%, OTC products still account for the majority of turnover produced in 2018, however proportion of turnover generated with listed products increased significantly compared to 2017. The US dollar was the main currency once again in 2018 with a share of 39% but it fell by 4 percentage points compared to the previous year's figure of 43%. Similarly, the Swiss franc fell by 4 percentage points to 14%. The euro rose by 4 percentage points year on year to 31%.

Market turnover Switzerland (CHF billion)



Source: SSPA; January 2019

The structured products market tends to be highly competitive and the market has been influenced by the accelerating consolidation in the competitive landscape, with several market participants withdrawing their product offerings over the past few years. This consolidation trend creates substantial growth opportunities for Leonteq as other issuers exit the market or start to cooperate with outsourcing partners such as us.

Insurance & Wealth Planning Solutions

The Insurance & Wealth Planning Solutions ('IWPS') business line offers life insurers a digital platform that enables unit-linked retail products with financial protection and upside. Our insurance partners benefit from high levels of capital and cost efficiency based on third-party guarantees, upfront hedging and scalable straight-through digital processes, covering the full policy lifecycle at individual policy level. In addition to the platform offerings, we provide structured solutions with downside protection, both to life insurers for their single premium business and to insurance brokers. The IWPS business line also provides hedging for structured products on interest rates.

Our Insurance & Wealth Planning Solutions business line generates stable recurring fee income (inforce) and has seen steady growth in the underlying number of policies sold by our insurance partners. The technologically-advanced services we provide in this business line have resulted in more than 41,000 individually-managed unit-linked life insurance policies being issued on our platform, with over 25,000 policy contract changes and over 500,000 individual transactions processed on an automated basis every year.

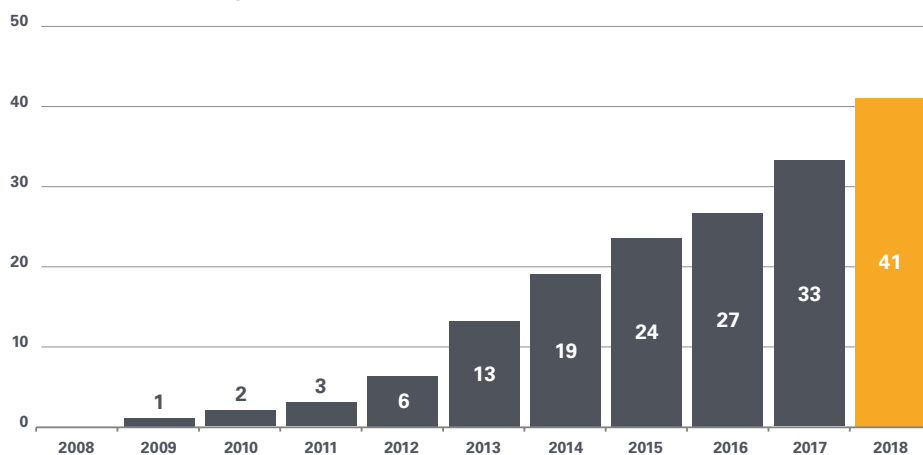
Our products

Our Insurance & Wealth Planning Solutions platform covers an extensive range of product types for every lifecycle stage (savings, investment and drawdown products). Our product offerings support periodic premiums and one-off contributions across a broad range of tenors, risk profiles and participations on chosen underlyings. Insurance companies are enabled to implement innovative and flexible product features and to also give advisors and clients the option of tailoring product characteristics to their individual needs (e.g. guarantee levels or capital market participation). In addition, insurance companies can incorporate different guarantee providers for their products, giving clients the choice between guarantees provided by a third-party or the insurer itself.

Principle features of our products include:

- Policy-holders receive a minimum guarantee at maturity combined with upside potential through market participation;
- Market-oriented, unit-linked design provides minimum guarantees that are generated directly through instruments booked to the account of the policyholder at market conditions;
- Our digital technology platform enables scalable and efficient processing whilst preserving the policy holders' flexibility for numerous retail transactions throughout a policy's lifecycle.

Unit-linked insurance policies (in thousands)



Leonteq currently provides three main types of insurance solutions, based on a platform and hedging services, offering:

Long-term savings plans

Savings plans primarily serve the build-up of retirement provisions for retail clients, based on multiple contributions, typically over long terms, with durations up to 50 years.

Leonteq-enabled savings plans distinguish themselves from traditional insurance and bank offerings through the integration of market-based guarantee components within unit-linked contracts, capital efficient upfront hedging of contract liabilities on individual cashflow level over the full contract duration, very high flexibility in terms of payment patterns and guarantee levels, as well as highly automated scalable investment administration.

Our unit-linked guarantee concepts also allow for third party guarantees, where the provider of the savings plan and the guarantee provider are different entities.

Drawdown plans

Drawdown plans primarily serve the provision of additional income after retirement over a specified period of time. They are typically funded through a one-time contribution. They can be combined with a subsequent life annuity insurance.

From a Leonteq perspective, the difference between drawdown and savings solutions simply lies in a different cashflow pattern. Thus, Leonteq-enabled drawdown plans are run on the same platform and benefit from the same advantages as the savings plans.

Combined savings and drawdown plans

Combined savings and drawdown plans serve both the build-up of retirement provisions over time and the subsequent drawdown. Via its platform, Leonteq can efficiently combine these stages on an individual cash flow level, applying the benefits described above in one integrated package.

Our services

We are currently engaged in insurance partnerships for newly-issued unit-linked life insurance policies with Helvetia Schweizerische Versicherungsgesellschaft AG (Helvetia) and Swiss Mobiliar.

To date, Leonteq has launched five products in the Swiss market that are actively being sold. Four are in partnership with Helvetia and one with Swiss Mobiliar.

The four products offered in partnership with Helvetia include the Garantieplan, a long-term savings plan available as both regularly financed and one-off financed, the Helvetia Auszahlungsplan, a drawdown plan, and the Helvetia Auszahlungsplan mit Periodischen Investitionen, a combined savings and drawdown plan.

As part of our cooperation with Swiss Mobiliar, the insurer offers the Mobiliar Auszahlungsplan, a one-off financed drawdown plan to its retail clients in Switzerland.

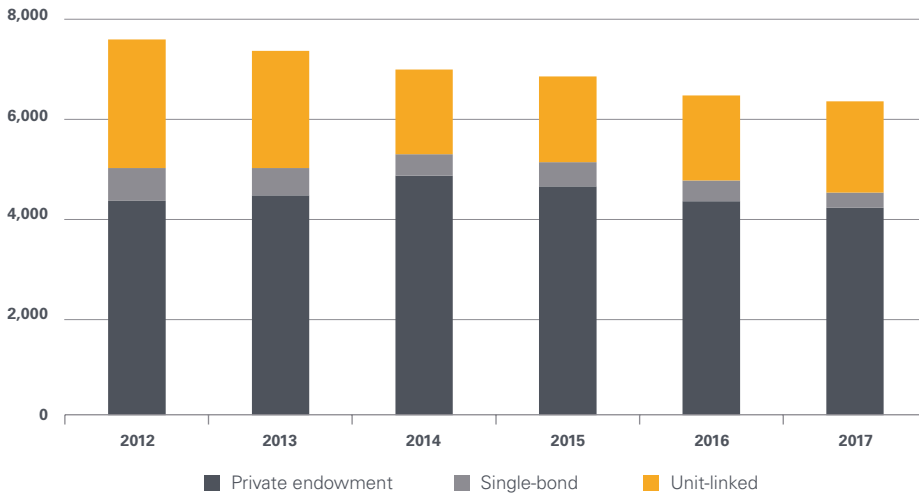
Our market

The long-term savings market is continuing to grow in importance in Switzerland. Several factors are driving this trend, including demographic developments, which mean that an increasing proportion of the population is now beginning to consider building and using retirement assets; the sustained low interest rate environment and regulatory stalemate are putting pressure on occupational retirement planning (pillar two), thus increasing the relative importance of private retirement (pillar three) savings. At the same time, industry standards for investment and savings advisory are increasingly shifting away from 'selling outperformance' towards purpose-oriented, goal-based approaches, with retirement savings typically being the minimum objective for retail and affluent clients above the age of 35 – 40 years.

A large share of pillar three savings, particularly on the retail side of the spectrum, is held in capital-protected solutions, as many clients are not willing to take investment risks. For banks and insurers, this poses a problem, as their investment solutions are not aligned with their clients' needs. This has led to a supply gap in the current market for attractive solutions with financial protection. If the additional increased preference for flexibility and transparency is factored in, there is a need for a modern and integrated platform that enables a capital protection proposition similar to traditional offerings, produced in a capital- and cost-efficient manner based on a prudent product design and modern hedging approach.

The below chart demonstrates that the booked gross premiums of unit-linked life insurers decreased both in absolute terms and as a proportion of the overall individual life insurance market between 2012 and 2017, while the booked gross premiums of private endowment life insurers have remained relatively stable over that period.

Booked individual life insurance gross premiums in Switzerland (CHF billion)



Source: Swiss Insurance Association, 2017

Market share (individual life insurance savings) 2017



Swiss Life	20%
Generali	15%
Helvetia*	13%
AXA	13%
Zurich Insurance	10%
Basler	7%
Allianz	5%
Pax	5%
Swiss Mobiliar*	5%
Other	7%

* Insurance partners of Leonteq
Source: Swiss Insurance Association, 2017

Technology platform

We operate in a highly competitive industry and have to constantly review and adapt our product offerings and services to meet the structured investment needs and expectations of our clients and partners. Built in-house from the ground up, our technology platform plays an essential role in ensuring the quality of our products and services, the timeliness of delivery of our products and services, and the creation of new innovative product and service offerings. Common platform functionalities are implemented in one unique service layer that can be accessed by other applications. The grid network and calculation servers are crucial for various calculations and the distribution of such calculations. Today, the platform operates on approximately 70 different applications, with data centres independently working 24/7 in two remote locations outside Zurich.

A key feature of our structured products platform is that it offers state-of-the-art tools, such as the Constructor, that can create and trade structured investment products that are tailored to the client's individual needs in just a few mouse clicks. The Constructor is a Web-based interface that allows distribution and platform partners to access Leonteq's structured investment services platform directly in order to tailor structured investment products to their specific needs. They additionally receive pricing and other product information and services during the product lifecycle through the Constructor. The past three years have produced major advances in our Constructor tool, including the development of the underlying optimiser, equity screener and range pricer in 2015, and has given rise to enhanced multi-issuer pricing capabilities as well as the addition of the 'request for quote' feature in 2016. 2017 saw the expansion of Leonteq's cooperation with EFG International, when the EFG Bank-labelled constructor was created. Further process amendments and changes were made throughout our system landscape to comply with MiFID II regulations.

In the first half of 2018, we started developing the SHIP project, which is designed to reduce our hedging exposure by offering our issuance partners the opportunity to enter into hedging transactions for their issued products with external hedging partners. As a result of SHIP, we expect our capital requirements for the outsourced volume to gradually decrease over time due to reduced market risks, and, eventually, also due to reduced credit risk. This will transform Leonteq's position from a balance sheet business to a platform business. Before SHIP, the Leonteq platform allowed clients to choose their desired credit risk from 11 different issuers via our multi-issuer platform. However, the option component was always provided by Leonteq and internally hedged on an aggregated macro level, resulting in risks that had to be backed by capital. With SHIP, we are outsourcing the option component to third party providers if they offer a better price. This micro hedging approach on a trade-by-trade base has always existed but it is a manual process of price negotiations, confirmations, bookings, etc. Leonteq is extending its platform to enable the automated quoting, trading and booking of OTC derivative micro hedges through electronic messaging, and internal and external automation, providing a low-touch solution. Once fully operational, SHIP will be one of the few, if not the only platform that allows the automation of both the bond and the option component from third-party providers. This will create benefits for our clients, who will receive better pricing for the same level of service, and for our issuance partners, who will be able to diversify their counterparty risk away from Leonteq. It will also benefit our employees and shareholders by making our business more scalable and profitable with less capital consumption.

Our proprietary Omega insurance platform enables a fully automated, digital processing of the entire lifecycle of insurance policies and capitalisation products. A key feature is the Omega Portal, which is a Web-based application that enables our insurance partners to create, administer and track unit-linked life insurance products. Leveraging a convenient web-interface combined with synchronous web services allows the insurer to immediately price and process policy adjustments. It supports a comprehensive set of business transaction events out of the box, and thus substantially reduces on-boarding costs. In combination with the fully modularised product design, the Omega Portal enables quick time-to-market for new unit-linked insurance solutions.

Employees

At Leonteq, we recognise that our employees are our most important resource and the key to our success in all areas of our business. As our company continues to innovate and expand, we are also growing our workforce. As of end-2018, we increased our full-time equivalents by 10% to 486 full-time equivalents (2017: 440 full-time equivalents). When expanding our workforce, it is also important to ensure that all our employees are committed to helping achieve the company's goals. Providing interesting fields of work, attractive training and development opportunities and a safe working environment, while promoting open communication within the team, are our key areas of focus when positioning Leonteq as an employer of choice.

We are proud to employ a unique pool of structured investment product experts with extensive experience in the relevant field who have been hired from major investment banks, leading law firms, Big-4 audit and management consulting companies, FINMA and SIX. Our workforce comprises employees of 50 different nationalities and the average age is 35 years.

We also strive to help our staff achieve a healthy work/life balance, allowing them to combine their professional and personal commitments. We therefore offer part-time working models on an individual basis. As of end-2018, 6% of our workforce was employed on a 90% basis or less.

We are a young and dynamic company and take pride in the talent we hire. We also respect the individuals who have worked for us throughout the years, whether they remain with the company today or not. In 2018, coming out of a company restructuring that took place in 2017, we experienced an employee turnover rate (defined as the total number of leavers in relation to the average headcount of the respective period) of 20%, but we have a core group of employees who have been with the company for several years. Of our workforce, 7% of employees have ten or more years of experience at Leonteq, and 11% have been with the company for between seven and nine years. 30% of our employees have worked at Leonteq for between four and six years, and 52% have been with the company for three years or less.

Internal communications

At Leonteq, we provide employees with regular updates on business developments and changes within the company and the industry as a whole. A variety of company events and engagement activities are regularly held for all staff members. Morning Meetings take place twice a week to inform staff about internal product structuring updates, as well as external industry affairs with presentations by external business leaders. Power Hours and Townhalls are also held regularly to inform employees about topics ranging from internal business developments to important current events and industry trends, as well as advice on health and other topics. In 2018, topics covered included the SHIP project, Product Organisation, GDPR, bitcoin and the avoidance of back strain, to name a few examples.

Leonteq conducts periodic company-wide surveys to monitor employee satisfaction and ensure employees understand its business strategy.

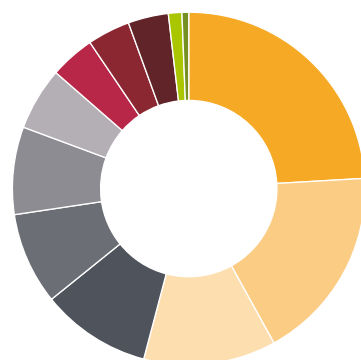
Team-building initiatives

Leonteq recognises that a strong team is an important part of a healthy working environment. To encourage employees to build positive relationships with one another, several recurring team-building events, centred on food and sports, have been introduced.

The Monthly Breakfast brings employees together for informal networking and community building over breakfast. During these events, new joiners are welcomed, and employees are briefed on corporate topics and events. This increases their awareness of company developments on a global scale. The Lunch Lottery also takes place each month and pairs employees at random so that they can enjoy a meal together and engage in a discussion with one another. A staff potluck lunch initiative also took place in 2018. This event allowed employees to learn about each other's heritage and culture through food.

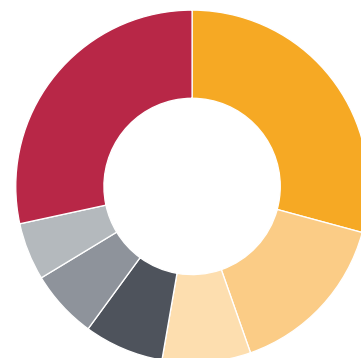
Several Leonteq staff members participate in regular sporting activities as a way of strengthening team spirit away from the office. In 2018, yoga and indoor football were organised by employees. Although not sponsored by Leonteq, sports activities are supported by the company.

Function (FTEs)



IT	117
Sales Investment Solution	87
Operations	59
Legal & Compliance	49
Finance & HR	41
Markets	39
Fin. Engineering & Partners Rel.	28
Investment Solutions – Other	20
Risk	19
IWPS	18
Corporate Services	6
CEO	3

Nationality

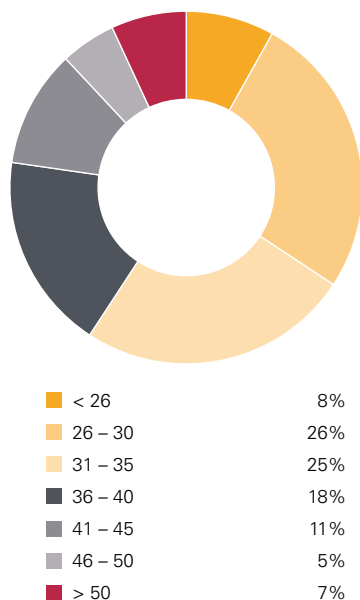


Switzerland	29%
France	15%
Germany	8%
UK	7%
Singapore	6%
Italy	5%
Other	28%

Gender



Age



Education and professional development

Leonteq’s market environment is continuously changing. We invest in targeted training for our employees and managers to develop, maintain and improve their employability and our competitiveness in the long term. Employees have the opportunity to attend internal and external training programmes. Our in-house education programmes include new-joiner onboarding, professional training for Leonteq’s next generation of leaders, leadership programmes for current senior managers, and extracurricular training and courses. Our staff are additionally offered the opportunity to complete the CFA (Chartered Financial Analyst) Programme.

Onboarding

All new joiners are required to attend a two-part introductory onboarding programme, which gives them an overview of our company, teams, platform, value chains and culture.

Next generation of leaders

Leonteq highly values and recognises young talent in its workforce. We therefore offer internships and graduate training programmes for less experienced employees. The internship programme, lasting six months, gives university students and new graduates their very first professional training within the industry. In the last three years, Leonteq hired 98 interns, ten of whom subsequently took on graduate positions and eight of whom were hired directly for permanent roles.

Leonteq’s graduate programme, which was initiated in 2015 and subsequently took place in 2016 and 2018, offers long-term career development opportunities for new graduates by providing tailored, business-specific training so that they can become highly effective professionals. The 12-month programme includes an off-campus, two-week intensive training course, and upon successful completion of the programme, graduates receive full-time employment. Of the 73 graduates hired over 2015 and 2016, 56% are still with the company. In 2018, we hired 21 graduates.

Leadership programme

Our managers are crucial to the achievement of our business objectives, and working in networks is becoming increasingly important, as is the ability to communicate effectively. Our leadership programme, which is held on a monthly basis, educates senior management on various topics needed for successful development in the context of their team, employee potential, and individual and professional growth.

Trainings and courses

Leonteq offers its employees regular opportunities to develop their skills and knowledge in areas that are partly unrelated to their core area of work. These include foreign language courses, attendance of conferences and events to learn more about industry trends, as well as continued education and certification programmes such as the CFA. In 2018, five Leonteq employees completed their CFA certification, and 7% of employees took part in a training course that was not a one-day event. Of these 36 employees, 20 of them took part in a foreign language course.

Social responsibility and sponsoring

Leonteq is headquartered in Zurich and has offices in Amsterdam, Frankfurt, Geneva, Guernsey, Hong Kong, London, Monaco, Paris, Singapore and Tokyo. In May 2018, we opened Leonteq Securities (Japan) Limited in Tokyo, Japan, which is now our eleventh location worldwide. We do not own any real estate.

At Leonteq, we are committed to operating responsibly, and we strive to have a positive impact on our stakeholders and society as a whole through our activities and engagements. With our long-term vision, we are also committed to economic, environmental and social sustainability, and we have built our social responsibility framework from these principles, which we see as integral factors determining the success of our business.

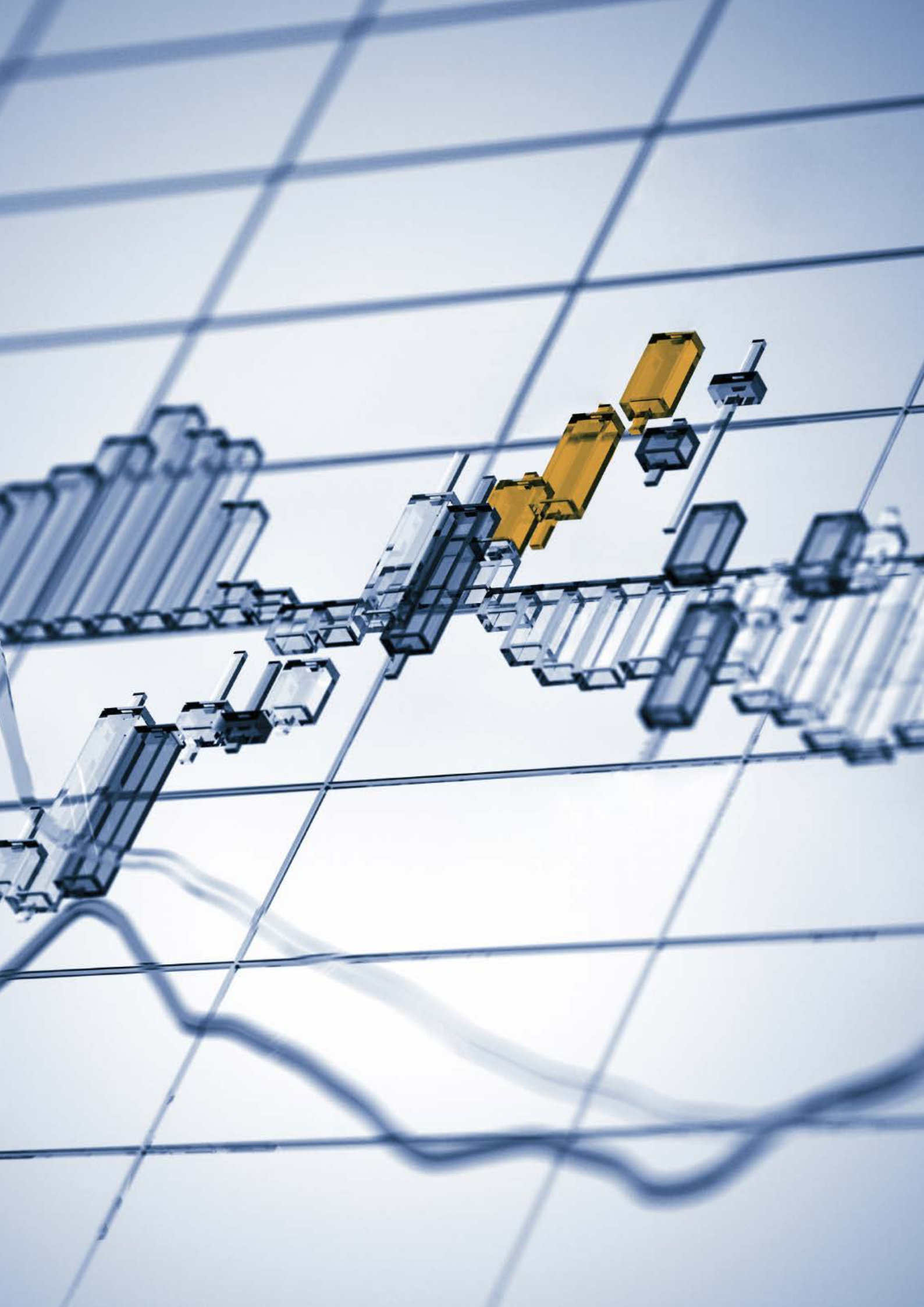
In an effort to put our commitment into practice, Leonteq has supported biathlon sports in Switzerland at a regional and national level and has been the lead sponsor of the Swiss-Ski youth biathlon teams since 2014. Additionally, Leonteq is the main sponsor of 'Junior Biathlon Team Leonteq', which is a competition for the categories Kids (U11 – U15), Challenger (formerly standard category U13 – U15) and Elite. These events are organised in accordance with the IBU (International Biathlon Union). With this initiative and in close collaboration with Swiss-Ski, Leonteq aims to encourage and promote sporting activities from a young age.

In Asia, our activities focus on bringing joy to children from underprivileged families by empowering them to explore their passions and talents. In Hong Kong, Leonteq supported the Chicken Soup Foundation by sponsoring the creation of a new Lego library. In Singapore, staff organised a river safari for children from the CSL Methodist Children's Home.

Environmental sustainability

Sustainability has long been an important part of Leonteq's corporate culture. With the growth of our business, we are consistently making efforts to reduce our environmental footprint. Our Zurich office operates according to the Minergie building standard. The emphasis here is on creating comfortable working conditions while reducing energy consumption. Our offices are also equipped with a controlled air exchanger. In addition, the electricity used to run our offices and data centres comprises 90.7% renewable energy, 77.8% of which is generated using hydro-power. Each month, our Zurich headquarters use around 50,000kWh of energy, and our datacentres use 80,000 kWh.

To encourage employees to engage in sustainable practices, Leonteq subsidises Swiss public transportation pass costs by 15% and offers a very limited number of parking spaces in order to encourage the use of public transport. In 2018, Leonteq additionally took part in the Swiss-wide health promotion campaign bike to work. Twenty Leonteq employees formed five teams and took part in the challenge to support sustainable mobility, fitness and team-building.



CORPORATE GOVERNANCE

Transparency, clear responsibilities and an agile framework
are the foundation of Leonteq's management.

GOVERNANCE

General principles

As a publicly listed Swiss company, Leonteq AG (the 'Company' or 'Leonteq', together with its subsidiaries the 'Group'), is subject to and complies with the Directive on Information relating to Corporate Governance ('DCG'), its annexes and the related commentary issued by SIX Swiss Exchange.

The information provided in this section complies with the Corporate Governance Directive of SIX Swiss Exchange that entered into force on 1 September 2014, as well as with the revised version of the Guideline on the Corporate Governance Directive dated 10 April 2017 and the guidelines and recommendations contained in the Swiss Code of Best Practice for Corporate Governance compiled by the Swiss business federation economiesuisse and dated 28 August 2014. It also complies with Appendix 1 of this Code, 'Recommendation on Compensation for Boards of Directors and Executive Boards', dated 28 August 2014 and effective from 1 October 2014; this takes into account Art. 663b^{bis} and 663c, para. 3, of the Swiss Code of Obligations, which entered into force on 1 January 2007 and addresses transparency requirements concerning the compensation of members of the Board of Directors and the Executive Committee.

The Ordinance against Excessive Compensation pertaining to Listed Stock Corporations ('OaEC') entered into force on 1 January 2014. Leonteq has undertaken the necessary steps to ensure timely compliance with OaEC requirements. The requirement to provide the possibility of electronic voting had already been introduced at the 2014 Annual General Meeting ('AGM'). Where applicable, amendments to the Articles of Association were proposed to and approved by the 2014 Annual General Meeting.

Corporate governance framework

Leonteq's corporate governance framework comprises its governing bodies and its corporate governance policies, which define the competencies of the governing bodies and other corporate governance rules and procedures.

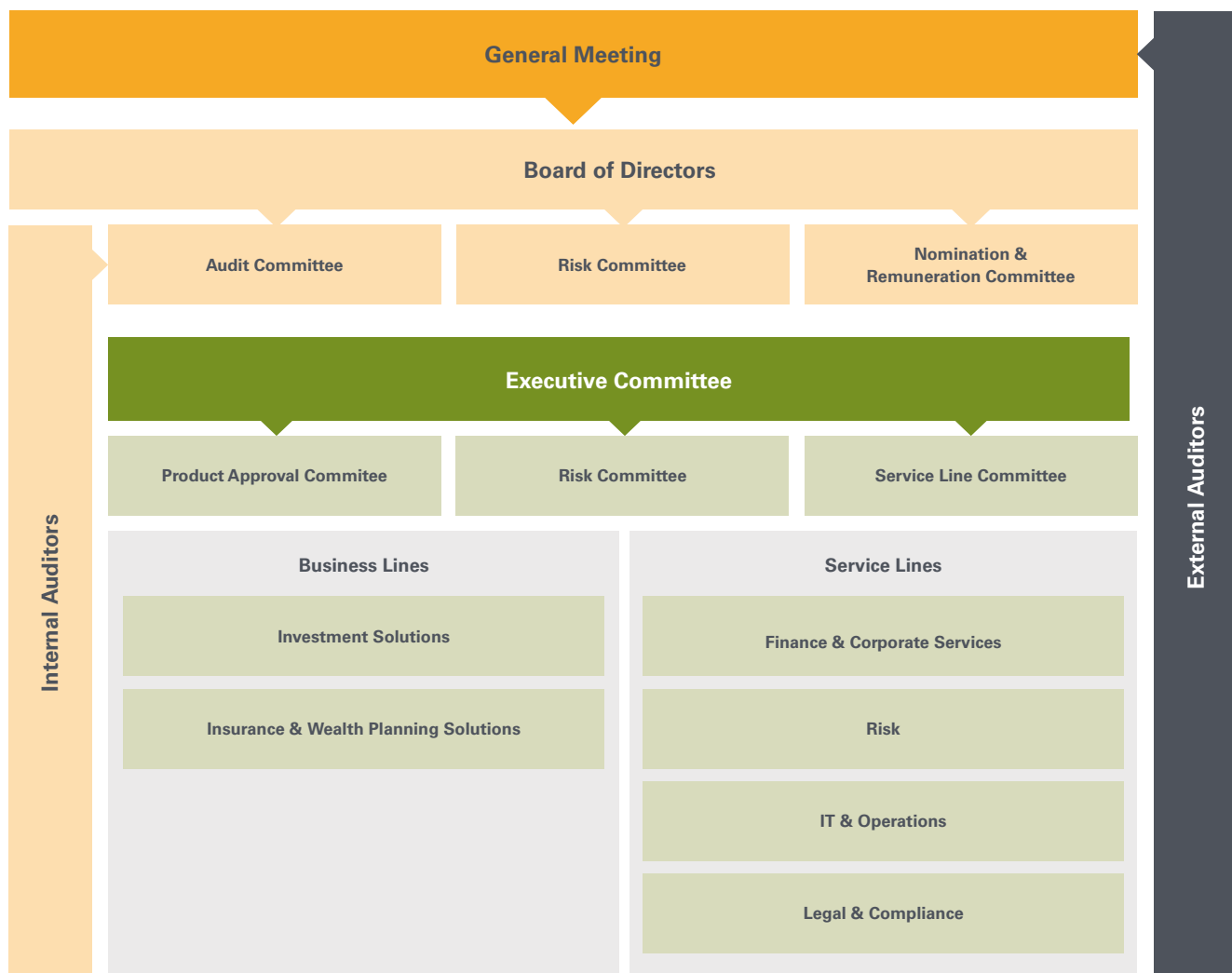
The governing bodies of the Group are

- The General Meeting
- The Board of Directors
- External Auditors

Shareholders elect the members of the Board of Directors and the independent external auditors on an annual basis and approve statutory resolutions at the Annual General Meeting, such as the approval of the consolidated financial statements, amendments to the Articles of Association, and the total compensation of members of the Board of Directors and the Executive Committee. The Board is responsible for the overall strategic direction, supervision and control of the Group and appoints the members of the Executive Committee. The Executive Committee is responsible for the day-to-day management of the Group's business and for developing and implementing business plans.

Leonteq's corporate governance policies comprise the Articles of Association and the Organisational Management Regulations. The Articles of Association define the purpose of the business, the capital structure and the basic organisational framework. The Organisational Management Regulations define the organisational structure of the Group, the responsibilities and areas of authority of the Board and its Committees, the competencies of the Executive Committee and its Committees, and the relevant reporting procedures. Further internal policies define the Group's standards of business conduct and the ethical values that the Board and all employees are required to follow, including adherence with applicable laws and regulations.

Corporate governance framework



Leonteq is active in the finance and technology sector with a focus on the structured products segment. The Group is managed on the basis of business and service lines and comprises Investment Solutions, Insurance & Wealth Planning Solutions, Finance & Corporate Services, IT & Operations, Risk and Legal & Compliance. Leonteq is headquartered in Zurich, Switzerland, and together with its subsidiary Leonteq Securities AG, which has an additional office in Geneva, is regulated by the Swiss Financial Market Supervisory Authority (FINMA). Leonteq Securities AG has branch offices in Guernsey and Amsterdam. The Leonteq Guernsey branch is regulated by the Guernsey Financial Service Commission and the Leonteq Amsterdam branch is registered with the Authorities for the Financial Markets and prudentially supervised by FINMA. It accesses the European market through: Leonteq Securities (Europe) GmbH, which is domiciled in Germany and is authorised by the German Federal Financial Supervisory Authority. Leonteq Europe has exercised passporting rights to access the markets of other countries in the European Economic Area. Leonteq Europe has branch offices in London and Paris. Leonteq also operates an office in Monte Carlo, Leonteq Securities (Monaco) SAM, which is regulated by the Commission for the Control of Financial Activities. Leonteq accesses the Asian market through its offices in: Hong Kong, Singapore and Tokyo. Leonteq Securities (Hong Kong) Ltd. operates under the licence granted to it by the Securities and Futures Commission; Leonteq Securities (Singapore) PTE Ltd. is operating under the capital markets licence granted by the Monetary Authority of Singapore; and Leonteq Securities (Japan) Ltd. is authorised and regulated by the Financial Services Agency.

Leonteq AG is the Swiss holding company responsible for the overall management of the Leonteq Group. The registered shares of Leonteq AG are traded on the main standard of SIX Swiss Exchange in Zurich (security no. 19089118, ISIN CH0190891181, symbol LEON). On 31 December 2018, the Company's market capitalisation was CHF 776 million.

Non-listed companies belonging to the Group

Name	Registered offices	Capital	Stake %
Leonteq Securities AG ¹	Europaallee 39 8004 Zurich	CHF 15,000,000	100
Leonteq Securities (Europe) GmbH ²	Goetheplatz 2 60311 Frankfurt/Main	EUR 200,000	100
Leonteq Securities (Hong Kong) Ltd.	Level 6, Two Chinachem Central, 26 Des Voeux Central, Central, Hong Kong	HKD 10,000,000	100
Leonteq Securities (Japan) Ltd.	Chose Ark Hills South Tower 9F, 1-4-5 Roppongi, Minato-ku, Tokyo	JPY 250,000,000	100
Leonteq Securities (Monaco) SAM	Villa Les Aigles, 15 avenue d'Ostende 98001 Monaco	EUR 500,000	99.9
Leonteq Securities (Singapore) PTE Ltd.	8 Marina View, #36-03/04 Asia Square Tower 1, Singapore 018960	SGD 1,000,000	100

¹ Including branches in Guernsey (Block F, Hirzel Court, St Peter Port, Guernsey GY1 2NQ, Channel Islands) and in Amsterdam (ITO Tower, Gustav Mahlerplein 66-A, 1082 MA Amsterdam).

² Including branches in London (108 Cannon Street, London EC4N 6EU) and Paris (40, Rue la Pérouse, 75116 Paris).

Shareholders**Significant shareholders**

	31.12.2018		31.12.2017	
	Current Number of shareholding	Current Number of voting rights in %	Current Number of shareholding	Current Number of voting rights in %
Raiffeisen Switzerland Cooperative ³	5,495,157	29.02%	4,626,397	29.02%
Lukas Ruffin family interests ^{4, 5, 6}	1,543,756	8.15%	1,283,762	8.05%
Sandro Dorigo ⁶	463,317	2.45%	390,082	2.45%
Subtotal shareholders' agreement	7,502,230	39.62%	6,300,241	39.51%
Rainer-Marc Frey ^{7, 8, 9}	2,201,081	11.63%	1,015,000	6.37%
Credit Suisse Funds AG	—	—	478,750	3.00%
Directors and Executives ¹⁰	157,523	0.83%	76,255	0.48%
Total	9,860,834	52.08%	7,870,246	49.36%

³ As of 31 December 2017, 158,879 shares were directly held by Notenstein La Roche Private Bank Ltd, St. Gallen as a wholly owned subsidiary of Raiffeisen Switzerland Cooperative, St. Gallen. These shares were transferred to Raiffeisen Switzerland Cooperative prior to the sale of Notenstein La Roche Private Bank Ltd, which was completed in July 2018.

⁴ Lukas Ruffin family interests represents all the holdings of Lukas T. Ruffin (founding partner), Clairmont Trust Company Limited and Thabatseka LP; Clairmont Trust Company Limited acts as trustee of a trust that holds shares in Leonteq AG through Thabatseka LP (which, in turn, is indirectly wholly owned by Clairmont Trust Company Limited); the trust was settled by Lukas T. Ruffin.

⁵ In addition, Lukas Ruffin family interests holds 462,325 call options issued by Raiffeisen subject to the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style.

⁶ Founding partner.

⁷ H21 Macro Limited, Cayman Islands, is the direct shareholder.

⁸ Includes 486,081 written put options as of 31 December 2018 subject to the following conditions: strike CHF 48.35; subscription ratio 1:1; maturity 21 October 2019.

⁹ Creation of obligation to notify: 31 October 2018.

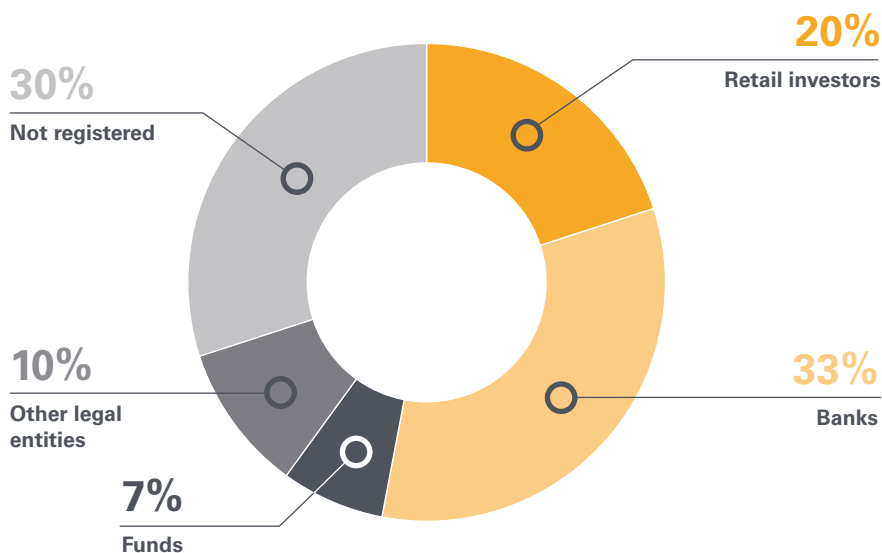
¹⁰ Excluding shareholdings of founding partners.

For notifications of significant shareholders received and individual reports of significant shareholders published during 2018 by Leonteq AG according to Art. 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading of 19 June 2015 (Financial Market Infrastructure Act), reference is made to the Disclosure Office publication platform of SIX Exchange Regulation:

<https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>

Shareholder structure

Leonteq's shareholder structure comprises a total of 4,809 shareholders, who are entered in Leonteq's share register, representing 70% of voting rights. As of 31 December 2018, 4,532 retail shareholders hold 20% of the total outstanding shares while 262 legal entities account for 50% of share capital. 30% of voting rights are held by shareholders who are not registered.



Shareholders' agreements

On 11 March 2013, the founding partners (Jan Schoch, Lukas Ruffin, Sandro Dorigo and Michael Hartweg), the trusts (Tabatseka Limited, Nassau, Terra Felice Limited, Nassau, and EFG Bank & Trust (Bahamas) Ltd., Nassau), Notenstein La Roche Private Bank Ltd ('Notenstein') and Raiffeisen Switzerland Cooperative ('Raiffeisen') entered into a shareholders' agreement. The agreement was subsequently amended on 24 July 2014. By virtue of this shareholders' agreement, the aforementioned shareholders constitute a group of shareholders acting in concert within the meaning of Art. 10 of the Stock Exchange Ordinance-FINMA (SESTO-FINMA of 25 October 2008) and Art. 12 of the Financial Market Infrastructure Ordinance FINMA (FMIO-FINMA of 3 December 2015). The group had an aggregate shareholding of 3,204,353 shares and held 48.07% of the voting rights.

On 23 November 2015, founding partner Michael Hartweg, who left Leonteq in August 2015, sold all of his remaining 597,354 Leonteq shares (representing 3.75% of voting rights) to Raiffeisen. As a result, he is no longer part of the shareholder group.

On 26 October 2017, Jan Schoch, founding partner and Chief Executive Officer ('CEO') of Leonteq until 6 October 2017, sold all of his 1,053,527 Leonteq shares (representing 6.61% of voting rights) to existing and new investors and he subsequently left the shareholder group.

On 23 May 2018, Raiffeisen signed a share purchase agreement with Vontobel Holding AG concerning the purchase and sale of all equity interests in Notenstein from Raiffeisen (as seller) to Vontobel Holding AG (as buyer), according to which the participation of Notenstein in Leonteq was to be transferred to Raiffeisen prior to completion. Following the transfer of shares, Notenstein left the shareholder group.

As of 31 December 2018, the shareholder group, consisting of the Raiffeisen Switzerland Cooperative, Lukas Ruffin (acting in his own capacity), Sandro Dorigo and Lukas Ruffin family interests (Thabatseka Limited), holds 7,502,230 shares, or 39.62% voting rights, in Leonteq. The representative of and main contact for this group of shareholders is Raiffeisen.

Lock-up undertaking of the founding partners

The founding partners agreed to a phased lock-up undertaking commencing on 5 October 2012 and ending five years after the first day of trading of the shares (i.e. on 19 October 2017) with respect to the shares owned by each of them immediately before the Initial Public Offering ('IPO'). Three years following the first day of trading, one-third of the original shares ('2015 Shares') held by the founding partners and Lukas Ruffin family interests were unlocked; after four years, the next third of their shares ('2016 Shares') were unlocked; after five years, the final third of the shares ('2017 Shares') were unlocked.

On 23 July 2015, some of the shares held by the founding partners Michael Hartweg and Sandro Dorigo were unlocked ahead of the defined date. At the same time, the Lukas Rufli family interests and Jan Schoch entered into a new lock-up undertaking in favour of Raiffeisen with regard to their 2016 Shares and 2017 Shares (both representing an aggregate 4.22% of the voting rights of Leonteq AG). The new undertaking commenced on 19 October 2016 with regard to their 2016 Shares, and it commenced on 19 October 2017 with regard to their 2017 Shares. In both cases, the prior agreement would have ended on 19 October 2020.

On 23 November 2015, the lock-up undertaking between Jan Schoch and Lukas Rufli family interests in favour of Raiffeisen Switzerland was extended until 19 October 2025. On 26 October 2017, Raiffeisen Switzerland agreed to waive the lock-up undertaking with Jan Schoch. Consequently, the lock-up group no longer exists.

The lock-up undertaking between Lukas Rufli family interests and Raiffeisen remains in place but does not constitute a disclosable lock-up group according to Art. 120 of the FMIA. As of 31 December 2018, 670,688 shares held by Lukas Rufli family interests remain locked until 19 October 2025.

Lock-up undertaking – capital increase 2018

In connection with the Leonteq rights offering in July/August 2018, Raiffeisen, Lukas Rufli family interests, Sandro Dorigo and the Company's Board of Directors and Executive Committee (including Lukas Rufli, acting in his own personal capacity), representing a total of 18 parties, entered into a lock-up undertaking with Credit Suisse AG on 24 July 2018. The parties are bound by the lock-up undertaking for a period of 180 days after the first day of trading until 30 January 2019. In the case of Raiffeisen and Lukas Rufli, the lock-up undertaking applies to the shares held by them immediately before the rights offering. In the case of Sandro Dorigo, the Company's Board of Directors and Executive Committee, the lock-up undertaking applies to the shares held immediately before the rights offering and the new shares acquired in the offering.

The above undertakings of Raiffeisen do not apply to:

- (1) Any new shares acquired in the offering through the exercise of rights attached to the shares held by Raiffeisen;
- (2) Any shares acquired in open market transactions after the first day of trading;
- (3) Any transfer of shares as a result of strategic sales, provided the transferee enters into the same lock-up undertaking.

The above undertakings of Lukas Rufli family interests do not apply to:

- (1) Any new shares acquired in the offering through the exercise of rights attached to the shares held by Lukas Rufli family interests;
- (2) Any shares acquired in open market transactions after the first day of trading.

The above undertakings of Sandro Dorigo, the Company's Board and Executive Committee (including Lukas Rufli acting in his own personal capacity) do not apply to:

- (3) Any shares acquired in open market transactions after the first day of trading;
- (4) In the case of a natural person:
 - (i) Transfers to their spouse or registered partner; or
 - (ii) Transfers to their children

provided that in each case referred to under (2), the transferee agrees in writing to be bound by the same restrictions as above.

Lukas Rufli has been granted an additional exemption for the sale of any new shares acquired in the offering through the exercise of rights attached to the shares held by him in a personal capacity. In addition, another member of the Executive Committee has been granted an additional exemption for the sale of shares with the sole purpose of providing liquidity in order to settle expected personal income or wealth tax liabilities in an aggregate amount of up to CHF 500,000, in one or several instalments.

Cross-shareholdings

Leonteq has not entered into any cross-shareholdings with other joint stock companies that exceed 5% of the capital shareholdings or voting rights of either party.

Capital structure

Capital

Following the capital increase on 3 August 2018 (first day of trading), the outstanding share capital of Leonteq AG increased by CHF 2,989,593, consisting of 2,989,593 registered shares. As of 31 December 2018, the outstanding share capital of Leonteq amounted to CHF 18,934,097, consisting of 18,934,097 registered shares (previously: CHF 15,944,504, consisting of 15,944,504 registered shares), each with a nominal value of CHF 1.00. The registered shares of Leonteq AG (security no. 19089118, ISIN CH0190891181, symbol LEON) are listed on the main standard of SIX Swiss Exchange and are included in the Swiss Performance Index SPI®.

Authorised and conditional capital

Authorised capital

On 23 March 2017, the Annual General Meeting approved the motion authorising the Board of Directors to increase share capital by 22 March 2019 of up to CHF 3 million fully paid-in registered shares. After completion of the capital increase on 3 August 2018, the Board of Directors is authorised to increase the Company's share capital by a maximum of CHF 10,407 through the issuance of a maximum of 10,407 shares, corresponding to around 0.1% of the share capital of Leonteq. Increases and partial increases by means of firm underwriting are permitted. The Board of Directors determines the issue price, the dividend entitlement and the form of contribution for the shares. The new registered shares are subject to transfer restrictions according to Art. 5 of the Articles of Association.

The shareholders' pre-emptive rights are granted in principle. To enable price stabilisation measures in the context of a capital increase, the Board of Directors may exclude the pre-emptive rights for the purpose of granting an overallotment option to the underwriting banks for up to 15% of the base size of the capital increase, provided the offer price of the shares is determined by way of a book-building procedure at market conditions. Shares for which the subscription right has not been exercised shall be used in the interests of the Company.

Conditional capital

The share capital of the Company may be increased by a maximum aggregate amount of CHF 81,416, corresponding to around 0.4% of the share capital of Leonteq. The share capital may be increased through the issuance of a maximum of 81,416 registered shares, fully paid-in with a nominal value of CHF 1.00 per share, upon the exercise of option rights or in connection with similar rights relating to employee shares (including existing or future Restricted Stock Units, RSUs) granted to employees, management and other officers of the Company and its subsidiaries, according to the regulations prescribed by the Board of Directors. The pre-emptive rights and advance subscription rights of shareholders are excluded. The acquisition of registered shares based on Art. 3a of the Articles of Association and every subsequent transfer of these registered shares will be subject to transfer restrictions pursuant to Art. 5 of the Articles of Association.

Conditions for the allocation and exercise of option rights and similar rights are determined by the Board of Directors. The shares may be issued at a price below the market price. Further information about the RSU program is provided in the Compensation Report (pages 68 to 75) and in the Consolidated Financial Statements (page 139).

Changes in capital structure

Following the exercise of 9,292 RSUs on 16 March 2015, and based on the 1:2 share split as of 29 April 2015 (first day of trading), outstanding shares increased from 7,962,960 shares with a nominal value of CHF 2.00 each to 15,944,504 shares with a nominal value of CHF 1.00 each, with the shares being fully paid-in. Effective as of 3 August 2018, the share capital of Leonteq AG was increased by 2,989,593 shares with a nominal value of CHF 1.00 each, resulting in a share capital increase of CHF 2,289,593. Total capital subsequently amounted to CHF 18,934,097, consisting of 18,934,097 registered shares with a nominal value of CHF 1.00 each, with the shares being fully paid-in. No further changes to the capital structure of Leonteq occurred in 2018, 2017, 2016 or 2015.

Shares and participation certificates (Partizipationsscheine)

The share capital of Leonteq AG is divided into 18,934,097 registered shares with a nominal value of CHF 1.00 each. Leonteq AG does not have any participation certificates outstanding. All registered shares are fully paid-in and entitled to a dividend. Each share carries one vote. No preferential rights or similar rights are attached to the shares.

Profit-sharing certificates (Genussscheine)

No profit-sharing certificates are outstanding or have been issued in the past.

Restrictions on transferability and nominee registrations

Persons who have acquired registered shares of Leonteq AG will, upon request, be entered in the share register without limitation as shareholders with voting power, provided they expressly declare themselves to have acquired the shares concerned in their own name and for their own account, and they comply with the disclosure requirement stipulated by the FMIA. Apart from the shares subject to a shareholder agreement and/or a lock-up undertaking, Leonteq's shares are freely transferable.

Acquirers who do not expressly declare themselves to be holding shares for their own account in their request for entry in the register of shares (referred to hereinafter as 'nominees') will be entered in the share register with voting rights without further inquiry up to a maximum of 2% of outstanding share capital available at the time. Above this limit, registered shares held by nominees will be entered in the share register with voting rights only if the nominee in question discloses the names, addresses and shareholdings of the persons or entity for whose account they are holding 0.5% or more of the outstanding share capital available at the time, and provided this is in compliance with the disclosure requirements stipulated by the FMIA. The Board of Directors has the right to conclude agreements with nominees concerning their disclosure requirements (to the extent permitted by law).

Legal entities, partnerships or other associations or joint ownership arrangements linked through capital ownership or voting rights, through common management or in a similar manner, and individuals, legal entities or partnerships (particularly syndicates) that act in concert with the intention of evading the entry restriction are considered as one nominee.

The Board of Directors is authorised to issue regulations to implement these provisions.

Leonteq has issued its registered shares as uncertified securities (Wertrechte) and registered them as book-entry securities as defined in the Book-Entry Securities Act (Bundesgesetz über Bucheffekten). Shareholders have no right to request conversion of shares from the form in which they are issued into another form. Shareholders may at any time request an attestation from the Company that certifies their current shareholding. Uncertified securities may only be transferred by means of assignment provided they are not issued as book-entry securities. To be valid, the assignment must be reported to the Company, which may refuse to enter the assignee in the share register in accordance Art. 5 of the Articles of Association. The transfer of book-entry securities or the granting of security rights on book-entry securities must comply with the Book-Entry Securities Act. The transfer of book-entry securities or the granting of security rights on book-entry securities by means of assignment is excluded. The transfer restrictions pursuant to Art. 5 of the Articles of Association are not affected by this regulation.

Convertible bonds and warrants/options

No convertible bonds or warrants/options are outstanding or have been in the past.

Leonteq established RSU plans related to deferred compensation and to the long-term incentives of its employees. These RSUs are hedged through market transactions, i.e. through treasury shares repurchased from the market. Further details are provided in the Compensation Report (pages 68 to 75) and in the Consolidated Financial Statements (page 139).

Board of Directors

Members of the Board of Directors

Name	Year of birth	Nationality	First election	Term expires
Christopher M. Chambers Chairman	1961	British/Swiss	2017	2019
Hans Isler Vice-Chairman	1953	Swiss	2012	2019
Jörg Behrens	1964	Swiss	2012	2019
Paulo Brügger	1966	Swiss	2017	2019 ¹¹
Vince Chandler	1956	British	2012	2019
Patrick de Figueiredo	1950	Swiss	2010	2019
Richard A. Laxer	1961	American/British	2018	2019
Thomas R. Meier	1962	Swiss	2017	2019

¹¹ On 2 February 2019, Paulo Brügger resigned from Leonteq's Board of Directors with immediate effect.

The Board of Directors of Leonteq AG comprises eight non-executive members. No member of the Board of Directors of Leonteq AG exercised any operational management functions for the Company or any of its subsidiaries in the year under review. No member of the Board of Directors has held a management position in Leonteq AG or any of its Group companies over the last three years. As of 31 December 2018, the majority of members of the Board of Directors of Leonteq AG met the independence criteria, which are defined as follows.

Leonteq's non-executive members of the Board of Directors are deemed independent if they:

- Are not currently, and have not in the previous three years, been employed in some other function within the Company;
- Have not been employed in the previous two years by Leonteq's audit firm as a lead auditor (of the regulatory audit);
- Have no commercial links with the Company which, in view of their nature and scope, would lead to a conflict of interests (including directorships on the Board of a commercial partner);
- Are not significant shareholders of Leonteq and are not representatives of individual shareholders (private or institutional) or a specific group of shareholders.

These criteria exceed the requirements of the FINMA Circular 2017/01 Corporate Governance – Banks. The independent members of the Board of Directors are: Jörg Behrens, Christopher Chambers, Vince Chandler, Hans Isler, Richard Laxer and Thomas Meier. Paulo Brügger acts as representative of Raiffeisen and Patrick de Figueiredo acts as representative of the founding partners.

The Board manages its composition through a formal rotation of its members, as well as background and skill mapping, to achieve an optimal structure over time. Since the 2018 Annual General Meeting, the Nomination and Remuneration Committee and the Audit Committee have consisted entirely of independent members and the Risk Committee has consisted of a majority of independent members.

On 13 February 2018, Lukas Rufin, Vice-Chairman of the Board of Directors of Leonteq AG, was appointed as Leonteq's CEO as of 1 May 2018. He did not stand for re-election at the Annual General Meeting on 28 March 2018, when shareholders of Leonteq AG elected Richard Laxer as a new member of the Board of Directors.

Professional background, education and other activities



Christopher M. Chambers

Chairman

Christopher Chambers began his career in investment banking in 1990, when he joined Barclays de Zote Wedd Ltd., UK. In 1997, he moved to Credit Suisse First Boston, UK, where he served as Head European Equity Capital Markets until 2002. From 2002 until 2005, he was CEO of Man Investments Ltd., Switzerland, and from 2007 – 2009, he served as Chairman of the Board of Jelmoli Ltd., Switzerland. From 2009 to 2011, Christopher Chambers was also a member of the Board of Evolution Group Plc, UK. He was a member of the Supervisory Board of Cembra Money Bank Ltd., Switzerland, from 2010 until 2016, and Vice-Chairman of its Board between 2013 and 2016. He subsequently served as Chairman of the Board of Moneta Money Bank, Czech Republic, until 2017. From 2015 to 2018 he served as a member of the Board of Hansa Aktiengesellschaft, Switzerland.

He is currently Chairman of the Board of Pendragon Plc, UK (since 2017) and member of the Board of Swiss Prime Site AG, Switzerland (since 2009). Furthermore, he serves as an Executive Chairman of the Board of Lonrho Limited, UK (since 2013), member of the Supervisory Board of Bergos Berenberg AG, Switzerland (since 2012) and member of the Board of Oxford Sciences Innovation Plc, UK (since 2015).

Christopher Chambers completed his education in the UK. He is a fellow of the Royal Society of Arts (FRSA) and holds a diploma in German Language from the London Chamber of Commerce.



Hans Isler

Vice-Chairman, Chairman of the Audit Committee

Hans Isler started his career in 1978 as a Delegate of the International Committee of the Red Cross. He then joined Arthur Andersen and was a partner from 1994 until 2002. He was a Partner and member of the Board of Directors of Ernst & Young, Switzerland, from 2002 to 2011. He was a member of the Geneva Court of Audit from 2013 to 2018.

He is currently Chairman of the Board of Directors of Banque Thaler SA and Valcourt SA and serves as a member of the Boards of Banque Pictet & Cie SA, Pictet & Cie Group SCA, Banque du Léman SA, MKS (Switzerland) SA, and PAMP SA. In addition, he is a member of the Finance Commission of MSF (Médecins Sans Frontières).

Hans Isler holds a Master's degree in Economics from the University of St. Gallen (lic. oec. HSG) and he is a Swiss chartered accountant.



Jörg Behrens

Chairman of the Risk Committee

Jörg Behrens began his finance career in 1994 at UBS AG, spending seven years with the firm in Zurich and London. He moved to Arthur Andersen in 2000 and was a Partner at Ernst & Young, Switzerland, from 2002 to 2009. During this time, he served as Head of Financial Risk Management Central Europe and Global Head of Risk Analytics.

He is currently the Managing Partner and Vice Chairman of the Board of Directors of the risk consultancy firm Fintegral AG, Switzerland, which he founded in 2009. Since June 2001, he has been Vice-Chairman of Stiftung Buechweid, Russikon, and since May 2010, he has served as a member of the Board of Directors of Mathfinance AG, Germany.

Jörg Behrens holds a doctorate in Physics from the Swiss Federal Institute of Technology (ETH) Zurich for his research into particle physics at LEP/CERN. He also holds a Master's degree in Nuclear Physics from the ETH.



Vince Chandler

Chairman of the Nomination and Remuneration Committee

Vince Chandler began his career after his A-level studies in 1974 at the Bank of England, where he worked for around 20 years. In 1994, he was appointed Global Head of Equities Technology of the investment banking arm of Barclays Bank (BZW) and he served in this position until 1998. Vince Chandler held a number of senior management roles in the area of technology at Citigroup's Corporate and Investment Bank in the UK from 1998 to 2005. He subsequently joined Credit Suisse, where he was a Managing Director and Group COO for Technology from 2006 to 2008. He was also a member of the Board of Directors of Dataquest, London, where he served as Chairman from 2010 until 2016.



Paulo Brügger

Member

Paulo Brügger began his career at UBS AG, Switzerland, and then moved to Bank Julius Baer, Switzerland. Between 1995 and 2002, he held various senior positions at UBS AG, Switzerland, and was Head of Trading at Raiffeisen Switzerland Cooperative from 2003 to 2005.

He served as Head of the Central Bank Department and member of the Executive Board of Raiffeisen Switzerland Cooperative from 2005 until January 2019. Paulo Brügger was also a member of Leonteq's Board of Directors from November 2017 until 2 February 2019.

He is currently a member of the Board of Directors of responsAbility Participations AG, Switzerland.

Paulo Brügger holds a degree in Economics and Business Administration from the Kaderschule Zurich.



Patrick de Figueiredo

Member

Patrick de Figueiredo started his career in the credit business at UBS AG, Switzerland, in 1976 and he remained with the company until 1983. From 1984 to 1989, he worked at BSI Group, Switzerland. In 1989, he joined EFG Group, Switzerland, as Head of Credit and subsequently held the position of Chief Risk Officer from 1997 to 2014. He served as a member of the Management Committee of EFG Bank European Financial Group SA, Switzerland, from 1989 until 2014.

Since 2015, he has served as member of the Board of Directors of EFG Bank European Financial Group SA, Switzerland.

Patrick de Figueiredo holds a Master's degree in Management Studies from the University of Fribourg, Switzerland.



Richard A. Laxer

Member

Richard Laxer began his career in 1984 at General Electric. From 2006 to 2008, he was CEO of GE Capital Solutions and later became CEO of GE Capital International in 2013. In 2016, he was appointed Chairman and CEO of GE Capital. He was also a member of General Electric's Corporate Executive Council from 2006 to 2018. Richard Laxer was a member of the Board of Directors of both Cembra Money Bank (2015-2016) and Moneta Money Bank (2016 – 2017). He led GE Capital as Chairman and CEO until March 2018.

He currently serves as a member of the Board of Directors of Pendragon Plc, UK.

Richard Laxer holds a BSc (Hons) in Business with a minor in Economics from Skidmore College, USA.



Thomas R. Meier

Member

Thomas Meier began his career at Credit Suisse Group and served as a relationship manager from 1988 to 1993. He subsequently held various senior positions in the Asia Region from 1993 to 1999 before being appointed CEO North Asia and Branch Manager of the Hong Kong office of Credit Suisse from 2000 to 2004. He became Head of Private Wealth Management and served as a member of the Management Board of Deutsche Bank (Luxembourg) from 2004 to 2005. He then joined Bank Julius Baer, where he served as CEO Asia from 2005 to 2015 and as member of the Executive Board from 2007 to 2015. After his return to Switzerland, he was Head of Corporate Sustainability at Bank Julius Baer from 2015 to 2017 and Chairman of the Julius Baer Foundation from 2016 to June 2018.

Thomas Meier is currently a Managing Director and member of the Board of TRM Consulting AG and a member of the Board of Directors of VP Bank AG, Liechtenstein. Thomas Meier holds a doctorate in Law from the University of Zurich and he completed the Advanced Management Program at the University of Pennsylvania, USA.

Mandates and activities outside Leonteq

According to Art. 24, para. 5, of the Articles of Association, members of the Board of Directors are not permitted to hold or exercise more than the following number of additional activities in the executive or administrative bodies of other legal entities that are required to be registered in the commercial register or a comparable foreign registry, and that are not controlled or held directly or indirectly by the Company:

- Ten mandates in other legal entities for which remuneration is received, whereby multiple mandates in various companies that belong to the same group of companies count as one mandate, of which a maximum of four mandates may be held in companies listed on a stock exchange in Switzerland or abroad, and
- Ten unpaid mandates, whereby reimbursement of expenses is not classed as remuneration.

Mandates exercised by a member of the Board of Directors at the request of the Company are exempt from these restrictions.

Members of the Board shall inform the Chairman of the Board of all external business activities, irrespective of whether or not they are remunerated. Before accepting or committing to new external business activities, approval must be sought by the Chairman of the Board.

External business activities are prohibited if they:

- Are in competition with a Leonteq Group entity;
- Have the potential to damage Leonteq AG's reputation;
- Adversely impact the Board member's performance or his/her regular work, or
- Create any potential conflict of interests.

Elections and terms of office

Pursuant to Art. 18 of the Articles of Association, the Board of Directors consists of five or more members who are individually elected by the Annual General Meeting for a term of one year. Members of the Board may be re-elected with no limitation on the number of terms. The term of office ends upon the completion of the Annual General Meeting following their election.

The Annual General Meeting shall elect a member of the Board of Directors to be the Chairman of the Board for a one-year term. In the event of the post of Chairman being vacant, the Board of Directors shall appoint a new Chairman for the remaining term until the next Annual General Meeting. The Board shall elect a Vice-Chairman from among its members. The Chairman or Vice-Chairman must be domiciled in Switzerland. Furthermore, the Board shall appoint a Secretary who does not need to be a member of the Board.

Information about the composition of the Board of Directors, including the date on which each member was first elected to the Board and his/her remaining term of office, is provided on page 34.

Internal organisational structure

The internal organisational structure is set out in the Organisational Management Regulations of the Company.

The Board of Directors shall meet as often as required to fulfil its duties and responsibilities but at least once per quarter. The Chairman shall convene meetings of the Board of Directors whereby each Board member is entitled to request at any time that the Chairman convene a meeting. In cases where no meeting is convened by the Chairman within a reasonable period of time after such a request is made, the Board member who submitted the request is entitled to convene the meeting. Each Board member is entitled to request that items be placed on the agenda of the next Board meeting.

Notice of meetings of the Board of Directors shall be given at least five days in advance by letter, fax or e-mail. The notice shall contain the agenda for the meeting and the necessary documentation to enable members to prepare for the meeting. If all Board members are present and agree, deviations from these formal requirements are permitted; in particular, decisions can be taken on items that are not listed on the agenda.

In urgent cases, the Chairman may convene a meeting without observing the five-day notice period, and without the need to distribute the agenda or the necessary documentation to prepare for the meeting in advance.

Meetings of the Board of Directors are chaired by the Chairman or, if he is unable to attend, by the Vice-Chairman or another member of the Board of Directors. By way of exceptions, meetings may also be conducted by telephone or video conference or an equivalent means of instant communication. In such cases, the participating members shall be deemed to be present. In general, meetings shall be held in person.

The General Counsel serves as Secretary to the Board of Directors. Unless the Chairman decides otherwise, the CEO and the Chief Financial Officer ('CFO') shall attend each Board meeting as guests in an advisory capacity. The Chairman determines which other individuals may attend Board meetings as guests. Such individuals do not have any voting rights.

A quorum is constituted when at least two-thirds (2/3) of the members of the Board of Directors are present. No quorum is required if the sole purpose of the meeting is to record the implementation of a capital increase and approve amendments to the Articles of Association. A Board member who abstains from voting shall be deemed to be present.

The Board of Directors passes its resolutions with the majority of votes cast. In the event of a tied vote, the Chairman of the meeting has the casting vote.

Resolutions of the Board of Directors may also be taken by means of circular resolutions, i.e. in writing or via a signed copy sent by e-mail or fax, provided that (i) no Board member requests oral deliberation within the decision period and (ii) at least two thirds (2/3) of the Board members vote by means of such circular resolution. The circular resolution, signed by the Board members and the Secretary, serves as the minutes. The Board of Directors passes circular resolutions unanimously.

All resolutions are recorded in writing. The Secretary is responsible for writing the minutes, which are signed by the member who chaired the meeting and the Secretary, and must be approved by the Board of Directors.

No member of the Board of Directors shall participate in or vote on any matter that gives rise to a personal conflict of interests.

The Board of Directors met eight times and held four conference calls in 2018. The total attendance rate for all members of the Board of Directors was an average of 94% in 2018. The duration of each ordinary meeting was half a day and conference calls lasted one hour on average. Conference calls were often convened to address urgent matters. The Executive Committee or some of its members attended the meetings (including the CEO, the CFO and the General Counsel).

Board member	Meeting attendance in 2018					
	Physical meetings	in %	Conference calls	in %	Total	in %
Christopher M. Chambers	8/8	100%	4/4	100%	12/12	100%
Hans Isler	8/8	100%	4/4	100%	12/12	100%
Jörg Behrens	6/8	75%	4/4	100%	10/12	83%
Paulo Brügger	6/8	75%	2/4	50%	8/12	67%
Vince Chandler	8/8	100%	4/4	100%	12/12	100%
Patrick de Figueiredo	8/8	100%	4/4	100%	12/12	100%
Richard A. Laxer (member since AGM 2018)	7/7	100%	3/3	100%	10/10	100%
Thomas R. Meier	8/8	100%	4/4	100%	12/12	100%
Lukas T. Ruffin (member until AGM 2018)	1/1	100%	1/1	100%	2/2	100%

Board Committees

The Board of Directors has delegated certain resolutions, their preparation and implementation, and the supervision of the business of the Company and the Group to the Board Committees. The Board Committees inform the Board in a timely manner of their findings and actions.

Each Board Committee has the power to retain independent legal, accounting, financial and other advisors and consultants as it may deem necessary, at the expense of the Company and without the need to obtain the approval of the full Board of Directors in advance.

The term of membership of a Board Committee is one year upon appointment. Re-election is possible.

The Board Committees meet as often as required to fulfil their duties and responsibilities, but at least once a quarter, usually before an ordinary meeting of the Board of Directors. The Chairman of the relevant Board Committee convenes the meetings. Notice of Board Committee meetings shall be given at least five days in advance by letter, fax or e-mail. Each member of a Board Committee is entitled to request at any time that the Chairman of the relevant Board Committee convene a meeting. In cases where no meeting is convened by the Chairman of the Board Committee within a reasonable period of time after such a request is made, the Board Committee member who submitted the request is entitled to convene the meeting. Each Board Committee member is entitled to request that items be placed on the agenda for the next meeting.

Each Board member has the right to attend all Board Committee meetings as a guest without voting rights and to receive all information provided to members of the Board Committees. If Board Committee members conclude that their presence may have an influence on independent decision-making by the Committee, they may decide to deny this right of presence and to call for the Committee to hold a private session. The Chairman of the Board is not permitted to attend Audit Committee meetings.

The Chairman of each Board Committee shall determine which members of the Executive Committee or other individuals may attend the meetings as guests. Such guests do not have voting rights. The Board Committees may reach their decisions in private meetings.

The Board Committees pass resolutions and adopt proposals with the majority of votes cast. In the event of a tied vote, the Chairman of the Board Committee has the casting vote.

The Board has established the following standing Committees:

- Audit Committee
- Risk Committee
- Nomination and Remuneration Committee

The constitution of the Audit Committee and the Risk Committee fall within the responsibility of the Board of Directors, while members of the Nomination and Remuneration Committee are elected individually by the Annual General Meeting, pursuant to Art. 2 in connection with Art. 7 OaEC.

At year-end 2018, the Board Committees were constituted as follows:

Board member	Audit Committee	Risk Committee	Nomination and Remuneration Committee
Christopher M. Chambers (Chairman)			
Hans Isler (Vice-Chairman)	● Chair	●	●
Jörg Behrens	●	● Chair	
Paulo Brügger		●	
Vince Chandler			● Chair
Patrick de Figueiredo		●	
Richard A. Laxer (member since AGM 2018)			●
Thomas R. Meier	●	●	

Audit Committee

The Audit Committee consists of a Chairman, who is an independent member of the Board, and a minimum of one other member of the Board. The Audit Committee supports the Board of Directors in its supervision of financial controls by maintaining a direct link to the internal and external auditors.

The Audit Committee's main duties include:

- Financial and business reporting processes, including processes related to the preparation of financial reports, financial statements and business reports, together with the monitoring of tax matters;
- The review and evaluation of the efficiency and effectiveness of the internal control framework, from an audit perspective;
- Internal and external audit processes, including a review of the activities, adequacy, effectiveness and organisational structure of the Internal Audit function, a review of internal audit's risk assessment, a discussion of the risk profile and the related audit approach with the external auditor, the review and approval of the scope of the audit proposed by the external auditor, and a review of the performance of the external auditor;
- Compliance with laws, regulations, policies and best practices throughout the Group.

The entire Board of Directors approves the organisation and design of accounting, financial control and financial planning, following a decision by the Audit Committee.

On 31 December 2018, the Audit Committee comprised three Board members: Hans Isler chaired the Committee, with Jörg Behrens and Thomas Meier as members. All three members are independent. The Audit Committee may take its decisions in private meetings.

The Audit Committee met five times in 2018 and held one conference call. The total attendance rate for all members of the Audit Committee was an average of 100% in 2018. Meetings typically lasted three hours, and they were attended by members of the Executive Committee and managers responsible for the areas supervised by the Audit Committee.

Board member	Meeting attendance in 2018					
	Physical meetings	in %	Conference calls	in %	Total	in %
Hans Isler (Chairman of the Audit Committee)	5/5	100%	1/1	100%	6/6	100%
Jörg Behrens	5/5	100%	1/1	100%	6/6	100%
Patrick de Figueiredo (member until AGM 2018)	1/1	100%	0/0	N/A	1/1	100%
Lukas T. Ruffin (member until AGM 2018)	1/1	100%	0/0	N/A	1/1	100%
Thomas R. Meier (member since AGM 2018)	4/4	100%	1/1	100%	5/5	100%

Risk Committee

The Risk Committee consists of a Chairman, who is an independent member of the Board, and a minimum of one other member of the Board. The Risk Committee monitors:

- All kinds of risks; in particular, credit (clients, counterparties, bond investment portfolios, countries, large exposures), market, liquidity, correlation, reputational and operational risks;
- General risks within the policy, framework, rules and limits set by the Board or by the Committee itself;
- The internal control system and risk management process throughout the Group.

The entire Board of Directors approves the overall risk policies and global risk limits, following a decision by the Risk Committee.

On 31 December 2018, the Risk Committee comprised five Board members: Jörg Behrens chaired the Committee, with Paulo Brügger, Patrick de Figueiredo, Hans Isler and Thomas Meier as additional members. At year-end 2018, two out of the five members were not independent.

The Risk Committee met five times in 2018 and held no conference calls. The total attendance rate for all members of the Risk Committee was an average 96% in 2018. Meetings lasted two to three hours on average. Meetings were attended by members of the Executive Committee and managers responsible for risk control. In addition, the Risk Committee held a risk workshop, which lasted half a day and focused on topics such as liquidity frameworks, forthcoming regulatory developments and the impact of the market environment on the risk management of issued structured products.

Board member	Meeting attendance in 2018					
	Physical meetings	in %	Conference calls	in %	Total	in %
Jörg Behrens (Chairman of the Risk Committee)	5/5	100%	0	N/A	5/5	100%
Paulo Brügger (member since AGM 2018)	3/4	80%	0	N/A	3/4	80%
Patrick de Figueiredo	5/5	100%	0	N/A	5/5	100%
Hans Isler	5/5	100%	0	N/A	5/5	100%
Thomas R. Meier (member since AGM 2018)	4/4	100%	0	N/A	4/4	100%

Nomination and Remuneration Committee

The members of the Nomination and Remuneration Committee are elected individually by the Annual General Meeting for a one-year term of office. The Nomination and Remuneration Committee consists of a Chairman, who is an independent member of the Board, and a minimum of one other member of the Board.

The Nomination and Remuneration Committee regularly reviews and oversees the Company's compensation policies and models of the Company. It is responsible for conducting a formal evaluation process and prepares the basis for decisions of the Board of Directors regarding the total compensation of the members of the Board of Directors and the Executive Committee, as well as the overall remuneration of all other Group employees. In particular, it submits to the Board of Directors proposals for:

- The compensation principles, especially in relation to performance-related compensation and allocation of equity securities or warrants and the audit and compliance with them;
- The individual compensation of the members of the Board of Directors and the Executive Committee and the structure of the corresponding agreements;
- The motion proposed to the Annual General Meeting for approval of the maximum total amounts of compensation of the Board of Directors and the Executive Committee;
- The Compensation Report for subsequent submission to the Annual General Meeting for a consultative vote.

The Board has delegated further tasks to the Nomination and Remuneration Committee. In particular, it is responsible for:

- Ensuring that the compensation of the Board of Directors and the Executive Committee members shall be appropriate and in line with market conditions and that the management of Leonteq and its subsidiaries maintain and observe an up-to-date compensation policy and procedures;
- Ensuring that the total annual salary increases and the variable compensation amounts are within the overall limits, as defined by the Board of Directors and approved by the Annual General Meeting;
- Defining the contractual arrangements that apply to members of the Board of Directors and the Executive Committee and of key employees, including at the Company's subsidiaries, and submitting these contracts for approval to the Board of Directors;
- Reviewing the total annual compensation, annual salary increases and variable compensation proposed by the management for all other Group employees;
- Ensuring that the policy on variable compensation and other variable elements of employee compensation do not conflict with client or shareholder interests.

The Nomination and Remuneration Committee is additionally responsible for:

- Reviewing the structure, size and composition of the Board of Directors, proposing appointments of new members of the Board and the Executive Committee, and making recommendations on these matters to the Board;
- Evaluating the experience, knowledge and skills of the Board before an appointment is made and preparing a description of the role and capabilities required for a particular appointment;
- Succession planning for all Board and Executive Committee members.

On 31 December 2018, the Nomination and Remuneration Committee comprised three members: Vince Chandler (Chairman), Hans Isler and Richard Laxer. In accordance with the provisions of the OaEC, all members of the Nomination and Remuneration Committee were elected individually for a term of one year by the Annual General Meeting on 28 March 2018. All three members are considered independent according to the Company's rules and the Swiss Code of Best Practice.

The Nomination and Remuneration Committee met four times and held four conference calls in 2018. The total attendance rate for all members of the Nomination and Remuneration Committee was an average of 100% in 2018. Meetings usually lasted two to three hours and calls lasted one hour, and were attended by the CEO, the CFO and management responsible for compensation reporting and controlling. Any members of the Executive Committee who attended the meeting withdrew when their own compensation, performance and potential promotion was discussed.

Board member	Meeting attendance in 2018					
	Physical meetings	in %	Conference calls	in %	Total	in %
Vince Chandler (Chairman of the Nomination and Remuneration Committee)	4/4	100%	4/4	100%	8/8	100%
Hans Isler	4/4	100%	4/4	100%	8/8	100%
Richard A. Laxer (member since AGM 2018)	3/3	100%	2/2	100%	5/5	100%
Lukas T. Ruffin (member until AGM 2018)	1/1	100%	2/2	N/A	3/3	100%

Definition of areas of responsibility of the governing bodies

The individual responsibilities and powers of the governing bodies are derived from corporate law and the Company's Organisational and Management Regulations. The governing bodies are responsible for the strategic direction of the Group and for determining and implementing the principles of organisation, management and monitoring. They are also responsible for providing the resources required to achieve the defined objectives, and they bear ultimate responsibility for the overall results. They supervise the running of the Group as a whole, and they coordinate and oversee all activities carried out by and in the name of the Group.

The Board of Directors is responsible for defining the Group's strategy and it supervises and monitors the business. The Executive Committee, led by the CEO, has executive management responsibility within the scope defined by the Board of Directors in the Organisational and Management Regulations.

Leonteq operates under a strict dual board structure, as prescribed by Swiss banking law. The functions of the Chairman of the Board and of the CEO are assigned to different people, thus ensuring a separation of powers. This structure establishes checks and balances and it ensures the institutional independence of the Board of Directors from the daily running of the Company. That responsibility is delegated to the Executive Committee, led by the CEO.

The decisions of the governing bodies are implemented in compliance with the applicable legal and supervisory regulations.

Responsibilities of the Board of Directors

The Board of Directors has ultimate oversight of the Company and its subsidiaries, and it is responsible for the overall direction, supervision and monitoring of the business as well as its financial reporting. The Board of Directors generally takes account of the proposals of the Executive Committee when discharging its duties. In particular, the Board of Directors defines the overall direction and strategy of the Company. It determines the organisation of the Company and it issues and amends the Organisational and Management Regulations. It defines the business policies and strategies, issues and annually reviews the necessary directives and regulations, and determines the corporate governance principles

The Board of Directors approves the organisation and design of accounting, financial controls and financial planning and it issues guidelines for financial reporting, following decisions by the Audit Committee. It also decides upon strategic financial and capital planning. The Board of Directors is further responsible for the annual business plan and budget and for issuing guidelines for financial reporting. It approves the overall risk policies and global risk limits, following decisions by the Risk Committee. It further issues remuneration guidelines and compensation models for the Group at the request of the CEO; the Board of Directors takes account of the recommendations of the Nomination and Remuneration Committee when discharging this duty.

In addition, the Board of Directors determines the composition of the Executive Committee, appoints and dismisses members of the Executive Committee and is responsible for succession planning for the members of the Board of Directors and the Executive Committee, in accordance with the proposals of the Nomination and Remuneration Committee. It supervises the Executive Committee in respect of its compliance with laws and regulations, and the implementation of the Group's corporate governance principles, Articles of Association, directives and resolutions. It also determines and grants signatory powers; the Board further appoints and dismisses the Head of Internal Audit and determines the organisation and scope of the internal audit; the Board of Directors takes account of the recommendations of the Audit Committee when discharging these duties.

The Board of Directors, with support and advice from the Board Committees, is responsible for preparing all topics falling within the competence of the Annual General Meeting, in particular the preparation, convocation and setting of the agenda for the Annual General Meeting, the preparation and submission of the annual financial statements and the annual report, together with the appropriation of net profits available for distribution, as well as proposals for the compensation of the Board and Executive Committee. The Board further prepares and submits amendments to the Articles of Association and to the scope of business for the Annual General Meeting; it assesses, pre-selects and proposes appointments of potential new Board members (and the dismissal of existing members), proposes the appointment of the independent auditors, and is generally in charge of the implementation of resolutions approved by the Annual General Meeting.

The placement and acceptance of binding and non-binding merger and acquisition offers, the conclusion of final contracts, the entry into, dissolution and modification of joint ventures of strategic importance, and the issuance of unlimited guarantees, letters of comfort and similar matters, also fall within the remit of the Board of Directors. It approves capital market transactions involving Leonteq shares of more than 3% of the total share capital of the Company, approves financial commitments in connection with investments and long-term contracts of over CHF 3 million, following decisions by the Executive Committee, and decides on financial commitments in connection with investments and long-term contracts of over CHF 5 million or more if not included in the budget. It also approves the acquisition and encumbrance of real estate. The Board further decides on the initiation and withdrawal of court proceedings or other legal proceedings of a material nature and the conclusion of settlements if the amount owed exceeds CHF 1,000,000.

Finally, the Board is responsible for notification of the judiciary if the Company were to become overindebted.

Responsibilities of the Executive Committee

Based on decisions of the Board and within the scope of the Company's Organisational and Management Regulations, the Executive Committee prepares and implements the overall strategy and corporate governance policies and guidelines. It is responsible for the day-to-day management of the Group and has authority in all matters that are not the prerogative of, or subject to, the approval of the Board of Directors (including Board Committees and the Chairman) or the Annual General Meeting.

The Executive Committee assumes responsibility for ensuring that the governance of subsidiaries is aligned in accordance with the respective principles. To this end, the Executive Committee has issued directives in relation to all relevant matters for the subsidiaries, including, but not limited to, organisational matters, the structuring of internal controls to ensure compliance with applicable legislation and regulations, financial reporting, risk management and the supervision of persons entrusted with management of the subsidiaries, within the overall organisational rules as defined by the Board.

Furthermore, the Executive Committee is responsible for a system of reporting duties and approval processes applicable to all subsidiaries. It ensures that all corporate governance directives are implemented by the subsidiaries in a timely manner, in accordance with local legislation and regulations. The Executive Committee is headed by the CEO, who is responsible for communication with the Board and the Chairman as well as for the coordination of press matters. The Executive Committee decides on capital market transactions involving Leonteq shares of less than 3% of the total share capital and decides on financial commitments in connection with investments and long-term contracts of less than CHF 3 million if not included in the budget.

The appointment or dismissal of members of the Committees of the Executive Committee and the approval of the appointment of members of the governing bodies of Group companies fall within the remit of the Executive Committee. It has further delegated certain functions to the Product Approval Committee, the Risk Committee and the Service Line Committee. The Product Approval Committee is responsible for approving new types of financial products before they are issued and new services before they are launched. The Product Approval Committee is composed of both members of the Executive Committee and employees responsible for operational risk control, trading and treasury. The Risk Committee is responsible for the determination and monitoring of liquidity risks, market risk limits, counterparty limits and country-specific limits within the scope defined by the Board of Directors. It established permissible hedging instruments within the scope defined by the Board, approves eligible issuers and stress scenarios, and issues guidelines on the general handling of legal and regulatory risks. The Risk Committee further decides on the initiation of lawsuits, the withdrawal from lawsuits or other legal proceedings and the conclusion of settlements if the committed amount is below CHF 1,000,000 or not of a material nature.

Procedures in the event of conflicts of interests

Members of the Board of Directors and members of the Executive Committee shall endeavour to avoid any action, position or interest that conflicts with the interests of the Company, any of the subsidiaries or the Group as a whole, or which give the appearance of such a conflict of interests. If a conflict of interests is believed to exist, the relevant Board member or member of the Executive Committee is obliged to:

- Immediately inform the Chairman or, in the event of a conflict of interests concerning the Chairman, the Vice-Chairman;
- Refrain from all related discussions (other than issuing a personal statement on the matter and answering questions regarding the matter), and abstain from voting upon all matters involving the interests concerned.

In case of doubt, the Chairman, or in case of a conflict of interests concerning the Chairman, the Vice-Chairman, needs to determine whether a conflict of interest actually exists. In addition to this general rule, the Board of Directors holds its meetings in accordance with the following principles:

- No members of the Executive Committee are present at Board meetings if discussions are held or decisions are made with respect to their performance, compensation, recruitment or any matter of a personal nature relating to the Executive Committee or individual members.
- Parts of Board meetings are held in private sessions without Executive Committee members present from time to time if the Board discusses matters of a fundamental strategic nature for the Company.

Information and control instruments concerning the Executive Committee

To control the business activities of the Group, the Board of Directors has formed the Committees listed in the information about the internal organisational structure of the Board of Directors on page 40. The Chairman of each Committee is in regular contact with the Executive Committee and senior management and provides the Board of Directors with regular updates on the current activities of the Committee and important Committee matters. Minutes of Committee meetings are made available to the entire Board of Directors. Conference calls are held between Board and Committee meetings in order to obtain updates on current topics and initiatives, to exchange views and opinions, and to decide upon more urgent matters.

The Board supervises the Executive Committee by conducting Board meetings at least four times a year. These meetings usually last half a day. The CEO, CFO and General Counsel attend the Board meetings, update the Board on important issues and are available to answer questions. Other members of the Executive Committee are available on a case-by-case basis upon request. Between meetings, the Board of Directors is informed in writing about current business developments and the Company's financial situation on a monthly basis. Additionally, the Chairman of the Board meets with the CEO on a regular basis to discuss business operations and issues of fundamental importance. The Chairman of the Audit Committee meets with the CFO and the Chairman of the Risk Committee meets with the Chief Risk Officer ('CRO') to hold similar discussions.

In general, each Board member is entitled to request information from the Executive Committee on all matters relating to the Company and to the Group as a whole. The Board is informed about extraordinary items as soon as reasonably practical by way of a circular letter or, if appropriate, by telephone or e-mail.

Furthermore, the Board receives recurring business and governance-relevant information on a regular basis, as described below:

At least once a quarter, the Board receives:

- From the CFO: The quarterly financial update with information concerning operating income and expenditure, income statements with budget vs. actual financial information, periodic forecasts, key performance indicators, regulatory capital information and additional financial information.

On a monthly basis, the Board receives:

- From the CEO: The monthly CEO update, which provides summary information on financials, projects, people and other relevant business matters;
- From the CRO: The monthly risk report, which provides in-depth information on risk exposures, profit and loss, the investment portfolio, limit monitoring results, market risk (including sensitivities, VaR, and stress testing), counterparty risks with the highest exposures, operational risk, liquidity and Insurance & Wealth Planning Solutions risk profile.

At least once annually, the full Board is provided with the compliance risk assessment and compliance activity reports by the General Counsel. It furthermore receives documentation which serves as a basis when the Board forms its decision about the corporate strategy (prepared by the CEO), the annual budget (prepared by the CFO) and the strategic capital planning as well as the liquidity planning (prepared by the CRO). Finally, Board members receive ad hoc reports on new business proposals and other relevant business matters from the CEO, and regular reports on claims and litigation prepared by the General Counsel.

On a quarterly basis, the Board Audit Committee receives:

- Reports on internal and external audit activities and updates on status and resolution of audit points from the CFO;
- Updates on legal, compliance and tax cases from the General Counsel;
- Updates on new accounting standards from the CFO.

At least once annually, the Board Audit Committee is informed about the Group's internal control system by the CFO and receives reports on regulatory and compliance topics from the General Counsel.

On a quarterly basis, the Board Risk Committee receives:

- Quarterly risk reports from the CRO;
- Details of the capital adequacy situation, large exposure risk and the 10 largest debtors from the CRO.

At least once annually, the Board Risk Committee is informed about the Group's risk status by the CRO.

Additionally, independent audits are performed by Ernst & Young Ltd. (Internal Audit), which reports to Leonteq's Audit Committee. Since it operates independently of management from an organisational perspective, it provides Leonteq's Board of Directors and the Audit Committee with independent and objective assurance of the adequacy and effectiveness of the internal control system. Internal Audit maintains a regular dialogue with the external auditor to share information about risk issues arising from their respective audits and to coordinate their activities. The obligations and rights of Internal Audit are set out in the Organisational Management Regulations. In accordance with this charter, Internal Audit has unrestricted access to premises, people, information and documents regarding all aspects of Leonteq and its subsidiaries.

Executive Committee

Members of the Executive Committee

Name	Year of birth	Nationality	Function	Appointed
Lukas T. Ruffin	1975	Swiss	Chief Executive Officer	May 2018
Marco Amato	1981	Italian/Swiss	Deputy CEO and Chief Financial Officer	September 2016
Jochen Kühn	1977	German	Head Insurance & Wealth Planning Solutions	January 2017
Manish Patnaik	1973	German	Chief Operating Officer	March 2014
Reto Quadroni	1963	Swiss	Chief Risk Officer	October 2017
David Schmid	1982	Swiss	Head of Investment Solutions	January 2016
Ingrid Silveri	1976	Italian/Venezuelan	General Counsel	October 2017

The Executive Committee comprises seven members. In the year under review, Leonteq's Board of Directors appointed Lukas Ruffin as CEO of Leonteq.

Professional background, education and other activities



Lukas T. Rufin

Lukas Rufin started his career at PricewaterhouseCoopers. He joined J.P. Morgan in 1999, and moved to Lehman Brothers in 2000. He joined EFG Bank/EFG International in 2004 and held various management positions at the company, including Deputy CFO from 2004 to 2007, CEO of EFG Bank in 2010 and Deputy CEO of EFG International from 2009 to 2012. He was one of Leonteq's four founding partners in 2007. He has served as a member of Leonteq's Board of Directors since 2009 and was Vice-Chairman from 2015 to March 2018. Lukas Rufin was appointed CEO and a member of the Executive Committee of Leonteq in May 2018.

Lukas Rufin holds a Master's degree in Economics from the University of St. Gallen and a CEMS Master's degree in International Management from the University of St. Gallen.



Marco Amato

Marco Amato started his career at Ernst & Young, Switzerland, in 2006. In 2014, he became a partner in the Assurance Financial Services organisation, where he was a member of the leadership team. As a client service partner, he gained vast experience in auditing financial statements in accordance with both Swiss and international accounting standards. He has in-depth knowledge of the front-, middle-, and back-office operations of financial institutions, and he has acted as an advisor on finance transformation, regulatory, and risk management matters. In September 2016, he joined Leonteq as Chief Financial Officer, and additionally served as Chief Risk Officer between November 2016 and October 2017. In October 2017, Marco Amato was appointed CEO ad interim. Since May 2018 he has served as Deputy CEO and CFO of Leonteq.

He holds an Advanced Master's degree in International Business Law (LL.M.) from the University of Zurich and a Master's degree in Business and Economics from the University of Basel. Marco Amato is a Swiss Certified Public Accountant.



Jochen Kühn

Jochen Kühn started his career at McKinsey & Company, Switzerland, in 2006 and became a partner in 2013. He was responsible for client acquisition and client projects focusing on international insurance groups and local European insurers. He was also leader of McKinsey's European Insurance Risk Practice and an expert for life insurance and pension fund topics across the value chain for client projects globally. In January 2017, he joined Leonteq as Head of Insurance & Wealth Planning Solutions and a member of the Executive Committee.

He holds a doctorate in Finance (Dr. oec. publ.) from the University of Zurich and an MBA (Diplom-Kaufmann) from the University of Tübingen, Germany.



Manish Patnaik

Manish Patnaik began his career at Tata Infotech Ltd., India, as a Senior Software Engineer in 1997. In 1999, he joined Société Générale, Singapore, as a Business Analyst and Delivery Manager. From 2000 to 2011, he worked at Commerzbank, Germany, where he became Group Leader for equity derivatives, cash equity and research. He joined Leonteq in 2011 as Head of Front Office IT and became Chief Information Officer in 2012, before being appointed Chief Operating Officer and a member of the Executive Committee in March 2014.

Manish Patnaik holds a Bachelor's degree in Technology (Electronics & Communication) from R.E.C. (Regional Engineering College), Kurukshetra, India, and a Master's degree in Business Administration (Finance) from ICFAI Business School, India.



Reto Quadroni

Reto Quadroni started his career at UBS AG, Switzerland, in 1994, working in the area of IT Development and Quantitative Risk Management. In 1999, he joined Systor AG, Switzerland, as a Senior Financial Engineer. Between 2000 and 2003, he worked in the Credit Risk Control and the Product Control Departments of Swiss Re, Switzerland, before returning to UBS AG, Switzerland, as a Risk Specialist in 2003. As a member of the Group Risk Division, he focused on quantitative risk methodologies and regulatory and statistical analysis.

He joined Leonteq in 2009 and was later appointed Head of Risk Control, a position he held until 2014. After a period of two years, during which he led a team focusing on strategic and regulatory related projects, he resumed his responsibility for Risk Control and became a member of the Executive Committee in October 2017.

Reto Quadroni studied Theoretical Physics at ETH Zurich and holds a doctorate in Natural Sciences from ETH Zurich.

**David Schmid**

David Schmid started his career at UBS AG, Switzerland, in 2006 and was involved in various platform projects for the private banking division. He joined Leonteq in 2008 and was initially part of the Structured Solutions Sales team in Zurich before being promoted to Co-Head Structured Solutions Sales Switzerland. From 2012 to 2014, he was responsible for Leonteq's operation in Asia and the foundation of Leonteq Securities (Singapore) Pte Ltd. He became CEO Asia in 2014 and was appointed Head Investment Solutions and member of the Executive Committee in 2016. Since 2017, he has led the Investment Solutions Division and the Banking Solutions Division (subsequently merged into the Investment Solutions Division in July 2018) and was responsible for global issuance and sales of structured products in Switzerland, Europe and Asia.

David Schmid holds a Bachelor's degree in Economics with a major in Banking and Finance from the University of Zurich.

**Ingrid Silveri**

Ingrid Silveri started her career as a lawyer in Venezuela. After her PhD in Law she worked in the debt capital markets groups of two international law firms, Clifford Chance (2006 – 2008) and Simmons & Simmons (2008 – 2011), in Frankfurt am Main. Ingrid Silveri joined Leonteq as a Legal Counsel in 2011, with a focus on European financial and securities regulations and corporate law. She was appointed Head Legal in July 2014 and became General Counsel and a member of the Executive Committee in October 2017.

Ingrid Silveri holds postgraduate degrees (Dr. iur. and LL.M) from the Ludwig Maximilian University of Munich, Germany, and a law degree from the Andrés Bello Catholic University in Caracas, Venezuela.

Mandates and activities outside Leonteq

According to Art. 24, para. 6, of the Articles of Association, members of the Executive Committee are not permitted to hold or exercise more than the following number of additional activities in the executive or administrative bodies of other legal entities that are required to be registered in the commercial register or a comparable foreign registry, and that are not controlled or held directly or indirectly by the Company:

- Two mandates in other legal entities for which remuneration is received, whereby multiple mandates in various companies that belong to the same group of companies count as one mandate, and
- Five unpaid mandates, whereby reimbursement of expenses is not classed as remuneration.

Mandates in other companies listed on a stock exchange in Switzerland or abroad are not permitted. Mandates exercised by a member of the Executive Committee at the request of the Company are exempt from these restrictions. Before accepting or committing to new external business activities, approval must be sought from the Board of Directors.

External business activities are prohibited if they:

- Are mandates in companies listed on a stock exchange in Switzerland or abroad;
- Are in competition with a Leonteq Group entity;
- Have the potential to damage Leonteq AG's reputation;
- Adversely impact the Executive Committee member's performance or his/her regular work;
- Create any potential conflicts of interests.

Management contracts

Leonteq and its subsidiaries have not entered into any management contracts with third parties.

Compensation, shareholdings and loans

Detailed information on the compensation of the Executive Committee can be found in the Compensation Report on pages 68 to 75. The total compensation of the Board of Directors is disclosed in the Compensation Report on pages 76 to 77. Information on the shareholdings of Leonteq's Board of Directors and the Executive Committee can be found in the Compensation Report on page 78.

Shareholders' rights of participation

Voting rights restrictions and representation

Any person entered in the share register is deemed to be a shareholder.

No statutory voting right restrictions apply regarding registered shareholders, statutory group clauses or rules on granting exceptions. Each share carries an entitlement to one vote.

In line with the legal provisions, any shareholder with a voting right may have their share represented at any General Meeting by another person authorised in writing or by corporate bodies, independent proxies or proxies for deposited shares. Such representatives are not required to be shareholders. The statutory rules on participation in the General Meeting do not differ from applicable legal provisions. Further reference is made to the information about restrictions on transferability and nominee registrations on page 33.

Each shareholder may be represented by a representative, who shall identify him or herself by means of a written power of attorney, or by the independent proxy at the General Meeting. The Annual General Meeting elects the independent proxy. Those eligible are individuals, legal entities or partnerships. The term of office of the independent proxy is one year. It ends with the completion of the Annual General Meeting following their election. Re-election is possible. In the event that the Company has no independent proxy, the Board of Directors shall appoint one for the next Annual General Meeting.

The Board of Directors ensures that shareholders may tender their proxies and instructions to the independent proxy electronically.

The independent proxy is obliged to vote according to the voting instructions received from the shareholder(s). In the absence of instructions, the independent proxy shall abstain from voting.

Statutory quora

No statutory quora other than those defined by Swiss law apply.

Convocation of the Annual General Meeting and Extraordinary General Meeting

The statutory rules on the convocation of a General Meeting correspond to the respective legal provisions. Accordingly, a General Meeting must be summoned at least 20 days before the date of the meeting by means of a notice published in the Swiss Official Gazette of Commerce, and by letter sent to the addresses of the shareholders entered in the share register. The Annual General Meeting is held every year within four months of the end of the financial year. Extraordinary General Meetings are convened whenever necessary.

The notice of the meeting shall include information on the items of business to be discussed and the motions proposed by the Board of Directors and any shareholders who have requested that such a General Meeting be held or that an item of business be placed on the agenda.

One or more shareholders who collectively represent at least 10% of the share capital may request in writing that a General Meeting be held, stating the item of business for discussion and the motions. The request shall be addressed to the Board of Directors.

Inclusion of an item on the agenda

Shareholders representing at least 3% of the share capital may request in writing that an item of business to be placed on the agenda and voted on at the next General Meeting. The request to include a particular item on the agenda, together with the matters to be handled and the proposal, must be submitted in writing to the Board of Directors no later than 40 days prior to the General Meeting.

Registration in the share register

No statutory rule applies to the deadline for registration of shareholders in connection with attendance at the General Meeting. However, for organisational reasons, no shareholders will be entered into the share register for a period of up to ten business days before a General Meeting, ending immediately after the close of the General Meeting. The Board of Directors announces the effective date set prior to a General Meeting in the Organisational Notes section of the respective invitation, which can be found on the Company's website at:

www.leonteq.com/generalmeetings.

Changes of control and defense measures

Duty to make an offer

The obligation to submit a public takeover offer as defined in Art. 135 and Art. 163 of the FMIA is set aside in the sense of Art. 125, para. 3, of the FMIA (opting out), in accordance with Art. 7 of the Company's Articles of Association.

Clauses on change of control

No clauses on a change of control exist at Leonteq for members of the Board of Directors, members of the Executive Committee or other members of management. In particular, there are no protective measures such as:

- Special provisions on the cancellation of contractual arrangements;
- Agreements concerning special notice periods or longer-term contracts exceeding 12 months;
- Waivers of lock-up periods;
- Shorter vesting periods;
- Additional contributions to pension funds that protect the above-mentioned persons based on certain contractual conditions against the consequences of takeovers.

In accordance with the OaEC, which became effective on 1 January 2014, severance payments such as golden parachutes are prohibited.

Auditors

Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG (PwC) was appointed as statutory auditor of Leonteq on 29 November 2007, when Leonteq AG was incorporated. Mr. Andrin Bernet was appointed as lead auditor in 2018.

Shareholders must confirm the appointment of the auditors on an annual basis at the Annual General Meeting.

Auditing fees

The Group paid PwC audit fees totalling CHF 1.0 million for the year 2018.

Additional fees

Additional fees of CHF 0.2 million were paid to PwC in 2018, mainly for reviews and agreed procedures for tax and accounting treatments and for other assurance work in connection with the capital increase.

Supervisory and control instruments relating to the auditors

The Audit Committee, on behalf of the Board of Directors, monitors the qualification, independence and performance of the Group's auditors and the lead partner. The Audit Committee confers with Leonteq's auditors concerning the effectiveness of the internal control systems in view of the risk profile of Leonteq.

The Audit Committee reviews the annual written statement submitted by the external auditor to verify its independence. Mandates assigned to the auditor for additional audit, audit-related and permitted non-audit work are subject to prior approval by the Audit Committee.

The external auditor provides timely reports to the Audit Committee on critical accounting policies and practices employed, on alternative treatments of financial information discussed with management, and other material written communication between the external auditor and management.

The Audit Committee meets both the lead partner of the external auditor and the Head of Group Internal Audit on a regular basis.

At least once a year, the Chairman of the Audit Committee discusses the audit work performed with the lead partner of PwC, together with the main findings and any critical issues that may have arisen during the audit.

The Chairman of the Audit Committee reports back to the Board of Directors on the contacts and discussions with the external auditor.

The external auditor has direct access to the Audit Committee at all times.

Information policy

Leonteq provides information to its shareholders and the public each year by means of the annual and half-year reports, together with press releases, presentations and brochures as needed. These documents are available to the public in electronic form on the Company's website at: www.leonteq.com/investors. The annual report is available in printed form. General Meetings are summoned at least 20 days before the date of the meeting by means of a notice published in the Swiss Office Gazette of Commerce, and by letter sent to the addresses of the shareholders entered in the share register.

Interested parties can subscribe to the e-mail distribution service to receive free and timely notification of potentially price-sensitive facts on the Company's website at:

www.leonteq.com/investors

The Company maintains a regular updated schedule of important publication and event dates on the Investor Relations section of the Company's website at:

www.leonteq.com/investors/corporatecalendar

Leonteq maintains updated information on matters of corporate governance, such as the current composition of its Board of Directors, its Executive Committee, as well as the latest version of its Articles of Association, on the Company's website at:

www.leonteq.com/about-us/leonteq/#governance

Leonteq AG

Investor Relations

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E-mail: investorrelations@leonteq.com

COMPENSATION REPORT

Leonteq aspires to be the employer of choice, offering a balanced compensation framework that is transparent and aligned with the company's strategic goals and cultural and behavioural values.

REPORT

Letter from the Nomination and Remuneration Committee

Dear Shareholders, Employees and other Stakeholders,

During the past year, the Nomination and Remuneration Committee worked intensively to substantially transform Leonteq's compensation system for the Executive Committee in order to reflect the strategic transition that was initiated by the Board of Directors two years ago. During this time, the Board has significantly improved the Company's governance framework and strengthened the independence of the Board of Directors and its committees. Following the streamlining of the structure of the Executive Committee in 2017 and the appointment of a new CEO as of May 2018, the comprehensive redesign of our compensation system marks the conclusion of an intense process that aligns with the re-positioning of Leonteq's business and strategy.

The Nomination and Remuneration Committee has worked closely with the new CEO, the Deputy CEO & CFO and his team to design the new compensation framework for Leonteq that is:

- Transparent and easy to understand,
- Aligned with the key interests of our stakeholders, and
- Aligned with Leonteq's strategic goals as well as its cultural and behavioural values.

The new compensation system to be implemented in 2019 is based on a maximum opportunity principle to ensure transparency of the maximum payout (100%) in case all performance targets are exceeded. Leonteq will introduce variable compensation awards that are split into a cash-based short-term incentive plan with a one-year performance period and a share-based long-term incentive plan with a three-year performance period. The short-term incentive plan is based on clearly measurable financial and non-financial targets that are directly linked to our strategy and which further includes mandatory criteria to support Leonteq's culture and values. Non-adherence with these mandatory criteria leads to downward adjustments or even cancellations of variable compensation. The long-term incentive plan is designed to align performance targets with Leonteq's strategic goals. The new long-term plan also reflects shareholder interests through a total shareholder return vesting criterion requiring that absolute positive share performance is generated over the strategic cycle.

The Nomination and Remuneration Committee and Board of Directors of Leonteq are convinced that this new remuneration system will provide appropriate incentives to lead our organisation sustainably towards its long-term strategic targets while supporting a strong corporate culture.

As a consequence, the Board of Directors will propose to the Annual General Meeting 2019 an amendment of the Articles of Association to amend certain compensation principles and to adjust the voting regime regarding Leonteq's compensation amounts. Starting at the Annual General Meeting 2020, shareholders shall have the opportunity to vote:

- Retrospectively, following the financial year on the amount of the short-term incentive plan, and
- Prospectively on amounts for base salaries and the long-term incentive plan, providing members of the Executive Committee with the respective assurance during the strategic cycle.

Besides developing the new compensation plan, the Nomination and Remuneration Committee put great emphasis on deriving compensation levels for the financial year 2018 that are:

- Aligned with the Group's achievements and performance,
- Competitive in our hiring markets, and
- Reflective of the changes of duties and new appointments in the Executive Committee.



Vince Chandler
Chairman of the Nomination and Remuneration Committee



Hans Isler
Member of the Nomination and Remuneration Committee



Richard Laxer
Member of the Nomination and Remuneration Committee

Leonteq finished the financial year 2018 with a record result and posted a significant increase in net profit to CHF 91.5 million in 2018 from CHF 23.1 million in the prior year. Total operating income rose by 31% driven by 10% growth in net fee income and positive contribution from hedging activities. Total operating expenses decreased by 2% to CHF 189.1 million and cost/income ratio improved from 89% to 67%. The Executive Committee made further significant progress towards important strategic goals such as the establishment of an agile product organisation, the initiation of its Smart Hedging and Issuance Platform ('SHIP') project and the obtained investment grade rating by Fitch. It successfully executed the capital increase and strengthened Leonteq's capital base. Total BIS eligible capital was at CHF 610.6 million and total capital ratio was 22.0%. Consequently, the performance targets of the mid-term plan were all at or above target. Achievement levels in the long-term performance plan were all below target because of the restructuring process the Company went through in the past years. Overall, the committed executive compensation decreased by 7% to CHF 9.8 million for the financial year 2018 compared to 2017 and remained well within the approved maximum level of CHF 13.5 million.

As in the previous year, we will ask our shareholders at the Annual General Meeting 2019 to endorse this Compensation Report through an advisory vote.

We would like to thank all our employees for their professional contributions day after day and all our stakeholders for their trust and their commitment to Leonteq. We are confident that our joint efforts will foster the long-term success of Leonteq.



Vince Chandler
Chairman of the Nomination
and Remuneration Committee



Hans Isler
Member of the Nomination
and Remuneration Committee



Richard Laxer
Member of the Nomination
and Remuneration Committee

Compensation Governance

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of at least two members, who are elected individually by the Annual General Meeting for a one-year term.

The Nomination and Remuneration Committee regularly reviews and oversees the compensation policies and models of Leonteq AG (the 'Company' or 'Leonteq', together with its subsidiaries the 'Group'). It is responsible for conducting a formal evaluation process and prepares the basis for decisions by the Board of Directors regarding the total compensation of the members of the Board of Directors and the Executive Committee, as well as the overall compensation of all other Group employees. In particular, it submits proposals to the Board of Directors for:

- The compensation principles, especially in relation to performance-related compensation and allocation of equity securities or warrants, and the audit of and compliance with them;
- The individual compensation of the members of the Board of Directors and the Executive Committee, and the structure of the corresponding agreements;
- The motion proposed to the Annual General Meeting for approval of the maximum total compensation of the Board of Directors and the Executive Committee;
- The Compensation Report for subsequent submission to the Annual General Meeting for a consultative vote.

The Board has delegated further tasks to the Nomination and Remuneration Committee. In particular, it is responsible for:

- Ensuring that the compensation of the members of the Board of Directors and the Executive Committee is appropriate and in line with market conditions and that the management of Leonteq and its subsidiaries maintain and observe an up to-date compensation policy and procedures;
- Ensuring that the total annual salary increases and the variable compensation amounts are within the overall limits defined by the Board of Directors and approved by the Annual General Meeting;
- Defining the contractual arrangements that apply to members of the Board of Directors, the Executive Committee and key employees, including at the Company's subsidiaries, and submitting these contracts for approval by the Board of Directors;
- Reviewing the total annual compensation, annual salary increases and variable compensation proposed by the management for all other Group employees;
- Ensuring that the policy on variable compensation and other variable components of employee compensation does not conflict with client or shareholder interests.

The Nomination and Remuneration Committee is additionally responsible for:

- Reviewing the structure, size and composition of the Board of Directors, proposing appointments of new members of the Board and the Executive Committee, and making recommendations on these matters to the Board;
- Evaluating the experience, knowledge and skills of the Board before an appointment is made and preparing a description of the role and capabilities required for a particular appointment;
- Succession planning for all Board and Executive Committee members.

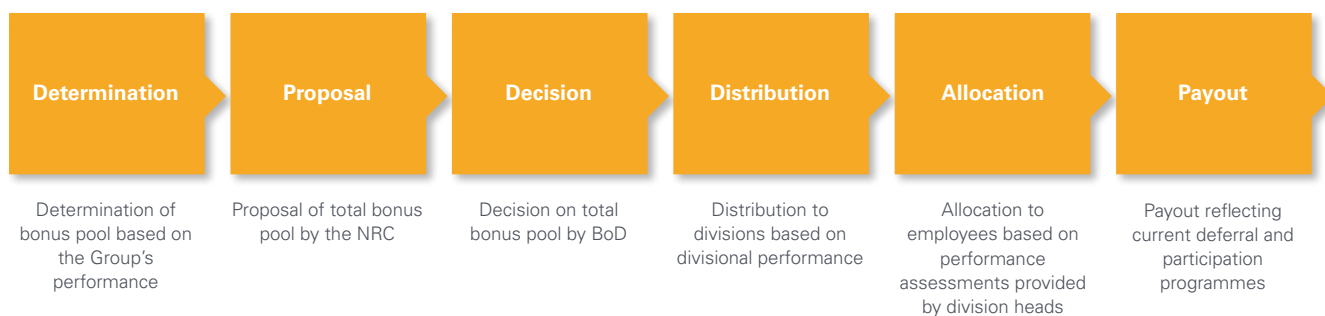
Activities of the Nomination and Remuneration Committee in 2018

As of 31 December 2018, the Nomination and Remuneration Committee comprised three members: Vince Chandler (Chairman), Hans Isler and Richard Laxer. In accordance with the provisions of the Swiss Ordinance against Excessive Compensation in respect of Listed Stock Corporations ('OaEC'), all members of the Nomination and Remuneration were elected individually for a term of one year by the Annual General Meeting on 28 March 2018. All three members are considered independent according to the Company's rules and the Swiss Code of Best Practice.

The Nomination and Remuneration Committee met four times and held four conference calls in 2018. On average, the meetings lasted around two to three hours and calls lasted one hour, and were attended by the Chief Executive Officer ('CEO'), the Deputy CEO & Chief Financial Officer ('CFO'), and members of management responsible for compensation reporting and controlling. Any members of the Executive Committee who attended the meeting withdrew when their own compensation, performance and potential promotion was discussed.

The Nomination and Remuneration Committee met in September 2018 and provided guidance on proposed general salary increases for all employees and developed an indicative bonus pool based on financial forecasts available at the time. The total provisional discretionary bonus pool for 2018 was subsequently set by the Nomination and Remuneration Committee based on financial forecasts at the end of November 2018 and individual bonuses were communicated to employees in January 2019. The final and committed bonus amount is subject to the completion of Leonteq's external audit and approval of the Group's financial statements for the financial year by the Board of Directors.

Governance process for variable compensation



In the second half of 2018, the Nomination and Remuneration Committee worked extensively on designing the new compensation framework for members of the Executive Committee. During this process, the Committee has worked closely with the new CEO and his team and considered input received from shareholders as well as general market standards. The overall exercise focused on developing a new framework that is competitive in Leonteq's hiring markets and which is well aligned with the interest of our stakeholders. The Nomination and Remuneration Committee obtained external advice from SWIPRA Services GmbH and Seematter & Sterchi incentive Plans AG on the design of the new compensation model.

Annual General Meeting

As specified in the Articles of Association, the Annual General Meeting has the inalienable power to approve the compensation of members of the Board of Directors and the Executive Committee. On an annual basis, and upon proposal by the Board of Directors, the Annual General Meeting approves separately the maximum total compensation of members of the Board of Directors for the period until the next Annual General Meeting and the maximum total compensation of members of the Executive Committee for the financial year following the Annual General Meeting. This resolution by the Annual General Meeting is binding. If the Annual General Meeting opposes the maximum total compensation proposed, the Board of Directors shall convene another General Meeting within a period of three months.

Insofar as the approved maximum total compensation of members of the Executive Committee is not sufficient to compensate new members appointed after the resolution of the Annual General Meeting, an additional amount of up to 30% of the approved maximum total compensation of the Executive Committee may be used until the next Annual General Meeting. The Annual General Meeting does not vote on the additional amount used. In the Compensation Report, the Board of Directors provides information about the actual total compensation of the members of the Board and the Executive Committee. The Annual General Meeting votes retrospectively on the Compensation Report in a consultative vote.

With the introduction of the new compensation model for members of the Executive Committee, the Company will propose to shareholders at the Annual General Meeting 2019 that the Articles of Association be amended with respect to the voting regime. For further information, please refer to section 'AGM 2019: Compensation-related votes' on page 67 of this report.

New compensation model for the Executive Committee for 2019

The Company developed a new compensation model for members of the Executive Committee. The new model is designed to be simple, transparent and easy to understand, and it is based on clearly defined performance metrics. Additionally, it strengthens the alignment between compensation and strategic priorities and more closely aligns the interests of the Executive Committee with the long-term interests of shareholders. As a consequence, the Board of Directors will propose to shareholders at the Annual General Meeting 2019 that the Articles of Association be amended with respect to certain compensation principles outlined in this section of the Compensation Report.

Key features of the new compensation model for the Executive Committee are:

- Variable compensation is split into a cash-based short-term incentive plan with a one-year performance period and a share-based long-term incentive plan with a three-year performance period;
- 50% of the short-term incentive plan is deferred with three-year stage vesting;
- 100% of the long-term incentive plan is deferred and three-year cliff vesting is applied to performance shares followed by an additional one-year blocking period;
- The maximum opportunity for variable compensation is defined as a multiple of the base salary and amounts to between one and two times the annual base salary, depending on the role of the recipient;
- The cap on performance-linked variable compensation components is set at 100% of the maximum opportunity, the target at 67% and the threshold at 25%;
- The short-term incentive plan comprises clearly measurable performance criteria that reflect the Group's short-term strategic targets;
- The long-term incentive plan ensures the alignment of management and shareholder interests by introducing total shareholder return as a vesting criterion; combined with the key performance indicator return on equity, long-term targets are fully centred around shareholder interests;
- Additional mandatory qualitative performance criteria apply that cover ethical and behavioural aspects and may lead to a downward adjustment of up to 100% of variable compensation;
- The minimum shareholding guidelines further align management interests with the interests of shareholders with a long-term horizon.

Type of compensation		Timing of compensation / vesting					Deferred
		Year 1	Year 2	Year 3	Year 4	Year 5	
Fixed	Base salary						
	Pension and other benefits						
Variable	Short-term incentive plan	40%	Annual performance period	½ cash	¼ cash	¼ cash	80%
	Long-term incentive plan	60%	Three-year performance period LTIP linked to long-term business plan and long-term shareholder return Performance shares with cliff vesting		1 year blocking period	Leonteq shares	
Minimum shareholding guidelines Malus and clawback provision							

Compensation structure

The members of the Executive Committee receive appropriate compensation, in line with market conditions. Members of the Executive Committee receive a base salary in cash, together with variable compensation for a one-year performance period in cash (short-term incentive plan, 'STIP') and variable compensation for a three-year performance period awarded in performance shares (long-term incentive plan, 'LTIP'). The base salary is assessed annually based on the recipient's level of responsibility and experience, and it is adjusted if required. The STIP award of each member of the Executive Committee depends on financial and non-financial quantitative targets that are aligned with the overall economic success and strategic development of the Group. The STIP award may be adjusted downwards if certain qualitative mandatory targets are not met. The vesting criteria for an Executive Committee member's LTIP award depend on the achievement of financial targets that are aligned with the long-term success and profitability of the Group and shareholder interests. The targets for members of the Executive Committee are approved at the beginning of the performance period by the Board of Directors and the achievement of the defined personal objectives is assessed annually and every three years, respectively, by the Board of Directors. Employment contracts for members of the Executive Committee are agreed for an indefinite period with a notice period of a maximum of 6 months. Contracts take account of malus and clawback provisions that are linked to the qualitative, mandatory targets. In addition, members of the Executive Committee are bound by minimum shareholding guidelines.

Base Salary

The base salary is determined individually, depending on the function, level of responsibility and experience of the recipient. Members of the Executive Committee receive appropriate base salaries, in line with market conditions. Members of the Executive Committee further receive a representation allowance, which is included in their base salary.

Short-term incentive plan

STIP awards comprise variable compensation paid in cash for a one-year performance period. 50% of STIP awards are distributed after being approved at the Annual General Meeting following the performance year and 50% are deferred by applying stage vesting over a period of three years.

The STIP target and maximum opportunity levels are defined as a multiple of the base salary and are set individually for each member of the Executive Committee. They vary between 0.4 and 0.8 times the annual base salary, depending on the role of the recipient. Pay-outs are subject to the achievement of threshold, target or maximum performance levels and are defined as a percentage of the STIP maximum opportunity:

- Maximum performance level: 100.0% of the maximum opportunity
- Target performance: 66.7% of the maximum opportunity
- Threshold performance: 25.0% of the maximum opportunity
- Below threshold: 0.0%

Financial short-term Key Performance Indicators (KPIs) are defined on the basis of total operating income, the cost/income ratio, and the total capital ratio. These metrics and the corresponding performance target levels are aligned with the annual budget approved by the Board of Directors and ensure continuous progress towards strategic financial targets. Furthermore, financial short-term KPIs are measured at Group level for all members of the Executive Committee, with the exception of divisional segment revenues attributed to business line heads. Financial short-term KPIs are weighted at 70% for the CEO, the Deputy CEO and CFO, and the business line heads, 50% for the Chief Operating Officer ('COO'), and 40% for the Chief Risk Officer ('CRO') and the General Counsel (see table on page 64 for the weightings of the individual KPIs).

Non-financial short-term KPIs comprise non-GAAP and project-related targets that are quantifiable and clearly measurable. These KPIs include revenue diversification across issuance partners, turnover generated on the SHIP platform, gross impact of operational losses, governance and controls (assessed on the basis of an up-to-date control framework, efficient and automated surveillance, and timely resolution of audit points, among other factors), project implementation (assessed based on the successful establishment of the product organisation and the delivery of

key features and tools with a clear client or cost benefit, among other factors) and leadership (assessed based on evidence of the development of a strong senior management team, turnover rates and diversity, among other factors). Non-financial KPIs are weighted at 30% for the CEO, the Deputy CEO and CFO, and the business line heads, 50% for the COO, and 60% for the CRO and the General Counsel.

In addition, qualitative KPIs comprise targets covering predominantly ethical and behavioural aspects and represent mandatory criteria that can only lead to downward adjustments of the STIP and potentially of the LTIP. These downward adjustments may reach up to 100% of variable compensation (including the clawback of prior-period bonus payments and unvested deferred compensation), depending on the severity (reputational and financial impact) of the individual cases. Qualitative KPIs comprise material compliance breaches or regulatory investigations with sanctions, among other factors.

STIP performance criteria

	Weight						Performance targets
	CEO	Deputy CEO & CFO	Business heads	COO	CRO	General Counsel	
Total operating income (CHFm)	35%	25%	35% ¹	20%	10%	10%	Disclosed retrospectively due to commercial sensitivity
Cost/income ratio (%)	25%	35%	25%	20%	10%	20%	
Total capital ratio (%)	10%	10%	10%	10%	20%	10%	
Total financial KPIs	70%	70%	70%	50%	40%	40%	
Total non-financial KPIs	30%	30%	30%	50%	60%	60%	

¹ Business heads are measured against segment operating income for their respective division.

The STIP performance target levels are approved at the beginning of the performance periods and the achievement of set objectives is assessed annually by the Nomination and Remuneration Committee.

Long-term incentive plan

LTIP awards comprise forward-looking incentives for a three-year performance period that are allocated in the form of performance share units ('PSUs') and settled in shares. LTIP awards are granted following prospective approval by the Annual General Meeting at the beginning of the first performance year. At grant date, the total maximum LTIP award (equal to the maximum opportunity level of 100%) is divided by the volume-weighted average share price ('VWAP') of the last quarter before the three-year performance period to determine the target and maximum number of PSUs at vesting. The granted PSUs are deferred by applying cliff vesting over a period of three years. The actual number of PSUs that convert into Leonteq shares at vesting depends on the average target achievement level over the three-year performance period. PSUs carry no dividend entitlement and voting rights during the vesting period. Once the Leonteq shares are vested, a one-year blocking period is applied before such shares become freely tradeable.

The LTIP target and maximum opportunity level are defined as a multiple of the base salary and are set individually for each member of the Executive Committee. They vary between 0.6 and 1.2 times the annual base salary, depending on the role of the recipient. Pay-outs are subject to the achievement of threshold, target or maximum performance levels and are defined as a percentage of the LTIP maximum opportunity:

- Maximum performance: 100.0% opportunity
- Target performance: 66.7% opportunity
- Threshold performance: 25.0% opportunity
- Below threshold: 0.0%

The LTIP comprises only financial KPIs which are based on the return on equity ('RoE') and total shareholder return ('TSR'). These metrics allow the Board of Directors to strategically manage and align pay for performance of the members of the Executive Committee with the Group's long-term targets and ensure they are aligned with shareholder interests. Long-term KPIs are measured at Group level for all members of the Executive Committee for a three-year performance period.

LTIP performance criteria

	Weight	Performance targets		
		Threshold (25.0%)	Target (66.7%)	Cap (100.0%)
Three-year average reported return on equity	66.7%	6.0%	12.0%	18.0%
Three-year total shareholder return compared to benchmark	33.3%	0.0% cumulative + TSR > 0	10.0% cumulative + TSR > 0	20.0% cumulative + TSR > 0

The RoE target is aligned with the three-year strategic business plan and defined as the ratio of reported Group net profit to average shareholders' equity at the beginning and the end of the respective period. TSR is considered to be an objective market measure of the generation of shareholder value and is defined as the share performance of Leonteq measured relative to the performance of a basket of market indices (Swiss Performance Index, EuroStoxx 50, S&P500; weighted 50%, 25% and 25%, respectively). The LTIP is subject to the following TSR vesting conditions:

- No vesting if the absolute TSR over the three-year period is negative (i.e. the TSR-KPI only leads to a pay-out if value is generated for shareholders);
- No vesting if relative TSR over the three-year period is below the performance of the basket of market indices;
- Vesting at threshold if the relative TSR over the three-year period is in line with the performance of the basket of market indices;
- Vesting at target if the relative TSR over the three-year period is 10% above the performance of the basket of market indices;
- Vesting at cap if the relative TSR over the three-year period is 20% above the performance of the basket of market indices.

The LTIP performance targets are approved at the beginning of the three-year performance period and the achievement of the defined objectives is assessed at the end of every three-year performance period by the Nomination and Remuneration Committee. The Board approves the total number of shares to be vested (with a subsequent one-year blocking period) for each member of the Executive Committee. If the Nomination and Remuneration Committee has concluded that the qualitative mandatory STIP KPIs were not met, it is at the discretion of the Nomination and Remuneration Committee and the Board to adjust downwards or even cancel the vesting of the performance shares.

Maximum opportunity levels for 2019

	CEO		Members of the Executive Committee (excl. CEO)		Executive Committee (incl. CEO)	
	Maximum opportunity (multiple of base salary)	Maximum compensation (CHFm)	Opportunity range (multiple of base salary)	Maximum compensation (CHFm)	Target compensation (CHFm)	Maximum compensation (CHFm)
Base salary		1.00		0.45-0.95	4.99	4.99
Pension & benefits		0.21		0.10-0.21	1.09	1.09
Total fixed compensation		1.21		0.55-1.16	6.08	6.08
STI awards (40%)	0.8	0.80	0.4-0.7	0.18-0.65	1.85	2.75
LTI awards (60%)	1.2	1.20	0.6-1.0	0.27-0.97	2.77	4.13
Social security contributions		0.14		0.03-0.11	0.32	0.48
Total variable compensation opportunity	2.0	2.14	1.0-1.7	0.48-1.73	4.94	7.36
Total compensation opportunity		3.35		1.03-2.89	11.02	13.44

The maximum opportunity levels shown above are aligned with the total maximum compensation of CHF 14.4 million approved at the Annual General Meeting 2018.

Pension and other benefits

Pension and other benefits comprise the employer's pension and social security contributions on base salary and minor fringe benefits, which may include housing and relocation allowances, car parking or a first-class Swiss rail card, as well as contributions to the cost of annual mandatory health checks. Effective reimbursement of expenses is not classed as compensation.

Leonteq further offers voluntary pension contributions for members of the Executive Committee by providing a separate voluntary pension plan. The employer's contributions for this additional voluntary pension plan are reflected within the base salary of the respective member of the Executive Committee.

Malus and clawback provisions

Deferred compensation awards contain malus provisions that enable Leonteq reduce or cancel the awards prior to settlement if members of the Executive Committee engaged in non-appropriate behaviour, which applies if a member did, wilfully or by gross negligence, act in any undue way or through any undue means to influence his bonus amount in his favour.

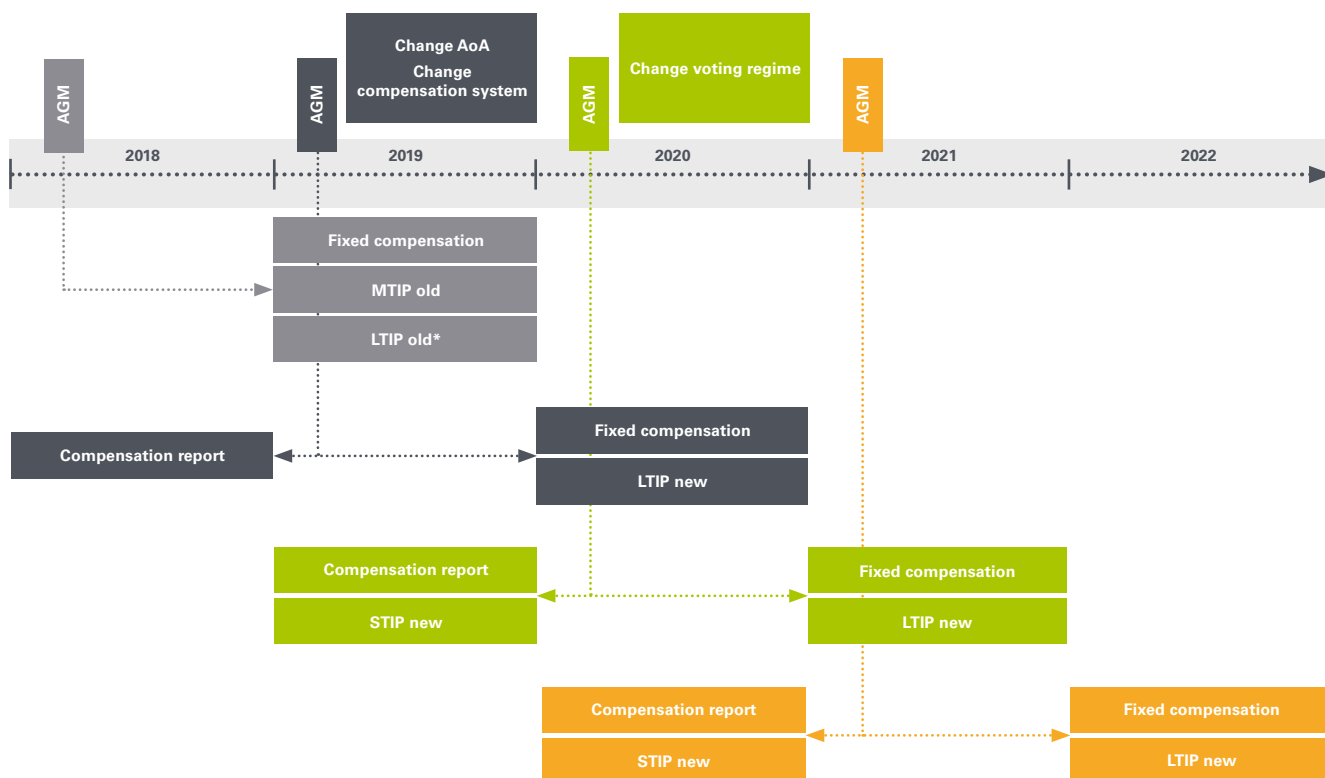
Should Leonteq terminate the employment agreement, any outstanding deferred variable compensation will vest according to the plan rules, unless, such termination is for cause in which case any outstanding deferred variable compensation will be forfeited. Should a member of the Executive Committee terminate employment agreement, any outstanding deferred variable compensation will be forfeited. Where the termination occurs due to retirement, disability or death of a member of the Executive Committee, the deferred variable compensation will remain deferred as if the employment had continued.

Minimum shareholding guidelines

Shareholding guidelines are an important instrument to align management and shareholder interests. Leonteq defined a minimum shareholding requirement for members of the Executive Committee which depends on the function of the respective member. Members of the Executive Committee are not permitted to sell any shares from deferred compensation plans granted on or after 1 January 2019 until they have reached their respective minimum shareholding requirement. Target amount of unvested shares are considered for the minimum shareholding requirements.

AGM 2019: Compensation-related votes

With the introduction of the new compensation model for members of the Executive Committee, the Board is proposing to change the voting regime on compensation amounts. Subject to shareholder approval of the respective amendments to the Articles of Association at the Annual General Meeting 2019, shareholders will then vote prospectively on the base salary and the maximum LTIP opportunity grant for the financial year following the year of the Annual General Meeting and retrospectively on the STIP amount for the reporting year. The retrospective vote on the STIP amount allows shareholders to take a fully informed decision based on the Group’s performance in the reporting year when voting.



* Maximum variable compensation amount approved for LTIP old will be used for LTIP new (2019).

Based on the proposed voting regime, the Board will submit the following motions in respect of compensation matters to Leonteq’s shareholders at the Annual General Meeting 2019:

- Non-binding vote on the Compensation Report 2018;
- Binding prospective vote on total compensation of members of the Board of Directors;
- Binding prospective vote on fixed compensation of members of the Executive Committee for the financial year 2020 (including pension benefits and other compensation);
- Binding prospective vote on LTIP grant amount of members of the Executive Committee for the financial year 2020 (performance period 2020 – 2022). On 1 January 2020, the approved amount will be translated into PSUs based on the VWAP of the last quarter of 2019.

The STIP awarded for the financial year 2019 will (again) be put to a retrospective vote at the Annual General Meeting 2020.

Compensation 2018

Compensation principles

As specified in the Articles of Association, the members of the Board of Directors and members of the Executive Committee receive appropriate compensation, in line with market conditions. Members of the Board of Directors shall receive a fixed remuneration in cash and/or equity securities. Members of the Executive Committee shall receive fixed compensation in cash, together with profit- and performance-based variable compensation. The amount of variable compensation paid to a member of the Executive Committee depends on the overall economic success of the Company, and the achievement of individual objectives. The objectives of Executive Committee members are approved at the beginning of the year and the achievement of the defined personal objectives are assessed at the end of the year by the Board of Directors. Variable compensation shall be paid in cash and/or allocation of equity instruments or warrants. The allocation of variable compensation may be wholly or partly suspended. At the allocation of equity instruments, the compensation amount is equal to the value of the securities at the time of allocation. The valuation is based on the average price of the last 20 trading days. The Board of Directors determines the allocation conditions, vesting conditions, deadlines, retention periods and expiration conditions.

Employment contracts for members of the Executive Committee shall be agreed for an indefinite period with a notice period of a maximum of 12 months. Possible contracts with the members of the Board of Directors shall be concluded for a fixed period not exceeding one year. Members of the Executive Committee are members of the occupational pension fund and receive benefits under the terms of its pension plans, including non-mandatory benefits. Members of the Board of Directors may be members of the occupational pension fund. The Company pays employer contributions to the occupational pension fund. In the case of illness or accident affecting a member of the Executive Committee or the Board of Directors, the Company may continue to pay the individual's salary under the terms of a plan implemented by the Board of Directors as part of the provision of insurance benefits. In cases of early retirement, the Company may provide bridging benefits to the insured or additional contributions to the occupational pension up to a maximum of 50% of the fixed compensation of the recipient, according to an early retirement plan issued by the Board of Directors.

Effective reimbursement of expenses is not classed as compensation. The Company may pay an expense allowance to members of the Executive Committee and the Board of Directors as reimbursement of expenses within the scope of the amount accepted by the tax authorities.

The Company may grant loans or credit to members of the Board of Directors and the Executive Committee at market conditions. Any such loans or credit may not exceed 50% of the annual fixed compensation of the individual concerned. However, it is the Company's current policy not to grant any loans and credit to members of the Executive Committee. The advancement of legal, court or similar costs for the defence of potential professional liability claims does not constitute either a loan or credit. In accordance with the OaEC, compensation elements such as golden parachutes are prohibited.

Compensation of the Executive Committee for 2018

The year 2018 marks the end of a strategic transition process that was initiated by the Board of Directors two years ago. Following the streamlining of the structure of the Executive Committee in 2017, a new CEO was appointed as of May 2018. This transitional phase also affected the compensation process of the members of the Executive Committee. The compensation system outlined in the Compensation Report 2017, was applied in principle for the compensation of the Executive Committee for 2018.

For 2018, the seven members of the Executive Committee received base salary in cash, together with performance-based variable compensation that was determined and awarded based on the Group's success and the individual's performance. The Group's strategic objectives and individual targets were translated into quantitative and qualitative KPIs and divided into a mid-term incentive plan ('MTIP') and long-term incentive plan ('LTIP'). Each plan comprised 50% of the variable target compensation. Target variable compensation varied significantly and was set based on the level of responsibility, function, seniority, experience, skills and market practice. From the MTIP, 25% is paid out immediately in cash and the remaining 75% is deferred over a period of three years. The deferred portion of the MTIP is settled 50% in cash, paid in equal instalments over the three-year period, and 50% with an RSU plan, applying stage vesting over three years. From the LTIP, 100% is granted in RSUs, of which 50% is deferred over three years with stage vesting over three years, and 50% is deferred over three years with cliff vesting at the end of the three years.



Performance assessment for 2018

Variable compensation for the year 2018 was determined based on the assessment of performance against quantitative and qualitative targets. For the MTIP, Company KPIs were assigned a 70% weighting and individual targets a 30% weighting. Quantitative KPIs included growth in revenues, achievement of the cost and revenue budget, cost/income ratio, and successful onboarding of new platform partners, among other criteria. Qualitative KPIs comprised Company and individual targets for the division headed by the respective Executive Committee member, such as employee development, contribution to the Group's corporate culture, internal client satisfaction, mitigation of audit issues, policy and internal control system compliance, and the achievement of strategic targets. The qualitative and quantitative Company KPIs that are relevant for the MTIP can be grouped into the categories: Financials, Customer & Innovation, People and Process. For the LTIP, only quantitative targets were set to determine total compensation and to assess strategy implementation and execution. Quantitative elements comprised market capitalisation, annual net profit, and the number of new platform partners, among other examples.

The Nomination and Remuneration Committee concluded that in 2018, the Executive Committee delivered on the strategic priorities set for 2018 and reported a record financial result. Total operating income rose by CHF 67.0 million (+31%) year on year to CHF 282.4 million in 2018 driven primarily by a solid increase in net fee income and significant improved net trading result. Net fee income rose by CHF 25.5 million (+10%) to CHF 272.5 million, mainly reflecting sustained client demand for structured investment products. Net trading income improved to CHF 21.4 million in 2018 from CHF -25.8 million in the prior-year period primarily driven by improved hedging contributions. Total operating expenses decreased by 2% to CHF 189.1 million in 2018, slightly above previous cost guidance of approximately CHF 185 million. As a result of increase in total operating income and the controlled cost base, cost/income ratio² improved to 67% in 2018. Net profit improved to CHF 91.5 million in 2018 compared to CHF 23.1 million in the prior-year period and EPS more than tripled to CHF 5.40. Due to the increase in retained earnings and the successful completion of the rights issue in August 2018, Leonteq increased its total BIS eligible capital to CHF 610.6 million as of 31 December 2018, compared to CHF 419.7 million as of 31 December 2017. The BIS total capital ratio and the common equity tier 1 ratio were 22.0% and 21.9%, respectively, as of 31 December 2018, compared to 19.6% and 19.6% at end-2017 and compared to 18.4% and 18.3% as of 30 June 2018. Return on equity³ was 18% in 2018 compared to 6% in 2017.

The Nomination and Remuneration Committee also noted that Leonteq's management team has successfully implemented a new agile way of managing projects through the introduction of the product organisation. It successfully initiated the Smart Hedging and Issuance Platform ('SHIP') project, which is designed to reduce Leonteq's hedging exposure by offering issuance partners the opportunity to enter into hedging transactions for their issued products with external hedging partners. Leonteq's management team further broadened and strengthened cooperation with existing platform partners: the range of product for EFG International was increased by adding foreign exchange products on the platform; the product range for Raiffeisen was extended by adding additional currencies and payoffs; the Web-based multi-issuer platform Constructor was expanded by adding Cornèr Bank as a new automated issuer; the level of pricing request automation was improved for Crédit Agricole; and key product types such as fixed coupon notes and activated autocallable features were automated for Standard Chartered Bank.

The Nomination and Remuneration Committee further determined that Leonteq's management team has reached a major strategic milestone with the obtained investment grade rating by Fitch, an internationally renowned rating agency. It also noted the high standard of the Company's internal control system framework, that audit points were resolved in a timely manner and acknowledged that the management team successfully hired additional staff including IT specialists to further improve client satisfaction and to maintain its technological edge.

² Total operating expenses as a percentage of total operating income.

³ Group net profit as a percentage of average shareholders' equity at the beginning and at the end of the respective period.

Mid-term incentive plan: Group KPIs performance assessment for 2018

	Weight	Assessment		
		Below	Target	Above
Financial	40.0%			●
Customer & Innovation	30.0%		●	
People	15.0%		●	
Process	15.0%	●		
Total	100.0%		●	

Overall, the Nomination and Remuneration Committee determined that the Executive Committee performed in line with the Group targets (Customer & Innovation, People, Process) or significantly outperformed the Group targets (Financial). On a rating scale from 1 to 5, where a rating of 3 reflects an achievement level of 100% of the defined targets, the final rating for the Group KPIs for the MTIP was 3.9 for 2018. In addition, the Nomination and Remuneration Committee assessed the individual targets of each member of the Executive Committee and determined that the Executive Committee scored an average rating of 3.6 for 2018. The Group KPI score of 3.9 (70% weighting) and the individual KPI score of 3.6 (30% weighting) together result in a total average rating of 3.8 for the MTIP.

Taking into account these results, the Nomination and Remuneration Committee recommended a total amount of CHF 3,317,000 be granted for the MTIP to members of the Executive Committee, comprising cash, deferred cash and deferred RSUs. On average, this amount represents 89% of the maximum variable compensation under the mid-term incentive plan set for each member of the Executive Committee.

Long-term plan: Performance assessment 2017

	Weight	Assessment		
		Below	Target	Above
Market capitalisation (CHFbn)	50.0%	●		
Net profit (CHFm)	12.5%		●	
Personnel expense ratio (%)	12.5%		●	
Other operating expense ratio (%)	12.5%		●	
Strategic progress	12.5%	●		
Total	100.0%	●		

The quantitative Company KPIs that are relevant for the LTIP were predominantly not met when the originally anticipated growth targets defined in 2015 are taken into account. On a rating scale from 1 to 5, where a rating of 3 reflects an achievement level of 100% of the defined targets, the final rating for the KPIs that are relevant for the LTIP was 1.9 for 2018.

Taking into account these results, the Nomination and Remuneration Committee re-commended a total amount of CHF 1,046,000 be granted for the LTIP to members of the Executive Committee, in the form of RSUs. On average, this amount represents 29% of the maximum variable compensation under the LTIP set for each member of the Executive Committee.

Total Executive Committee compensation for 2018

Base salary of the Executive Committee decreased by 18% to CHF 4,335,000 in 2018, as a result of streamlining of the structure of the Executive Committee in 2017. Pension and other benefits decreased significantly to CHF 752,000 in 2018 compared to CHF 3,154,000 in 2017 which included replacing benefits amounting to CHF 2,300,000. The total committed variable compensation amounted to CHF 4,668,000 for the year 2018 compared to CHF 2,087,000 in 2017. This increase is due to the record result and significant strategic progress achieved in 2018. The total compensation of the Executive Committee decreased by 7% to CHF 9,755,000 in 2018 and was 28% below maximum amount of CHF 13,500,000 approved by the Annual General Meeting 2017.

Total Executive Committee compensation for 2018 (audited)

CHF thousands								
Name	Year	Fixed compensation		Committed variable compensation				Total committed compensation
		Base salary ⁴	Pension and other benefits ⁵	Cash	Deferred Cash	Deferred Restricted Stock Units ('RSUs')	Social security contributions ⁶	
Executive Committee	2018	4,335	752	829	1,244	2,290	305	9,755
of which highest paid: David Schmid (Head Investment Solutions)	2018	865	170	220	330	600	80	2,265
of which Lukas T. Ruffin (CEO) ⁷	2018	667	66	145	218	398	53	1,547
of which compensation paid to former EC members	2018	—	—	—	—	—	—	—
Executive Committee	2017	5,269	3,154	507	685	608	287	10,510
of which highest paid: Jochen Kühn (Head of Insurance & Wealth Planning Solutions)	2017	750	1,654 ⁹	51	76	123	123	2,777
of which compensation paid to former EC members ⁸	2017	2,244	1,234 ¹⁰	—	—	—	56	3,534

⁴ To further increase transparency, representative allowance of CHF 20,400 for each member of the Executive Committee is included in the base salary; reported compensation amounts for 2017 are restated accordingly (previously disclosed in the section "Additional compensation elements").

⁵ These charges comprise the employer's social security and pension contributions on base salary and other minor fringe benefits.

⁶ To further increase transparency, social security contributions on committed variable compensation is disclosed separately; reported compensation amounts for 2017 are restated accordingly (previously reported as "Other compensation").

⁷ Lukas T. Ruffin joined the Executive Committee on 1 May 2018; compensation amounts reflect the period from 1 May 2018 to 31 December 2018.

⁸ Including any compensation arising from the notice period.

⁹ Including replacing benefits in the form of RSUs amounting to CHF 1,500,000 related to his former position as a partner in a consulting company. 2017 amounts were re-classified to other benefits to allow a clearer illustration of performance-linked variable compensation.

¹⁰ Including replacing benefits in the amount of CHF 800,000 (in the form of cash and RSUs) for a former member of the Executive Committee. 2017 amounts were re-classified to other benefits to allow a clearer illustration of performance-linked variable compensation.

Deferred compensation paid in cash or RSUs for the above-mentioned 2018 compensation will mainly affect the financial periods of 2019 and thereafter, since the respective personnel expense will be recognised over the vesting period.

In line with the OaEC, and as specified in the Articles of Association, if new members join the Executive Committee or members of the Executive Committee are promoted during a period for which compensation has already been approved by shareholders, a further 30% of the aggregate amounts already approved may be used for the compensation of such members. No such additional amount was required in 2018.

Effective reimbursement of expenses is not classed as compensation and is not included in the above figures.

Additional compensation elements

No additional payments or other benefits for members of the Executive Committee were made in the reporting period.

In particular, no compensation was received by members of the Executive Committee in the form of:

- Profit-sharing amounts, participation in turnover and other forms of participation in the Company's business results other than under the respective compensation plans;
- Services and benefits in kind award of equity securities, together with conversion and option rights, sign-on bonuses, sureties, guarantee commitments, pledges in favour of third parties or other collateral commitments;
- Waivers of claims or expenditures that create or increase pension benefit entitlements.

Furthermore, no agreements are in place for and no payments were made to members of the Executive Committee in respect of:

- Waivers of lock-up periods for equities and bonds and additional contributions to occupational pension schemes;
- Special payments for new members of when they join the Company (golden handshake); or
- Special notice periods or longer-term contracts where they exceed 12 months in duration (the notice period is six months);
- Change of control clauses.

Employee compensation for 2018

Leonteq wants to attract and retain employees who are crucial for the Group's future success. Leonteq is committed to fair, balanced and performance-oriented compensation practices that align long-term employee and shareholder interests and that incentivise appropriate risk-taking while fostering adequate risk awareness. Leonteq's compensation system is designed to:

- Support a performance culture based on merit, to differentiate and reward excellent performance, both in the short and long term, and to recognise the Group's values;
- Enable the Group to attract and retain employees, motivating them to achieve results with integrity and fairness, while benefiting from the career opportunities offered by a growth company; and
- Be consistent with and promote effective risk management practices, together with the Group's compliance and control culture.

Compensation model for employees

The Company applies a total compensation approach based on fixed and variable compensation components. Fixed compensation includes the base salary, which reflects the seniority and level of experience of the recipient, and the skills required to fulfil a specific function in a particular division and region, as well as market practice. The Group's salary framework is based on a model comprising six different ranks with increasing degrees of professional complexity (Employee, Analyst, Associate, Director, Executive Director, and Managing Director). A salary band is assigned to each rank; it defines the target base salary range for jobs assigned to that rank. Individual salaries are then determined within those salary bands by taking market benchmarks into account. Benchmarking criteria are defined based on global independent studies that consider market capitalisation, sector, regional and functional responsibilities. Individual salary increases are only made if an employee is promoted to a new rank and/or based on the result of the annual individual performance assessment.

Variable compensation is awarded annually based on contractual agreements and/or at the discretion of the Company. It varies, depending on the overall performance of the Company, as well as divisional and individual performance, measured on the basis of pre-defined, strategy-oriented quantitative and qualitative KPIs. Contractual agreements mainly apply to the variable compensation of sales employees and are linked to production. Adjustments are made to reflect the Company's trading result, the Group's net profit and the sales organisation's direct and indirect costs of production. To address potential conflicts of interests, the determination of variable compensation of employees in control functions, such as Risk Control, Legal or Compliance, is not dependent upon the performance of business lines, specific products or transactions monitored by these employees. In addition, conflicts of interests are mitigated through deferred compensation and compensation in equity instruments (e.g. Leonteq shares, Restricted Stock Units (RSUs) settled with Leonteq shares), which depend based on job complexity, responsibility and the level of compensation.

Any portion of variable compensation equal to or exceeding the threshold of CHF 50,000 is deferred. Each year, the Nomination and Remuneration Committee defines the applicable deferral rate and the applicable split between cash and equity instruments by taking into account the risk profile of the employee function. The deferral rates applied for variable compensation in 2018 range from 20% to 80%. There were no exceptions to this policy in 2018. Non-deferred variable compensation is paid in cash and recognised in the year in which variable compensation is awarded. Deferred variable compensation is paid in cash over a three-year period in equal instalments for deferred variable compensation of CHF 60,000 or less. Deferred variable compensation of more than CHF 60,000 is paid two-thirds in cash over a three-year period in equal instalments and one-third in shares or RSUs over a vesting period of three to five years (stage vesting). Compensation expenses incurred in cash are recognised with one-third of the expense in each year that it is earned using a straight-line allocation model. Compensation expenses incurred in shares or RSUs are recognised over the respective vesting period based on the grant value of shares or RSUs.

**Total employee compensation for 2018
(excluding Executive Committee and Board of Directors)**

CHF thousands	2018	2017
Fixed compensation ¹¹	58,115	56,896
Variable compensation ¹²	33,613	30,290
Other compensation and personnel expenses ¹³	14,793	17,431
Total personnel expenses	106,521	104,617
Average FTEs	450	459
Personnel expenses per average FTEs	237	228

¹¹ Fixed compensation charges comprise salaries and wages, lunch and representation allowances and other minor fringe benefits such as housing and relocation allowances.

¹² Variable compensation charges included bonuses and performance related benefits.

¹³ These charges comprise the employer's contribution to social security and pension plans, and other personnel expenses such as headhunter, recruitment fees, and insurances, and a technical adjustment for IAS 19 Employee benefits.

Board of Directors compensation for 2018

Members of the Board of Directors are individually elected by the Annual General Meeting for a term of one year. Members of the Board may be re-elected with no limitation on the number of terms. Their term of office ends upon the completion of the Annual General Meeting following their election.

The members of the Board of Directors, including the Chairman, receive a non-performance-related compensation in the form of a director's fee which represents the total compensation awarded; no additional compensation is paid to members of the Board of Directors for attending meetings or consultations. The annual director's fee is paid in cash and in Leonteq shares; a minimum amount of 40% of the compensation is paid in Leonteq shares valued at market price at grant date. The shares are locked for a period of three years, thus linking the Board members' compensation to the Group's performance over the corresponding period.

The table below shows the director's fee for each individual function, approved by the Annual General Meetings 2018 and 2017, respectively. With the exception of the Vice-Chairman's fee, which was reduced by CHF 150,000 to CHF 50,000, the directors' fees remained unchanged for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019 compared to the prior term of office.

CHF thousands	AGM 2018 – AGM 2019	AGM 2017 – AGM 2018
Function		
Each member of the Board of Directors	150	150
In addition for the Chairman of the Board of Directors	200	200
In addition for the Vice-Chairman of the Board of Directors	50	200
In addition for the Committee Chairs	40	40

Total Board of Directors compensation from AGM 2018 to AGM 2019 (audited)

CHF thousands Name	Director's fee		Post employment benefits ¹⁵	AGM 2018 – AGM 2019 Total compensation	AGM 2017 – AGM 2018 Total compensation
	Cash	Share- based payment ¹⁴			
Christopher M. Chambers (Chairman since EGM 2017)	175	175	—	350	116
Hans Isler (Vice-Chairman since AGM 2018; Chairman AC)	48	192	16	256	201
Jörg Behrens (Chairman RC)	57	133	14	204	202
Paulo Brügger (Member since EGM 2017) ^{16, 17}	75	50	—	125	50
Vince Chandler (Chairman NRC)	114	76	9	199	202
Patrick de Figueiredo (Member)	75	75	12	162	157
Richard A. Laxer (Member since AGM 2018)	52	98	12	162	—
Thomas R. Meier (Member since EGM 2017)	75	75	15	165	53
Patrik Gisel (Member until EGM 2017) ¹⁶	—	—	—	—	100
Lukas T. Ruffin (Vice-Chairman until AGM 2018)	—	—	—	—	371
Pierin Vincenz (Chairman until EGM 2017)	—	—	—	—	247
Total	671	874	78	1,623	1,699

¹⁴ These share-based payment amounts reflect the market value of the shares at time of grant.

¹⁵ These charges comprise the employer's social security contributions.

¹⁶ The director's fee for Paulo Brügger and Patrik Gisel was paid directly to Raiffeisen Switzerland.

¹⁷ On 2 February 2019, Paulo Brügger resigned from Leonteq's Board of Directors with immediate effect. Compensation amounts are reported until this date.

The Board's total compensation for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019 decreased by 5% to CHF 1,623,000 and was 11% below the total maximum amount of CHF 1,850,000 approved by the Annual General Meeting 2018.

Effective reimbursement of expenses is not classed as compensation and is not included in the above figures.

Shareholdings of members of the Board of Directors and the Executive Committee

Detailed information on the number of shares held by individual members of the Board and the Executive Committee as of 31 December 2018 and 31 December 2017 is provided below:

	31.12.2018			31.12.2017		
	Shares	Granted Shares	Restricted Stock Units ¹⁸	Shares	Granted Shares ¹⁹	Restricted Stock Units ¹⁸
Board of Directors						
Christopher M. Chambers	18,419	—	—	5,968	—	—
Hans Isler	19,000	—	—	12,259	—	—
Jörg Behrens	11,802	—	—	9,350	—	—
Paulo Brügger	—	—	—	—	—	—
Vince Chandler	20,741	—	—	16,223	—	—
Patrick de Figueiredo	8,846	—	—	6,069	—	—
Richard Laxer ²⁰	1,797	—	—	N/A	N/A	N/A
Thomas R. Meier	2,136	—	—	415	—	—
Lukas T. Rufflin ^{21, 22, 23}	N/A	N/A	N/A	10,424	—	—
Total²⁴	82,741	—	—	60,708	—	—
Executive Committee						
Lukas T. Rufflin ^{25, 26, 27}	12,380	—	—	N/A	N/A	N/A
Marco Amato	27,000	—	8,330	7,500	—	3,152
Jochen Kühn	16,734	—	35,563	—	—	50,201
Manish Patnaik	4,550	—	2,159	3,844	706	—
Reto Quadroni	4,889	—	1,535	699	—	1,420
David Schmid	20,926	—	5,658	13,640	358	1,243
Ingrid Silveri	683	—	1,208	288	—	979
Total	87,162	—	54,453	25,971	1,064	56,995

¹⁸ Balance of unvested restricted stock units granted for prior year variable compensation or contractually agreed with vesting periods 2018 – 2021.

¹⁹ Balance of unvested shares granted in 2015 for prior year variable compensation with vesting periods 2016 – 2018.

²⁰ Richard Laxer joined the Board of Directors on 28 March 2018.

²¹ This excludes 1,273,338 shares as of 31 December 2017 held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust that holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Rufflin.

²² Excluding 462,325 call options as of 31 December 2017 held by Thabatseka LP; call options are subject the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

²³ Lukas T. Rufflin resigned from the Board of Directors on 28 March 2018.

²⁴ As of 31 December 2018 34,293 shares were locked (31.12.2017: 21,646 shares).

²⁵ This excludes 1,531,376 shares as of 31 December 2018 held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Rufflin.

²⁶ Excluding 462,325 call options as of 31 December 2018 held by Thabatseka LP; call options are subject to the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

²⁷ Lukas T. Rufflin joined the Executive Committee on 1 May 2018.

Loans and credits granted to members of the Board of Directors and the Executive Committee

The Company did not grant any loans or guarantee commitments to members of the Board of Directors or the Executive Committee.

Compensation, loans and credits granted to related persons

The Company did not pay any compensation or grant any loans or credit to related persons.



Report of the statutory auditor to the General Meeting of Leonteq AG, Zurich

Report on the Compensation Report 2018

We have audited the Compensation Report of Leonteq AG (pages 57 to 78) for the year ended 31 December 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labelled 'audited' on page 72 and page 77 of the compensation report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the Compensation Report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility

Our responsibility is to express an opinion on the Compensation Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Compensation Report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Compensation Report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Compensation Report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the Compensation Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Compensation Report of Leonteq AG for the year ended 31 December 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Andrin Bernet
Audit expert
Auditor in charge

Roman Schnider
Audit expert

Zurich, 6 February 2019

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BUSINESS AND FINANCIAL REVIEW

Leonteq delivered record financial results for 2018. Net profit improved significantly and capital was further strengthened. Platform turnover grew by 7% to CHF 28.8 billion and 28,360 structured products were issued in 2018 on the back of solid client demand.

REVIEW

Group results

Leonteq reported significant growth in Group net profit in 2018 compared to the previous year, reflecting a solid increase in net fee income and a substantial improvement in trading income. In contrast to 2017, the reporting year was characterised by turbulent financial markets and sudden spikes in volatility due to heightened macroeconomic uncertainty, especially in the second half of 2018. The US Federal Reserve tightened interest rates, equity markets fell towards the end of the year, and global survey indicators of economic growth have weakened as the global economic cycle matures.

The 2018 consolidated financial statements of Leonteq AG, which are prepared in accordance with International Financial Reporting Standards (IFRS), show that the Group generated net profit of CHF 91.5 million in the reporting year, corresponding to an increase of CHF 68.4 million or 296% compared to net profit of CHF 23.1 million in 2017.

2018 total operating income rose by 31% year on year to CHF 282.4 million (2017: CHF 215.4 million). This increase was driven primarily by a solid growth in net fee income, reflecting sustained client demand for structured investment products, an increase in the contribution from large ticket transactions (defined as transactions where Leonteq earns a fee of CHF 0.5 million or more) to CHF 22.0 million corresponding to 8% of net fee income in 2018 (4% in 2017), and an improved net trading result on the back of positive contributions from hedging activities.

Leonteq issued 28,360 structured products (+7%) in 2018 and generated total turnover of CHF 28.8 billion, an increase of 7% compared to the previous year. It grew its platform assets to CHF 11.9 billion as of 31 December 2018, up from CHF 11.4 billion at end-2017, reflecting the increased contribution from its newly onboarded issuance partners Crédit Agricole CIB and Standard Chartered Bank, as well as growth in Leonteq's own products outstanding.

During the financial year 2018, the cost/income ratio improved by 22 percentage points to 67%. Total operating expenses decreased by 2% to CHF 189.1 million in 2018.

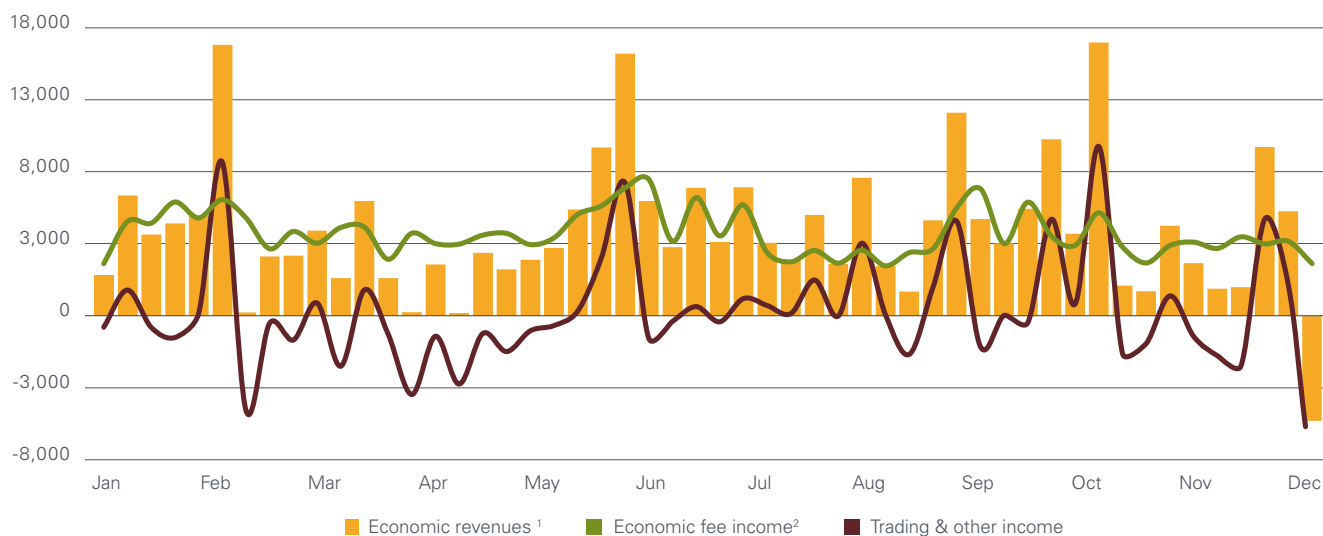
Income statement

CHF million	FY 2018	FY 2017	Change y-o-y	H2 2018	H1 2018	H2 2017	Change y-o-y
Net fee income	272.5	247.0	10%	126.8	145.7	127.6	(1%)
Net trading income/(loss)	21.4	(25.8)	N/A	25.1	(3.7)	(9.4)	N/A
Net interest income/(expense)	(14.9)	(8.8)	69%	(7.4)	(7.5)	(3.9)	90%
Other ordinary income	3.4	3.0	13%	1.8	1.6	0.9	100%
Total operating income	282.4	215.4	31%	146.3	136.1	115.2	27%
Personnel expenses	(115.7)	(113.6)	2%	(55.0)	(60.7)	(57.0)	(4%)
Other operating expenses	(53.2)	(50.0)	6%	(28.8)	(24.4)	(24.1)	20%
Depreciation	(16.7)	(19.2)	(13%)	(8.6)	(8.1)	(9.9)	(13%)
Changes to provisions	(3.5)	(9.3)	(62%)	(1.0)	(2.5)	(2.1)	(52%)
Total operating expenses	(189.1)	(192.1)	(2%)	(93.4)	(95.7)	(93.1)	0%
Profit before taxes	93.3	23.3	300%	52.9	40.4	22.1	139%
Taxes	(1.8)	(0.2)	N/A	(1.5)	(0.3)	(0.2)	N/A
Group net profit	91.5	23.1	296%	51.4	40.1	21.9	135%

Total operating income

Total operating income rose by CHF 67.0 million (+31%) to CHF 282.4 million in 2018 from CHF 215.4 million in the previous year. The first half of 2018 was characterised by increased market volatility compared to 2017, generally favourable markets and strong levels of client activity. In the course of the second half of 2018, challenging market conditions led to a reduction in client activity, as the normalisation of US dollar interest rates, trade tensions, and political uncertainty prompted a more cautious approach among many market participants. Nevertheless, Leonteq recorded stable fee income in the year under review and benefited on the trading side from higher volatility, especially in the second half of the year. Average economic fee income generation per week amounted to CHF 5.1 million.

Weekly economic revenues (CHF thousands)



¹ Economic revenues are defined as sales and trading income earned and are considered to be recognised at trade date without applying IFRS revenue recognition rules; economic revenues do not include certain other income components like partner project cost reimbursements.
² Economic fee income is defined as fees earned and is considered to be recognised at trade date without any application of IFRS revenue recognition rules.

Leonteq generates **net fee income** primarily by manufacturing and distributing its own products, as well as products issued by its issuance partners, i.e. Aargauische Kantonalbank, Cornèr Bank, Crédit Agricole CIB (cooperation began in the first half of 2017), Deutsche Bank, EFG International, J.P. Morgan, PostFinance (pilot project began in the first half of 2017), Raiffeisen Switzerland, and Standard Chartered Bank (project launched in the second half of 2017). Furthermore, Leonteq generates fee income through its digital platform that provides unit-linked retail products with financial protection to insurance companies, i.e. Helvetia and Swiss Mobiliar (cooperation began in the second half of 2017).

In its home market of Switzerland, Leonteq grew its net fee income by 13% to CHF 115.3 million in 2018, reflecting the increase in long-term savings solutions with Swiss insurance partners and the increased demand for products issued by Leonteq. There was a sustained demand from Swiss clients for yield enhancement products, such as barrier reverse convertibles and express certificates. While more leverage products were purchased in the first half of 2018, the demand for participation products rose during the second half of the year. In Europe, the business generated a 15% increase in net fee income to CHF 125.3 million in the reporting year. In Europe, products issued by EFG International and Leonteq attracted the highest level of client interest. There was also growing demand for products from Crédit Agricole CIB. Express certificates, barrier reverse convertibles and credit-linked notes were the most popular product types. Leonteq expanded its presence and onshore operations in Asia with the opening of its newly established subsidiary, Leonteq Securities (Japan) Ltd., in Tokyo on 1 May 2018. Net fee income in Asia nevertheless decreased by 12% year on year to CHF 31.9 million, as concerns about a slowdown in the global economy and worries about a tightening of monetary policy as well as the trade conflict between the US and China led to reduced client activity and increased competition in the Asian structured product market. Most traded products in Asia were OTC products guaranteed by Raiffeisen and barrier reverse convertibles issued by Leonteq and EFG International.

Large ticket transactions accounted for 8%, or CHF 22.0 million, of net fee income in 2018, up from 4%, or CHF 9.3 million in 2017.

Net fee income split by regions

CHF million	FY 2018	FY 2017	Change y-o-y	H2 2018	H1 2018	H2 2017	Change y-o-y
Switzerland	115.3	102.3	13%	52.0	63.3	52.6	(1%)
Europe	125.3	108.5	15%	61.0	64.3	58.5	4%
Asia	31.9	36.2	(12%)	13.8	18.1	16.5	(16%)
Total net fee income	272.5	247.0	10%	126.8	145.7	127.6	(1%)

Net trading result is generated on the basis of existing client flow and hedging activities. It represents both the unrealised and realised change in fair value of financial assets and liabilities, as well as directly trade-related expenses such as brokerage fees. It is influenced by hedging activities, which can fluctuate positively or negatively depending on market factors. Over the long term, the hedging strategy is expected to have a neutral impact on Leonteq's financials. The negative treasury carry results from funding costs related to Leonteq's own issued products. Net trading result improved to CHF 21.4 million in 2018 from CHF -25.8 million in the prior year, driven by improved hedging contributions. In the reporting year, hedging contributions increased by CHF 52.9 million to CHF 39.7 million on the back of higher volatility compared to 2017. At the same time, the negative treasury carry on Leonteq's own products was CHF -18.3 million compared to CHF -12.6 million in 2017 primarily due to an increase in Leonteq's own issued products.

Net interest income primarily results from interest earned on cash and cash equivalents, and interest expense relates mainly to interest paid on short-term credit and credit facility fees. Net interest expense increased by CHF -6.1 million, or 69%, to CHF -14.9 million in the reporting year from CHF -8.8 million in 2017 primarily due to increased costs relating to credit facilities, the hike in US dollar interest rates and interests paid on higher collateral balances.

Other ordinary income represents income charged to issuance partners for services not related to fee income, such as onboarding and project-related costs. Furthermore, it includes rental income from subleases. Other ordinary income amounted to CHF 3.4 million in 2018, compared to CHF 3.0 million in the previous year.

Total operating expenses

Total operating expenses decreased by 2% to CHF 189.1 million in 2018, including one-off costs of CHF 3.5 million.

Personnel expenses are the largest component of total operating expenses and mainly comprise fixed and variable compensation for the Group's employees. Personnel expenses increased by 2% to CHF 115.7 million reflecting an increase in variable compensation on the back strong financial performance. As previously communicated, Leonteq initiated the hiring of additional staff, including IT specialists, in the second half of 2018 to further improve client experience and to maintain its technological edge. At the end of 2018, headcount across all regions increased in total by 46 full-time equivalents (FTEs), including 18 IT specialists, to 486 FTEs.

FTEs split by region

	31.12.2018	30.06.2018	31.12.2017	Change from YE 2017
Switzerland	335	309	305	10%
Europe	77	71	70	10%
Asia	74	65	65	14%
Total FTEs	486	445	440	10%

FTEs split by function

	31.12.2018	30.06.2018	31.12.2017	Change from YE 2017
Shared services	296	264	262	13%
whereof IT	117	108	99	18%
Business units	190	181	178	7%
whereof sales	90	85	88	2%
Total FTEs	486	445	440	10%

Other operating expenses mainly consist of professional services, expenses related to marketing, travel and representation, rent and other office expenses, IT-related expenses, banking fees and other administrative expenses. Other operating expenses increased by 6% to CHF 53.2 million in 2018, reflecting additional investments in connection with growth initiatives.

Long-lived assets (furniture, equipment, leasehold improvements, internally developed and purchased software, and IT equipment) are depreciated over their useable lives using the straight-line method. **Depreciation** decreased by 13% to CHF 16.7 million for the reporting year from CHF 19.2 million in 2017, which included one-off costs in connection with right-sizing efforts. Capital expenditure in information technology and systems increased by 17% due to continued investments in the company's technology platform and systems.

Capital expenditures

CHF million	FY 2018	FY 2017	Change from YE 2017
Capital expenditure	0.8	0.6	33%
Depreciation	(2.6)	(2.9)	(10%)
Other value adjustments/impairments, translation adjustments & reclassifications	—	(1.9)	(100%)
Net increase/(decrease) in property and equipment	(1.8)	(4.2)	(57%)
Capital expenditure	18.1	15.5	17%
Depreciation	(14.1)	(14.4)	(2%)
Other value adjustments/impairments, translation adjustments & reclassifications	(0.1)	0.0	N/A
Net increase in information technology and systems	3.9	1.1	255%

Changes to provisions decreased by 62% to CHF 3.5 million in 2018 compared to the prior year, which included one-off costs in connection with right-sizing efforts.

Capital and balance sheet

The assets managed on Leonteq's platform increased to CHF 11.9 billion as of 31 December 2018, up from CHF 11.4 billion at end-2017. Leonteq's own issued products, which are recognised on its balance sheet, rose by 3% to CHF 3.1 billion as of 31 December 2018. Total balance sheet assets increased by 68% to CHF 10.7 billion as of 31 December 2018, compared to CHF 6.3 billion as of 31 December 2017, while liabilities increased by 70% to CHF 10.1 billion. The main reason for the increase in both assets and liabilities was the growth in positive and negative replacement values of derivative financial instruments as a result of the negative capital market performance at year-end 2018. The proceeds from the Group's product issuance are used for hedging activities as well as investments in short- to mid-term, high-quality bonds issued by core governments, organisations supported by these governments, supranational organisations, and mid-term bonds issued by corporates and financial institutions with an investment grade rating. Shareholders' equity totalled CHF 607.7 million as of 31 December 2018.

Selected capital items

CHF million	31.12.2018	30.06.2018	31.12.2017	Change from YE 2017
Total assets	10,690.2	8,511.7	6,347.9	68%
Shareholders' equity	607.7	435.1	418.4	45%

Leonteq qualifies as a category 5 financial institution pursuant to FINMA Circular 2011/2. Such category 5 financial institutions are required to maintain a total capital ratio of at least 10.5% of risk-weighted assets, a common equity tier 1 (CET1) ratio of at least 7%, and a tier 1 capital ratio of at least 8.5% of risk-weighted assets. The Group and its subsidiary, Leonteq Securities AG, both complied with these minimum capital requirements throughout 2018 and 2017, without exception.

In August 2018, Leonteq launched a capital increase by way of a rights offering. It generated net proceeds of approximately CHF 118 million to further strengthen its capital position in order to facilitate and support the continued growth of the business. Including the increase in retained earnings, Leonteq's total BIS eligible capital was CHF 610.6 million as of 31 December 2018, compared to CHF 419.7 million as of 31 December 2017. Risk-weighted assets increased by 30% to CHF 2,780.6 million as a result of business growth, an increase in total assets and higher market and credit risk exposures. The BIS total capital ratio amounted to 22.0% (19.6% at end-2017) and the common equity tier 1 ratio was 21.9% as of 31 December 2018, compared to 19.6% at end-2017. Return on equity increased to 18% in 2018 from 6% in 2017.

Selected regulatory capital items

	31.12.2018	30.06.2018	31.12.2017	Change from YE 2017
Risk-weighted assets (CHF million)	2,780.6	2,380.9	2,137.6	30%
Total BIS eligible capital (CHF million)	610.6	437.5	419.7	45%
CET 1 capital ratio	21.9%	18.3%	19.6%	2.3 pp
Total capital ratio	22.0%	18.4%	19.6%	2.4 pp

Investment Solutions

In 2018, the Investment Solutions business line delivered CHF 246.7 million of net fee income, an increase of 9% compared to 2017. It issued 28,360 structured products (+7%) in the reporting year and grew its total turnover by 7% to CHF 28.8 billion. Despite the difficult market environment in 2018, it maintained the same stable client base as in the prior year and entered into at least one transaction per client with almost 1,000 clients. 61% of economic revenues were generated by independent asset managers (64% in 2017), 36% financial intermediaries (33% in 2017) and 3% comprised others (3% in 2017).

Total platform assets (volume outstanding) grew to CHF 11.9 billion as of 31 December 2018, up from CHF 11.4 billion at end-2017. This included CHF 8.8 billion of platform assets from Leonteq's issuance partners as of 31 December 2018, an increase of 5% year on year. The volume of Leonteq's own products outstanding increased by 3% to CHF 3.1 billion as of 31 December 2018.

Fee income margins were stable at 86 basis points in 2018 compared to 84 basis points in 2017. The fee income margin for Leonteq's own issued products rose to 115 basis points in 2018 from 89 basis points in the previous year. Net fee income margin of the partner business decreased to 72 basis points from 82 basis points mainly due to pricing changes from issuance partners.

As a result of higher market volatility in 2018, net trading income improved by CHF 45.1 million to CHF 18.1 million in the reporting year from CHF -27.0 million in 2017. As a result, total operating income in the Investment Solutions business line increased by 30% to CHF 250.2 million in 2018 from CHF 192.3 million in 2017. Total operating expenses in 2018 rose 3% to CHF 154.3 million, driven by higher variable compensation, in line with the improvement in business performance. For the full-year 2018, the Investment Solutions business line reported an increase in profit before taxes of CHF 53.5 million to CHF 95.9 million compared to CHF 42.4 million in 2017.

On the project side, Leonteq advanced its SHIP project in the second half of 2018. The initiative is designed to reduce Leonteq's hedging exposure by offering its issuance partners the opportunity to enter into hedging transactions for their issued products with external hedging partners. The first selected counterparties have been onboarded, and certain products are already available on the SHIP platform in a test environment for a limited number of clients. The project is expected to be fully operational within 12 to 18 months.

Leonteq further broadened and strengthened cooperation with existing platform partners in 2018. It expanded the offering on its Web-based multi-issuer platform Constructor by adding Cornèr Bank as a new automated issuer in November 2018. As a result, clients now have access to major structured product payoffs, and the underlying universe comprises more than 800 equities (including indices) and major commodities. In addition, the range of products for EFG International was increased by adding foreign exchange products to the platform. The range of products offered to Raiffeisen was further extended by adding additional currencies and payoffs. At the same time, key product types such as fixed coupon notes and autocallable features were automated for Standard Chartered Bank and the level of pricing request automation was improved for Crédit Agricole. Moreover, Leonteq improved operational efficiency of its actively managed certificate (AMC) gateway. This innovative solution for asset managers is designed to customise and implement an investment strategy with greater adjustability, cost efficiency and transparency. The benefits of the AMC gateway include excellent time-to-market in the issuing process, high flexibility in terms of product design, execution across all asset classes and instruments, and daily detailed reporting on a single AMC basis.

In addition, the company launched a new initiative in 2018 that aims to expand its Web-based structured investment products platform. The initiative is set to provide a complete new product discovery, pricing, execution and post-trade experience to Leonteq's clients. At the same time, issuance partners will benefit from an increased efficiency across front-, middle- and back-office processes, more efficient implementation of new payoffs and a direct roll-out of new services. The first modules have already been released to selected clients and the project is expected to be completed by the end of 2020.

Investment Solutions

CHF million	FY 2018	FY 2017	Change y-o-y	H2 2018	H1 2018	H2 2017	Change y-o-y
Net fee income	246.7	226.0	9%	114.1	132.6	117.2	(3%)
Net trading income/(loss)	18.1	(27.0)	N/A	22.7	(4.6)	(9.8)	N/A
Net interest income/(expense)	(15.5)	(9.3)	67%	(7.7)	(7.8)	(4.2)	83%
Other ordinary income	0.9	2.6	(65%)	0.5	0.4	0.5	0%
Total operating income	250.2	192.3	30%	129.6	120.6	103.7	25%
Personnel expenses	(97.4)	(95.4)	2%	(45.8)	(51.6)	(48.3)	(5%)
Other operating expenses	(41.2)	(39.0)	6%	(21.7)	(19.5)	(17.5)	24%
Depreciation	(13.9)	(14.5)	(4%)	(7.0)	(6.9)	(6.7)	4%
Changes to provisions	(1.8)	(1.0)	80%	(0.1)	(1.7)	(1.0)	(90%)
Total operating expenses	(154.3)	(149.9)	3%	(74.6)	(79.7)	(73.5)	1%
Results from operating activities	95.9	42.4	126%	55.0	40.9	30.2	82%

Insurance & Wealth Planning Solutions

The growth achieved in previous years continued in 2018. Net fee income in the Insurance & Wealth Planning Solutions business line grew by 23% to CHF 25.8 million compared to CHF 21.0 million in the prior year. This favourable result reflects its competitive product design, which enables insurers to combine sought-after guarantee components with the advantages of unit-linked life insurance in the prevailing low interest rate environment. Compared to traditional insurance products, which are tied to technical interest rates (currently at 25 basis points), unit-linked life insurance products benefit directly from increasing market rates. The number of outstanding policies serviced on the platform increased by 23% to 41,195 policies as of 31 December 2018. Net trading income increased by 175% to CHF 3.3 million primarily due to additional hedging contributions from structured products with interest rates underlyings. Total operating expenses increased by 8% year on year to CHF 11.7 million as a result of higher personnel expenses, which rose by 14% on the back of strong top-line performance. The Insurance & Wealth Planning Solutions business line reported an increase in profit before taxes of CHF 6.1 million, or 51%, to CHF 18.0 million, compared to CHF 11.9 million in 2017.

In 2018, the product offering was further extended by adding a new combined savings and drawn down product with flexible inflows and flexible outflows, reflecting the first offering of its kind in the Swiss market. During a selected build-up phase, capital can be accumulated through periodic investments. Upon reaching the drawdown phase, the policyholder receives regular, guaranteed payouts according to his desired payment frequency and duration. In addition, profits from the chosen investment strategy can increase the guaranteed payouts further.

Insurance & Wealth Planning Solutions

CHF million	FY 2018	FY 2017	Change y-o-y	H2 2018	H1 2018	H2 2017	Change y-o-y
Net fee income	25.8	21.0	23%	12.7	13.1	10.4	22%
Net trading income/(loss)	3.3	1.2	175%	2.4	0.9	0.4	500%
Net interest income/(expense)	0.6	0.5	20%	0.3	0.3	0.3	0%
Other ordinary income	—	—	N/A	—	—	—	N/A
Total operating income	29.7	22.7	31%	15.4	14.3	11.1	39%
Personnel expenses	(8.3)	(7.3)	14%	(3.9)	(4.4)	(4.2)	(7%)
Other operating expenses	(2.4)	(2.3)	4%	(1.4)	(1.0)	(1.3)	8%
Depreciation	(1.0)	(1.2)	(17%)	(0.5)	(0.5)	(0.7)	(29%)
Changes to provisions	—	—	N/A	—	—	—	N/A
Total operating expenses	(11.7)	(10.8)	8%	(5.8)	(5.9)	(6.2)	(6%)
Results from operating activities	18.0	11.9	51%	9.6	8.4	4.9	96%

CONSOLIDATED FINANCIAL STATEMENTS

Leonteq posted a significant increase in net profit to CHF 91.5 million in 2018 compared to CHF 23.1 million the prior year. Total operating income rose 31% to CHF 282.4 million year on year and total operating expenses decreased by 2% to CHF 189.1 million year on year.

FINANCIAL

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Leonteq AG

Consolidated income statement for the years ended 31 December 2018 and 2017

CHF thousands	Note	2018	2017
Fee income from securities trading and investment activities		276,101	250,867
Fee expense		(3,592)	(3,850)
Net fee income	10	272,509	247,017
Result from trading activities and the fair value option	11	21,383	(25,776)
Interest and discount income		5,891	1,623
Interest expense		(19,122)	(10,546)
Changes in value adjustments for default risks and losses from interest operations		(1,640)	125
Net result from interest operations	9	(14,871)	(8,798)
Other ordinary income	12	3,396	2,971
Total operating income		282,417	215,414
Personnel expenses	13	(115,697)	(113,661)
Other operating expenses	14	(53,203)	(50,042)
Depreciation of long-lived assets	24	(16,680)	(19,158)
Changes to provisions and other value adjustments, and losses	33	(3,503)	(9,260)
Total operating expenses		(189,083)	(192,121)
Result from operating activities		93,334	23,293
Taxes	15	(1,842)	(222)
Group net profit		91,492	23,071
of which allocated to shareholders of Leonteq AG		91,492	23,071
Share information			
Basic earnings per share (CHF)	38	5.40	1.47
Diluted earnings per share (CHF)	38	5.33	1.45

Leonteq AG

Consolidated statement of other comprehensive income for the years ended 31 December 2018 and 2017

CHF thousands	Note	2018	2017
Group net profit		91,492	23,071
Other comprehensive (loss)/income that will not be reclassified to the income statement			
Remeasurement of the defined benefit plan	35	(1,559)	10,181
Change in own credit		—	—
Income tax on items that will not be reclassified	15	330	(2,153)
Total other comprehensive (loss)/income that will not be reclassified to the income statement		(1,229)	8,028
Other comprehensive (loss)/income that may be reclassified to the income statement			
Currency translation adjustments		(546)	460
Hedge accounting reserves		—	130
Total other comprehensive (loss)/income that may be reclassified to the income statement		(546)	590
Total other comprehensive (loss)/income		(1,775)	8,618
Total comprehensive income		89,717	31,689
of which allocated to shareholders of Leonteq AG		89,717	31,689

The notes on pages 100 to 176 are an integral part of these consolidated financial statements.

Leonteq AG

Consolidated statement of financial position as of 31 December 2018 and 2017

CHF thousands	Note	31.12.2018	31.12.2017
Assets			
Cash in hand		—	—
Amounts due from banks	16	1,375,066	900,931
Amounts due from securities financing transactions	18	84,076	13,533
Amounts due from customers	17	214,291	108,048
Trading financial assets	19	2,026,581	2,344,410
Trading inventories	20	16,221	88,962
Positive replacement values of derivative financial instruments	21	4,948,893	1,629,717
Other financial assets designated at fair value through profit or loss	22	1,913,507	1,141,602
Accrued income and prepaid expenses	23	15,849	18,005
Current tax assets	15	964	1,003
Deferred tax assets	15	3,252	2,362
Long-lived assets	24	54,497	52,451
Other assets	25	37,027	46,921
Total assets		10,690,224	6,347,945
Total subordinated claims		4,809	6,666
of which subject to mandatory conversion and/or debt waiver		—	—
Liabilities			
Amounts due to banks	26	924,049	534,460
Liabilities from securities financing transactions	18	428,901	377,397
Amounts due to customers	27	1,375,104	168,109
Trading financial liabilities	28	360,432	101,246
Negative replacement values of derivative financial instruments	21	3,688,353	1,563,016
Other financial liabilities designated at fair value through profit or loss	29	3,123,856	3,040,531
Accrued expenses and deferred income	30	146,573	115,854
Current tax liabilities	15	2,292	1,167
Deferred tax liabilities	15	179	234
Other liabilities	31	18,294	17,345
Expected credit loss provision	32	2,950	1,310
Provisions	33	11,585	8,890
Total liabilities		10,082,568	5,929,559
Equity			
Share capital	34	18,934	15,945
Share premium		288,532	172,532
Retained earnings ¹		317,720	247,858
Accumulated other comprehensive income/(loss)		(4,389)	(2,614)
Own shares	34	(13,141)	(15,335)
Total shareholders' equity		607,656	418,386
Total liabilities and equity		10,690,224	6,347,945
Total subordinated liabilities		—	—
of which subject to mandatory conversion and/or debt waiver		—	—

¹ Retained earnings comprise cumulated earnings including Group net profit of the financial year 2018 and 2017 respectively.

The notes on pages 100 to 176 are an integral part of these consolidated financial statements.

Leonteq AG

Consolidated statement of changes in equity for the years ended 31 December 2018 and 2017

CHF thousands	Note	Share capital	Share premium	Retained earnings ²
Balance as of 31 December 2016		15,945	172,532	222,318
Employee participation schemes	13	—	—	2,469
Capital increase	34	—	—	—
Acquisition of own shares	34	—	—	—
Dividends and other distributions	34	—	—	—
Other allocations to / (transfers from) other comprehensive income		—	—	—
Group net profit		—	—	23,071
Balance as of 31 December 2017		15,945	172,532	247,858

CHF thousands	Note	Share capital	Share premium	Retained earnings ²
Balance as of 31 December 2017		15,945	172,532	247,858
Impact of change in accounting principle	6	—	—	(20,690)
Balance as of 1 January 2018		15,945	172,532	227,168
Employee participation schemes	13	—	—	60
Capital increase	34	2,989	116,000	(1,000)
Disposal of own shares	34	—	—	—
Dividends and other distributions	34	—	—	—
Other allocations to / (transfers from) other comprehensive income		—	—	—
Group net profit		—	—	91,492
Balance as of 31 December 2018		18,934	288,532	317,720

² Retained earnings comprise cumulated earnings including group net profit of the financial year 2018 and 2017 respectively.

Defined benefit plans	OCI			Own shares	Total shareholders' equity
	Change in own credit	Hedge accounting reserve	Currency translation adjustments		
(10,549)	—	(130)	(553)	(14,280)	385,283
—	—	—	—	—	2,469
—	—	—	—	—	—
—	—	—	—	(1,055)	(1,055)
—	—	—	—	—	—
8,028	—	130	460	—	8,618
—	—	—	—	—	23,071
(2,521)	—	—	(93)	(15,335)	418,386

Defined benefit plans	OCI			Own shares	Total shareholders' equity
	Change in own credit	Hedge accounting reserve	Currency translation adjustments		
(2,521)	—	—	(93)	(15,335)	418,386
—	—	—	—	—	(20,690)
(2,521)	—	—	(93)	(15,335)	397,696
—	—	—	—	—	60
—	—	—	—	—	117,989
—	—	—	—	2,194	2,194
—	—	—	—	—	—
(1,229)	—	—	(546)	—	(1,775)
—	—	—	—	—	91,492
(3,750)	—	—	(639)	(13,141)	607,656

The notes on pages 100 to 176 are an integral part of these consolidated financial statements.

Leonteq AG

Consolidated statement of cash flows for the years ended 31 December 2018 and 2017

CHF thousands	Note	2018	2017
Cash flow from operating activities			
Group net profit		91,492	23,071
Reconciliation to net cash flows from operating activities			
Non-cash positions in Group net profit			
Depreciation	24	16,680	17,229
Impairment of long lived assets	24	—	1,929
Deferred tax expense / (benefit)	15	(945)	1,327
Change in expected credit loss provision	32	1,640	(125)
Share-based benefit programs	13	60	2,469
Change of general provision	33	3,498	9,259
Other non-cash income and expenses		(1,775)	8,644
Net (increase)/decrease in assets related to operating activities			
Amounts due from banks	16	(529,699)	(241,655)
Amounts due from securities financing transactions	18	(70,543)	27,948
Amounts due from customers	17	(106,243)	(70,188)
Trading financial assets	19	317,829	(105,809)
Trading inventories	20	72,741	(88,962)
Positive replacement values of derivative financial instruments	21	(3,319,176)	65,055
Other financial assets designated at fair value through profit or loss	22	(771,905)	(233,228)
Accrued income and prepaid expenses	23	2,156	(1,275)
Other assets	25	9,894	(10,988)
Net increase/(decrease) in liabilities related to operating activities			
Amounts due to banks	26	322,838	128,209
Liabilities from securities financing transactions	18	51,504	(134,173)
Amounts due to customers	27	1,206,995	53,270
Trading financial liabilities	28	259,186	10,253
Negative replacement values of derivative financial instruments	21	2,125,337	98,890
Other financial liabilities designated at fair value through profit or loss	29	83,325	617,726
Accrued expenses and deferred income	30	10,029	19,089
Other liabilities	31	949	(5,672)
Utilisation of general provision	33	(730)	(7,329)
Current taxes, non-cash adjustment	15	2,473	848
Current taxes paid	15	(1,309)	(400)
Cash flow from operating activities		(223,699)	185,413
Cash flow from investing activities			
Purchases of long-lived assets	24	(18,903)	(16,108)
Proceeds from long-lived assets	24	161	30
Cash flow from investing activities		(18,742)	(16,078)
Cash flow from financing activities			
Gross proceeds from capital increase	34	124,398	—
Costs incurred from capital increase	34	(6,409)	—
Purchases of own shares	34	(3,300)	(5,166)
Transfer out of own shares	34	5,494	4,111
Cash flow from financing activities		120,183	(1,055)
Exchange rate differences		(57)	224

CHF thousands	2018	2017
Net (decrease) / increase in cash and cash equivalents	(122,315)	168,503
Cash and cash equivalents, beginning of the year	253,980	85,477
Cash and cash equivalents at the balance sheet date	131,665	253,980
Cash and cash equivalents		
Due from banks on demand ³	300,530	356,094
Due to banks on demand	(168,865)	(102,114)
Net cash and cash equivalents at the balance sheet date	131,665	253,980
Further information:		
Dividends received	69,148	54,378
Interest received	5,759	2,142
Interest paid	18,179	10,860

Fund of cash

CHF thousands	Note	31.12.2018	31.12.2017
Due from banks on demand ³		300,530	356,094
Cash overdrafts		(168,865)	(102,114)
Total fund of cash		131,665	253,980

³ The "Due from banks on demand" balance is included in balance sheet line item "Amounts due from banks".

For significant non cash transactions refer to Note 5 and 6 which explain the impact of the first time adoption of IFRS 15.

The notes on pages 100 to 176 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Leonteq AG (Leonteq or 'the Company') and its subsidiaries (referred to hereinafter as 'the Group') are independent experts for structured investment products and long-term savings and retirement solutions.

The Group's business divisions – Investment Solutions and Insurance & Wealth Planning Solutions – leverage the Group's IT infrastructure and engineering capabilities to offer a wide range of solutions and services to its client base. These solutions and services include the development, structuring, distribution, hedging and settlement, lifecycle management and market making of structured products, as well as the design and management of structured certificates and unit-linked life insurance policies.

The Group provides some of these core services to platform partners under the terms of co-operation agreements. The Group also distributes its financial products directly to institutional investors and indirectly to retail investors through third-party financial intermediaries.

The Company was incorporated in November 2007 and is a public limited company incorporated in Zurich, Switzerland. Its registered office is at Europaallee 39, 8004 Zurich, Switzerland. The Company's shares have been listed on the SIX Swiss Exchange (SIX) since 19 October 2012.

These consolidated financial statements were approved for publication by the Board of Directors on 4 February 2019.

2 Basis of presentation

The Group prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). They are prepared according to the historical cost approach, with the exception that financial assets and liabilities (including derivative instruments and trading inventories) are revalued at fair value through profit or loss.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied unless otherwise stated.

3 Critical accounting estimates and judgments in applying accounting policies

The application of certain accounting principles requires considerable judgment based upon estimates and assumptions that involve significant uncertainty at the time they are made. Changes in assumptions may have a significant impact on the financial statements in the period when assumptions are changed. Accounting treatments, where significant assumptions and estimates are used, are discussed in this section as a guide to understanding how their application affects the reported results.

The application of assumptions and estimates means that any selection of different assumptions would cause the reported results and/or disclosures to differ. The Group believes that the assumptions it has made are appropriate, and that the Group's consolidated financial statements are therefore a fair representation of the financial position and results in all material respects.

The most relevant areas in which the Group exercises judgment include the application of the Group's assumptions with respect to: revenue recognition as well as the deferral period applied to fee income (Note 5, 6 and 10); fair value of financial instruments and trading inventory – especially levels 2 and 3, including own credit (Note 8); depreciation period and testing for impairments of long-lived assets (Note 24); provisions and expected credit loss provisions (Notes 32 and 33); share-based payments (Note 13); and retirement benefit obligations (Note 35).

Sensitivities are presented solely to assist the reader in understanding the Group's consolidated financial statements and are not intended to suggest that other assumptions would be more appropriate.

4 Changes to critical accounting estimates

No changes in critical accounting estimates were applied compared to 31 December 2017.

5 Principal accounting policies

5.1 Consolidation principles

Subsidiaries

These consolidated financial statements comprise the financial statements of the parent company Leonteq AG and its subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Consolidated financial statements are prepared using uniform accounting policies for transactions and other events in similar circumstances. Intercompany transactions, balances and un-realised gains or losses on transactions between the Group companies are eliminated.

5.2 General principles

Foreign currency translation

The presentation currency of the Group is the Swiss franc (CHF).

The Group uses the following main FX rates:

	Spot rate 31.12.2018	Spot rate 31.12.2017	Average rate 2018	Average rate 2017
EUR / CHF	1.1253	1.1692	1.1552	1.1117
USD / CHF	0.9816	0.9744	0.9787	0.9845
GBP / CHF	1.2519	1.3155	1.3058	1.2683
JPY / CHF	0.0090	0.0086	0.0089	0.0088
HKD / CHF	0.1253	0.1247	0.1249	0.1264
SGD / CHF	0.7201	0.7285	0.7270	0.7122

The Group companies prepare their financial statements in their respective functional currencies. Transactions in a currency other than the functional currency are recognised by the companies at the spot rate on the date of transaction. Exchange differences arising between the date of a transaction and its subsequent settlement are recognised in the income statement. At the balance sheet date, all monetary assets and liabilities, as well as non-monetary assets and liabilities measured at fair value through profit or loss denominated in a foreign currency, are translated into the functional currency using the closing exchange rate.

Unrealised exchange differences are recognised in the statement of other comprehensive income. Non-monetary assets and liabilities not measured at fair value through profit or loss are translated into the functional currency at the historical exchange rate.

Assets and liabilities of the Group companies that are denominated in a foreign currency are translated into Swiss francs at the closing exchange rates. Average exchange rates for the business year are used for items in the income statement, statement of other comprehensive income and statement of cash flows. Exchange differences arising from the use of closing exchange rates and average exchange rates are recognised as currency translation adjustments in the statement of other comprehensive income.

Accrued and deferred income/prepaid and accrued expenses

The Group recognises fee income from services rendered over a specific period of time on a pro rata basis for the deemed duration of the service. This includes the initial margin earned upon the issuance of products, as well as service and management fees related to the Insurance & Wealth Planning Solutions business. Interest income is accrued as earned. Dividends are recognised when there is a right to receive the payment. Accrued and deferred income is presented as a separate asset or liability in the statement of financial position.

Fee income

Since Leonteq applied the modified retrospective method for the adoption of IFRS 15, the comparative figures were not restated. The comparative figures were prepared in accordance with the requirements of IAS 18 as follows: Sales fee income is earned on the issuance of new partner products and Leonteq products, as well as transactions with existing partner products and Leonteq products distributed and/or performed by Leonteq sales. Sales fee income on the initial margin earned on the issuance of new products is allocated to distribution services and production and platform services (i.e. development, structuring, hedging and settlement). Sales fee income for distribution services is recognised immediately, whereas fee income for production and platform services is recognised over the period in which it is deemed earned, with the estimate being six months (applicable until 31 December 2017). Sales fee income related to services (i.e. market making and distribution) rendered during a transaction with an existing product is recognised immediately. Platform partners fee income relates to income earned when the Group provides specific services to its platform partners. Services provided to platform partners include services provided within the Group's Investment Solutions business (i.e. product design and launch; issuance, settlement and order management; risk management; lifecycle management; product documentation and reporting; risk, regulatory and financial reporting and other services) and Insurance & Wealth Planning Solutions business (i.e. design and management of structured certificates; variable annuity products, as well as the respective hedge strategy). For the Investment Solutions business, fee income is deferred and recognised in the same way as sales fee income. For the Insurance & Wealth Planning Solutions business, fee income for services rendered is generally recognised over the duration of the services provided and/or fulfilled on a pro rata basis. The Group presents fee income net of any costs that are directly attributable to the issuance of partner products and Leonteq products. Deferred fee income is reflected in "accrued expenses and deferred income".

In the course of the adoption of IFRS 15, the recognition of fee income was reassessed and aligned to the requirements of the new standard. Fees earned are allocated to Leonteq's main service offerings (service obligations). In the Investment Solutions division, these include: product design and launch; issuance, settlement and order management; risk management; lifecycle management; product documentation and reporting; risk, regulatory and financial reporting and other services. Similarly, the main services offered in the Insurance & Wealth Planning Solutions division include the issuance, design and management of structured certificates or variable annuity products, as well as the respective hedge strategy. These services are provided either when a product is issued or over the lifetime of a product. Consequently, part of the fee is deemed earned when a product is issued, while the remaining portion is deemed earned over the effective lifetime of products issued. The effective lifetime of Leonteq's products is defined on a product-by-product basis in the Insurance & Wealth Planning Solutions division, where the respective fee is collected when a product is issued and again when certain conditions are met during the lifetime of a product. A portfolio approach is applied to determine the average effective lifetime of products issued in the Investment Solutions divisions. Generally, fees generated in the Investment Solutions division are collected when the product is issued or repurchased. The allocation of the total fee to the individual service obligation, as well as the determination of when these service obligations are satisfied, involves the exercising of judgement. The average effective lifetime of products issued in the Investment Solutions divisions is determined based on the historical effective lifetime of expired products and the expected effective lifetime of existing products at the balance sheet date. The calculation only excludes products or product categories that show a unique revenue recognition profile that differs significantly from the majority of issued products. As of 31 December 2018, the average effective lifetime is estimated to be 12 months (31 December 2017 – under IAS 18: 6 months). The fee received is allocated to the individual service obligations based on the estimated share of the total effort required (input method) over the lifetime of a product as it best reflects the compensation for services provided. Material and customised contracts in the Investment Solutions division are accounted for to best reflect the actual patterns of the agreement which can be substantially different from the portfolio approach described above.

In the Insurance & Wealth Planning Solutions division, the satisfaction of previously unsatisfied service obligations can be determined on a product-by-product basis, meaning less judgement is involved in determining the timing of revenue recognition for deferred fees. The fee is generally collected once the service obligation is satisfied. In cases where the fee is collected before the satisfaction of the respective service obligation, the fee is deferred until services are rendered.

Management is of the opinion that the methods and judgement applied provide a best estimate of the real circumstances at the balance sheet date. Revenue recognised from contracts with customers is presented in “fee income from securities trading and investment activities” or “other ordinary income”. Revenues from contracts with customers presented in “other ordinary income” include other services rendered to platform partners (i.e. onboarding and technical integration). These are usually non-recurring fees collected based on customised contracts and therefore revenue recognition is defined individually for each material contract. The amount of deferred fee income is included in “accrued expenses and deferred income”. Generally, fee is either collected at the point in time of or before providing the services. Therefore fees are not discounted when recognised. The Group presents fee income net of any costs that are directly attributable to the issuance of partner products and Leonteq products. Consequently incremental costs of obtaining a contract are not recognised as an asset. Since Leonteq does not sell its products to the end investor but acts on behalf of distribution partners, Leonteq acts as an agent and therefore discloses its fee income net of directly attributable costs.

5.3 Financial instruments

Initial recognition and derecognition

The Group uses trade date accounting to recognise financial transactions. The Group recognises a financial asset or financial liability at the transaction date (i.e. trade date) at fair value of the consideration given or received. Costs that are directly attributable to the transaction are recognised in “result from trading activities and the fair value option”. At the date on which the Group enters into a sales contract for financial assets, the relevant financial instrument is derecognised from the statement of financial position.

Determination of fair value and recognition of “day-1 profit”

The transaction price represents the best indication of the fair value of financial instruments unless the fair value of the instrument can be better determined by comparison with other observable current market transactions involving the same instrument (level 1 instrument) or is based on a valuation method using observable market data (level 2 instrument). For level 1 or 2 instruments, any difference between fair value and the transaction price is recognised as day-1 profit in the line item ‘result from trading activities and the fair value option’. For level 3 instruments, day-1 profit is deferred over the duration of the product.

See Note 8 for information on the determination of fair value of financial instruments and trading inventories, the fair value hierarchy, valuation methods and day-1 profits.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and receivables due from banks on demand (including clearing balances at recognised clearing centres and clearing banks). Bank overdrafts, if applicable, are shown within amounts due to banks. Cash as defined for the purpose of the statement of cash flows comprises cash and cash equivalents.

Amounts due from banks

Amounts due from banks include receivables from banks on demand, term deposits and settlement receivables. Amounts due from banks are recognised initially at fair value and subsequently at amortised cost, less provision for impairment.

Amounts due to banks

Amounts due to banks include bank overdrafts and settlement payables to banks and parties regulated by a banking supervising authority. Amounts due to banks are recognised initially at fair value and subsequently at amortised cost.

Amounts due from customers

Amounts due from customers include receivables (including settlement receivables and other receivables, as well as cash collateral paid) from counterparties other than banks. Amounts due from customers are recognised initially at fair value and subsequently at amortised cost, less provision for impairment.

Amounts due to customers

Amounts due to customers include payables (incl. settlement payables and other payables, as well as cash collateral received) to counterparties other than banks. Amounts due to customers are recognised initially at fair value and subsequently at amortised cost.

Financial assets and financial liabilities

Financial assets are allocated to the following categories based on type, instrument test and business model test: Fair value through other comprehensive income, fair value through profit or loss and amortised cost. Financial liabilities are allocated based on type and designation to the fair value option into the following categories based on type and designation: Fair value through profit or loss and amortised cost.

Financial assets or liabilities held for trading purposes are measured at fair value in "trading financial assets" or "trading financial liabilities". Gains and losses on the sale and redemption of such instruments, interest and dividend income, as well as changes in fair value, are recognised in "result from trading activities and the fair value option".

Financial assets or liabilities can be designated at fair value through profit or loss at inception, if the designation eliminates or significantly reduces a measurement or recognition inconsistency (i.e. accounting mismatch). Financial assets and financial liabilities designated at fair value are recognised in the line items "other financial assets designated at fair value through profit or loss" or "other financial liabilities designated at fair value through profit or loss" in the statement of financial position. The accounting treatment in the income statement is analogous to the treatment of trading financial assets or liabilities. The Group's issued products meet these criteria. Issued products contain hybrid financial instruments, certificates (including actively managed certificates) and mini-futures. Hybrid financial instruments are composed of debt components and embedded derivatives. Certificates may comprise an underlying instrument (or a basket of underlyings) combined with derivatives. Alternatively, the pay-off of a certificate could be achieved through the combination of a debt host and an embedded derivative (similar to a hybrid financial instrument). The Group has designated all its issued products as other financial liabilities designated at fair value through profit or loss.

Under IFRS 9, changes in fair value related to own credit risk for other financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income. The changes in own credit risk recognised in other comprehensive income are subsequently transferred within equity to retained earnings reserves over the same period as the sales fee income is deemed earned. Any fair value impact not related to changes in own credit risk is recognised in the income statement.

In addition to issued products, the Group applies the fair value option to selected receivables from customers and to interest rate instruments. The application of the fair value option to these instruments reduces an accounting mismatch that would otherwise arise from recognising these assets using a different measurement basis (e.g. amortised cost) than for offsetting liabilities, issued products as well as issued derivative instruments that are measured at fair value or designated at fair value through profit or loss.

Securities lending and borrowing

The Group generally enters into securities lending and securities borrowing transactions on a collateralised basis. In such transactions, the Group typically lends or borrows securities in exchange for securities or cash collateral. Additionally, the Group's lending and borrowing activities are done in exchange for a fee. The majority of securities lending and borrowing agreements involve shares, funds and bonds. The transactions are conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to the Group's normal credit risk control processes. The Group monitors the market value of the securities received or delivered on a daily basis and requests or provides additional collateral or returns, or recalls surplus collateral in accordance with the underlying agreements.

Securities that have been transferred, whether in a lending/borrowing transaction or as collateral, are not recognised or derecognised in the statement of financial position unless the risks and rewards of ownership are also transferred. In such transactions where the Group transfers owned securities and where the borrower is granted the right to sell or repledge them, the securities are presented as "trading financial assets" or "other financial assets designated at fair value through profit or loss" of which pledged as collateral, see Note 18. Cash collateral received is recognised with a corresponding obligation to return it. Cash collateral received is disclosed in the line item "liabilities from securities financing transactions". Cash collateral delivered is derecognised with a corresponding receivable, reflecting the right to receive it back. The cash collateral delivered is disclosed in the line item "amounts due from securities refinancing transactions". Additionally, the sale of securities received in a lending or borrowing transaction triggers the recognition of a trading financial liability (short sale). See Note 18 for further information.

Consideration exchanged in financing transactions (i.e. interest received or paid) is recognised on an accrual basis and recognised as interest income or interest expense.

Repurchase and reverse repurchase agreements

Securities purchased under agreements to resell, reverse repurchase agreements, and securities sold under agreements to repurchase, as well as repurchase agreements, are all treated as collateralised financing transactions. Nearly all repurchase and reverse repurchase agreements involve debt securities (i.e. bonds, notes, money market papers) and equity securities. The transactions are normally conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to the Group's normal credit risk control processes. The Group monitors the market value of the securities received or delivered on a daily basis and requests or provides additional collateral or returns, or recalls surplus collateral in accordance with the underlying agreements.

The transfer of securities in the case of repurchase and reverse repurchase agreements is not recognised or derecognised in the statement of financial position unless the risks and rewards of ownership are also transferred. In reverse repurchase agreements, cash collateral provided is derecognised with a corresponding receivable, reflecting the right to receive it back. The cash collateral provided is disclosed in the line item "amounts due from securities financing transactions". In repurchase agreements, the cash collateral received is recognised with a corresponding obligation to return it. The cash collateral received is disclosed in the line item "liabilities from securities financing transactions".

In repurchase agreements where the Group transfers owned securities and where the recipient is granted the right to resell or repledge them, the securities are presented in the statement of financial position in the line items "trading financial assets" or "other financial assets designated at fair value through profit or loss", of which pledged as collateral. Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if the Group has the right to resell or repledge them, with securities that the Group has actually resold or repledged being disclosed if applicable. See Note 18 for further information. Additionally, the sale of securities received in reverse repurchase transactions triggers the recognition of a trading financial liability (short sale). See Note 18 for further information.

Interest income from reverse repurchase agreements and interest expense from repurchase agreements are accrued in the period in which they are incurred.

Derivative financial instruments

The replacement values of all derivative instruments are reflected at fair value in the statement of financial position and are reported as positive replacement values or negative replacement values. As the Group enters into derivative contracts for trading purposes, realised and unrealised gains and losses are recognised in "result from trading activities and the fair value option".

A derivative may be embedded in a "host contract". Such combinations are known as hybrid instruments and arise predominantly from the issuance of structured debt instruments. The values of embedded derivatives are presented with the host debt as other financial liabilities designated at fair value. Gains and losses from financial liabilities are reported in the income statement as "result from trading activities and the fair value option".

In certain circumstances, the Group uses derivative financial instruments to hedge risks associated with foreign exchange movements. At the inception of the transaction, the Group documents the relationship between the hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking the hedging transactions. At inception and on an ongoing basis, the Group documents the effectiveness of the hedge. For the hedge of fixed foreign currency denominated costs, the associated derivatives may be designated as cash flow hedges. Effective unrealised gains or losses on these instruments are recognised within the hedge accounting reserve in other comprehensive income. The Group transfers the hedge accounting reserves into the statement of other comprehensive income when the hedged cash flows occur or when hedge accounting is terminated. The Group does currently not apply hedge accounting.

Impairment of financial assets

For all debt financial assets measured at amortised cost and/or measured at fair value through other comprehensive income, the Group applies the expected credit loss methodology:

- **Stage 1, performing assets**

At initial recognition, the 12-months expected credit loss is recognised for all assets.

- **Stage 2, under-performing assets**

If credit risk has increased significantly since initial recognition, the 12-month expected credit loss is increased to the life-time expected credit loss. In the case of a significant decrease in credit risk, the life-time expected credit loss is reduced to a 12-month expected credit loss and the assets are reclassified to stage 1.

- **Stage 3, non-performing assets**

If there is objective evidence of a loss event, an additional impairment adjustment is recognised.

The increase or decrease of the expected credit loss is recognised in “changes in value adjustments for default risks and losses from interest operations” in the income statement. The allowance for 12-month expected credit loss as well as life-time expected credit loss is recognised in “expected credit loss provision”. The Group calculates the expected loss allowance on a portfolio basis.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5.4 Other basic principles

Trading inventories

Trading inventories are carried at fair value less costs to sell and comprise cryptocurrencies held as an economic hedge for issued structured products. The fair market values for cryptocurrencies held as assets are determined by the custodian.

Own shares

The Leonteq AG shares held by the Group are deducted from shareholders' equity as “own shares” in the statement of equity at average cost. The Group does not recognise changes in fair value of own shares. A profit or loss arising on disposal of own shares is recognised through equity. The Group purchases its own shares to hedge its employee share-based benefit/restricted stock unit (RSU) programs.

Variable compensation plans for employees

The Group implemented variable compensation plans for its employees. A portion of variable compensation equal to or greater than CHF 50 thousand is deferred. Depending on the function and seniority of each employee, the proportion of the variable compensation deferred ranges from 20% to 80%. Non deferred variable compensation is paid in cash and recognised as personnel expenses in the income statement in the year the variable compensation is committed.

Deferred variable compensation is paid in cash over a three-year period, in three equal instalments for deferred variable compensation of CHF 60 thousand or less. Compensation expenses are recognised as personnel expenses in the income statement with a third of the expense in each year earned using a straight-line attribution model.

Deferred variable compensation is generally paid two third in cash over a three-year period, in three equal instalments, and one third in shares or restricted stock units (RSUs) over a vesting period between three to five years (stage vesting), for deferred variable compensation of more than CHF 60 thousand. Compensation expenses incurred in cash are recognised as personnel expenses in the income statement with a third of the expense in each year earned using a straight-line attribution model. Compensation expenses incurred in shares or RSUs are recognised as personnel expenses in the income statement over the respective vesting period corresponding to the grant value of shares or RSUs.

The awards are subject to the condition that the recipient remains in an employment relationship with the Company at the payment or vesting date, respectively. Any outstanding award is subject to the condition that neither party has given notice to terminate the employment relationship before or at the date of payment or vesting of the variable compensation.

Mid-term and long-term incentive plans for members of the Executive Committee

The Group implemented a mid-term and long-term incentive plan for the members of the Executive Committee.

Variable compensation for the mid-term incentive plan is deferred 75%. Non deferred variable compensation of the mid-term incentive plan is paid in cash and recognised in the income statement in the year the variable compensation is committed. Deferred variable compensation is paid 50% in cash over a three-year period, in three equal instalments, and 50% in RSUs over a three-year vesting period (stage vesting). Compensation expenses incurred in cash are recognised as personnel expenses in the income statement with a third of the expense in each year earned using a straight-line attribution model. Compensation expenses incurred in RSUs are recognised as personnel expenses in the income statement over the respective vesting period corresponding to the grant value of shares or RSUs.

Variable compensation for the long-term incentive plan is deferred 100%. Members of the Executive Committee receive 50% of RSUs over a three-year vesting period (stage vesting) and 50% of RSUs at the end of the three-year vesting period (cliff vesting). Compensation expenses incurred in RSUs are recognised as personnel expenses in the income statement over the respective vesting period corresponding to the grant value of shares or RSUs.

The awards are subject to the condition that the recipient remains in an employment relationship with the Company at the payment or vesting date, respectively. Any outstanding award is subject to the condition that neither party has given notice to terminate the employment relationship before or at the date of payment or vesting of the variable compensation.

Long-lived assets

Long-lived assets (furniture, equipment, leasehold improvements, internally developed and purchased software, as well as IT equipment) are stated at cost less accumulated depreciation and impairment losses. They are reviewed periodically for impairment, with any impairment charge being recognised in the income statement.

Certain personnel costs directly attributable to the development of internally developed software are capitalised as long-lived assets. Capitalised costs include salaries and bonuses, social contributions and pension costs.

Capitalised software acquisition costs are based on the costs of acquiring the software and the costs incurred in bringing it into the state of its intended use. Direct costs attributable to the development of internally developed software are capitalised when such items meet the definition of capitalisation. These costs relate to the design and implementation phase of internally developed software.

Depreciation is calculated using the straight-line method. Long-lived assets are depreciated over their useful lives, as follows:

- Furniture and equipment: 5 to 10 years
- Leasehold improvements: 5 to 10 years
- Internally developed software: 3 to 5 years
- Purchased IT software: 3 to 5 years
- IT equipment: 3 to 5 years

Impairment of non-financial assets

For all non-financial assets not measured at fair value, the Group assesses at the end of each reporting period whether there is objective evidence that a non-financial asset or a group of non-financial assets is impaired. A non-financial asset or a group of non-financial assets is considered to be impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on estimated future cash flows of the non-financial asset or group of non-financial assets that can be reliably estimated.

Leasing

In the case of operating leasing, the Group does not recognise leased assets in its balance sheet since the related ownership rights and obligations remain with the lessor. Expenses resulting from operating leasing are recognised in the position "other operating expenses". The Group does not have any significant finance leasing agreements.

Income taxes

Current income taxes are calculated on the basis of the applicable tax laws in individual countries and recognised as an expense in the period in which the related profits are generated. Assets or liabilities related to current income taxes are reported in the statement of financial position as applicable. Income taxes are stated net of the participation relief which the Group may avail on dividend income from qualifying equity holdings.

Tax effects arising from temporary differences between the carrying amounts of assets and liabilities in the Group's statement of financial position and their corresponding tax values are recognised as deferred tax assets and deferred tax liabilities. Deferred tax assets arising from temporary differences and from loss carry-forwards eligible for offset are capitalised if it is likely that sufficient taxable profits will be available against which those temporary differences or loss carry-forwards can be offset. Deferred tax assets and deferred tax liabilities are calculated at the tax rates expected to apply in the period in which the tax assets will be realised or the tax liabilities settled.

Tax assets and liabilities of the same type (current or deferred) are offset when they refer to the same taxable entity, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realised simultaneously.

Current and deferred taxes are credited or charged to other comprehensive income or shareholders' equity if the taxes refer to items that are credited or charged to other comprehensive income or to shareholders' equity in the same or a different period. Otherwise, taxes are recognised in the income statement.

Pension plans

The Group operates a defined benefit plan and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

The Company's obligations for its Swiss pension scheme are to pay defined contributions. However, in accordance with the Swiss "LPP/BVG" law, the pension scheme incorporates certain guarantees, such as minimum interest accumulation at defined rates, conversion of capital at defined rates upon transfer of vested benefits, and potential life-long pension annuities. The pension scheme has therefore been reported as a defined benefit pension plan in accordance with IFRS.

The liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in the income statement.

Provisions

The Group recognises a provision if, as a result of a past event, the Group has a current liability at the balance sheet date that will probably lead to an outflow of funds (which can include legal fees), the level of which can be reliably estimated. The recognition and release of provisions are recognised in the line item "changes to provisions and other value adjustments and losses". If an outflow of funds is unlikely to occur or the amount of the liability cannot be reliably estimated, a contingent liability is shown. A contingent liability is also shown if, as a result of a past event, there is a possible liability at the balance sheet date whose existence depends on future developments that are not fully under the Group's control. If the possibility of an outflow of resources is remote, neither a provision nor a contingent liability is reported.

6 Changes in accounting policies and presentation

Segment reporting

Leonteq defined strategic priorities aimed at enhancing the scalability of its business and facilitating further growth in the first half of 2018. In this context, the Banking Solutions business line was merged with the Investment Solutions business line to increase the efficiency of the organisation, reduce functional overlaps and clarify roles and responsibilities. As a result, Leonteq Group reorganised its segments into Investment Solutions, Insurance & Wealth Planning Solutions and Corporate Centre. It constitutes the operating and reportable segments applied by the Group's Executive Committee to manage and assess the performance of the Group. In the previous period, segments presented were Investment Solutions, Banking Solutions, Insurance & Wealth Planning Solutions and Corporate Centre.

For further information, please refer to Note 40.

New or revised standards and interpretations adopted

The following new or revised standards and interpretations became effective for the first time on 1 January 2018:

- Annual Improvements to IFRSs 2014 – 2016 cycle – effective 1 January 2018
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions – effective 1 January 2018
- Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – effective 1 January 2018
- IFRS 15, Revenue from Contracts with Customers – effective 1 January 2018
- Clarifications to IFRS 15, Revenue from Contracts with Customers– effective 1 January 2018
- IFRIC 22, Foreign Currency Transactions and Advance Consideration – effective 1 January 2018

First-time adoption of IFRS 9 Financial Instruments

The Group early adopted IFRS 9 Financial Instruments on 1 January 2016. Refer to the Annual Report 2016 for further information.

First time adoption of IFRS 15 Contracts with Customers

The Group adopted IFRS 15 on its mandatory effective date of 1 January 2018. Leonteq chose to apply the modified retrospective adoption method, which allows it to leave the comparative period unchanged and account for the difference between the previously applicable and new accounting framework through equity. The comparative period is therefore presented in line with the requirements of IAS 18, while the financial statements for the period ended on 31 December 2018 are presented in accordance with IFRS 15.

For further information regarding the accounting policies for fees earned from contracts with customers, see Note 5.2 on pages 102 to 103.

The following table outlines the impact of the first time adoption of IFRS 15 as of 1 January 2018:

Balance sheet	Balance as of	Adjustment due to	Balance as of
CHF thousands	31.12.2017	the first time adoption of IFRS 15	01.01.2018
Liabilities			
Accrued expenses and deferred income	115,854	20,690	136,544
Equity			
Retained earnings	247,858	(20,690)	227,168

The adjustment was mainly driven by the alignment of the extent and timing of revenue recognition for the issuance of new products, as well as transactions with existing products, in the Investment Solutions divisions and the extension of the deferral period from 6 to 12 months. The adoption of IFRS 15 impacted the consolidated financial statements in 2018 as follows:

Income statement	Balance for the period ended on 31.12.2018		
CHF thousands	In accordance with the old revenue recognition standard (IAS 18)	Effect of the adoption of the new revenue recognition standard	In accordance with the new revenue recognition standard (IFRS 15) - as reported
Fee income from securities trading and investment activities	276,409	(308)	276,101

Balance sheet	Balance as of 31.12.2018		
CHF thousands	In accordance with the old revenue recognition standard (IAS 18)	Effect of the adoption of the new revenue recognition standard	In accordance with the new revenue recognition standard (IFRS 15) - as reported
Liabilities			
Accrued expenses and deferred income	125,575	20,998	146,573
Equity			
Retained earnings ⁴	246,918	(20,690)	226,228

Liabilities

Accrued expenses and deferred income	125,575	20,998	146,573
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Equity

Retained earnings ⁴	246,918	(20,690)	226,228
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⁴ Excluding Group net profit for 2018.

All other standards and interpretations did not have a significant impact on the Group or were not relevant to the Group when adopted for the first time.

New standards and interpretations not yet adopted

Various other new and revised standards and interpretations must be applied with effect from 1 January 2019 or a later date:

- Amendments to IFRS 9, Prepayment Features with Negative Compensation – effective 1 January 2019
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures – effective 1 January 2019
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement – effective 1 January 2019
- IFRIC 23, Uncertainty over Income Tax Treatments – effective 1 January 2019
- IFRS 16, Leases – effective 1 January 2019
- IFRS 17, Insurance Contracts – effective 1 January 2022
- Annual Improvements to IFRSs 2015 – 2017 cycle – effective 1 January 2019

The Group has performed an assessment of the new standards and interpretations. Based on this assessment, the Group expects that the following standard will have an impact: IFRS 16, Leases.

In January 2016, the IASB issued the new standard on lease accounting. Under IFRS 16, financing and operating leases are no longer treated differently. Instead, for the majority of all lease contracts, the lessee recognises a lease liability reflecting future lease payments and a right-of-use asset. The Group will adopt the new standard on its mandatory effective date of 1 January 2019 by applying the modified retrospective adoption method. By applying this method, the company does not restate comparative figures. Instead the cumulative effects of initially applying IFRS 16 are recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The lease liability is measured at the present value of the remaining lease payments discounted at the incremental borrowing rate at the date of initial application. The modified retrospective approach offers two options for measuring the right-of-use asset. On a lease-by-lease basis the right-of-use asset is either equal to the lease liability or measured as if IFRS 16 had always been applied. The Group chose to in general apply the earlier option and only in specific cases apply the latter one. If the second option is chosen, the right-of-use asset and lease liability will not be equal as of 1 January 2019 and therefore the difference will be accounted for through equity. Based on the assessment performed, the Group will recognise a right-of-use asset and a lease liability totalling approximately CHF 67 million and CHF 70 million respectively. In accordance with the previous requirements, the rent free period was accrued and released over the expected lifetime of the lease. In addition the expected reinstatement costs were provided for in certain locations. In connection with the implementation of IFRS 16, the respective balances (accrued rent and accrued reinstatement costs) in the total amount of approximately CHF 4 million will be released through equity. The net impact on equity is therefore expected to be positive. Related expenses, previously presented as rent or other operating expense, will comprise depreciation, amortisation and interest expense under the new standard. Consequently Leonteq expects other operating expenses to decrease but depreciation, amortisation and interest expenses to increase. Leonteq expects a slight increase in expenses. The actual lease payments will be recognised against the lease liabilities and will decrease the cash flows from financing activities. On the other hand the cash flows from operating activities are expected to increase.

7 Financial risks and financial risk management

In compliance with regulatory requirements in Switzerland and other applicable jurisdictions, the Group has established a comprehensive risk management and control framework covering market, credit, operational and liquidity risk. Established policies and procedures not only ensure that risks are identified and monitored throughout the organisation but also that they are controlled in an effective and consistent manner.

7.1 Risk management organisation and governance

Risk management is an integral part of the ongoing management of the business. Effective risk management ensures that Leonteq is able to consistently deliver high-quality services to its clients.

The Board of Directors defines the Group's overall risk appetite and breaks it down into individual risk categories. It also approves the Group's risk management policies and procedures. Implementation of the Group's policies and compliance with procedures are the responsibility of the Group's Executive Committee and its risk functions.

The key roles and responsibilities of the Board of Directors, the Risk Committee of the Board and the Executive Committee of the Group in the area of risk management and control are defined in the Group's risk policy framework and are summarised below:

- The Board of Directors is responsible for defining and providing an appropriate framework for the measurement, limitation, management and supervision of all risks to which the Group is exposed.
- The Risk Committee of the Board of Directors is responsible for monitoring all kind of risks to which the Group is exposed, particularly market, credit, reputational, operational and liquidity risks.
- The Executive Committee is responsible for the operational management and supervision of all types of risks within the framework and risk appetite defined by the Board of Directors.

The Chief Risk Officer is responsible for the development of the Group's risk framework, its risk management and control principles, and risk policies.

The Risk Control department is responsible for ensuring that risk exposure remains in line with the risk appetite defined by the Board of Directors. The main responsibilities of Risk Control include:

- Risk identification to ensure that all material risks are identified and quantified;
- Definition of appropriate risk measures to monitor all material risks;
- Monitoring and controlling of risk exposures against all limits;
- Independent oversight of Treasury activities in managing structural risks and liquidity risk;
- Escalation of limit breaches to the limit owner;
- Independent profit and loss verification of all trading activities on a daily basis;
- Independent assessment of pricing models;
- Independent price testing of all financial positions.

The choice of risk control measures and controls takes account of the unpredictability of financial markets and is aimed at minimising potential adverse effects on the Group's financial performance.

The Operational Risk Control department independently and objectively monitors the effectiveness of operational risk management and oversees operational risk-taking activities.

7.2 Guiding principles

The Group has a client-driven and fee-based business model. Risk management is an important component of this model. The activities of Investment Solutions and Insurance & Wealth Planning Solutions – which offer services relating to the structuring and issuance of structured investment products – are client-driven; they are not driven by proprietary risk-taking activities.

The following guiding principles are designed to maintain and further develop our client-focused business approach:

- The Group's reputation is its most valuable asset and needs to be protected by means of an effective risk framework and risk culture;
- Compliance with all regulatory requirements must be ensured at all times;
- The capital base and risk exposures have to be continuously managed to achieve capital ratios that exceed regulatory minimum requirements;
- Risk concentrations and exposure to stress scenarios are to be closely monitored and managed within approved limits;
- Independent risk control functions serve to monitor adherence with the established risk appetite;
- Accurate, timely and detailed risk disclosures are provided to Senior Management and the Board of Directors, as well as to regulators and auditors.

7.3 Risk categories and risk framework

Leonteq is exposed to risks resulting primarily from the issuance of structured investment products to clients, which the Group seeks to hedge efficiently. It is exposed to market risk, which results from mismatches between its exposure to equity prices, interest rates, currencies, credit spreads and commodity prices arising from the issuance of structured investment products and the instruments that are used to hedge that exposure. It is also exposed to liquidity risk relating to the need to fund its hedging activities. The Group is exposed to credit risk due to its exposure to its trading counterparties and as a result of the investment of the proceeds from the issuance of structured investment products in bonds and other fixed income instruments. In addition, Leonteq is exposed to model, operational and reputational risks, as well as potential changes in the regulatory and macro-economic environment.

7.3.1 Reputational risk

Reputational risk is defined as the potential loss of reputation due to a financial loss or any other real or perceived event with a negative impact on reputation. In particular, this includes the risk arising from any cases of employee misconduct.

The implemented risk framework aims to identify, quantify and reduce primary and consequential risks that could have an adverse impact on the Company's reputation.

Leonteq believes that its reputational risk is further mitigated through strict compliance controls and a culture of ownership and responsibility across all levels of the Company. This is also supported by the shareholder structure and by a systematic and transparent communication policy towards all stakeholders.

7.3.2 Operational risk

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 or regulatory 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.

Operational risk is limited by means of organisational measures, automation, internal control and security systems, written procedures, legal documentation, loss mitigation techniques and a business continuity plan overseen by Management, among other measures. Special attention is paid to the key performance indicators of the Group's core risk management system. All securities purchases are executed through central trading desks and the size and quality of the trades are reviewed by traders. Positions are reconciled on a daily basis by the back office. However, operational risk cannot be entirely mitigated.

Leonteq's management considers operational risk to be one of the major risks to the Company. A broad Operational Risk Framework has therefore been put in place to manage and control operational risk. In the Framework, any operational risk is owned by management as the first line of defence. Operational Risk Control independently monitors the effectiveness of operational risk management and oversees operational risk-taking activities. The Board of Directors determines the risk appetite for significant sources of operational risk. Management performs its own periodic assessments of the operational risk profile within its areas of responsibility. As part of this process, unmitigated risks as well as mitigation actions are logged in a Company-wide inventory. Operational Risk Control independently reviews the assessments produced by management and collates the Company's overall operational risk profile to determine whether it is within the risk appetite established by the Board of Directors. Operational events are analysed to determine their root causes, and adequate and sustainable mitigation actions are defined.

7.3.3 Market risk

Market risk is the risk of loss resulting from adverse movements in the market price or model price of financial assets. The Group distinguishes between five types of market risk:

- Equity risk, i.e. the risk of adverse movements in share prices and related derivatives;
- Interest rate risk, i.e. the risk of adverse movements in the yield curve and corresponding movements in the valuation of fixed income-based assets;
- Credit spread risk, i.e. the risk that the widening of credit spreads may negatively impact asset prices, credit spread risk relates primarily to the investment portfolio;
- FX risk, i.e. the risk of adverse movements in currency exchange rates and related derivative instruments;
- Commodity risk, i.e. the risk of adverse movements in commodity prices and related derivatives.

Details of the framework used by Leonteq to measure and control market risks are provided in section 7.5 "Risk measurement". Disclosures on market risk are provided in section 7.6.1 "Market risk". Liquidity risk is described in section 7.3.6 "Liquidity risk".

7.3.4 Credit, counterparty, issuer and country risk

Credit or default risk is defined as the general risk of financial loss occurring if a counterparty or an issuer of a financial security does not meet its contractual obligations. The Group distinguishes between the following types of credit risk:

- Counterparty credit risk is the risk of the counterparty defaulting on a derivative instrument that has a positive replacement value.
- Issuer risk is the risk of default by the issuer of a debt instrument held as a direct position or as an underlying of a derivative.
- Country risk is the risk of financial loss due to a country-specific event.

Leonteq is exposed to credit risks related to over-the-counter (OTC) derivatives and securities lending and borrowing activities with counterparties, as well as through the investment of proceeds from the issuance of structured investment products in bonds or other fixed income instruments. Counterparty and country risk limits are set by management and reviewed regularly by the Risk Committee of the Board of Directors.

Disclosures on credit risk are provided in section 7.6.2 "Credit risk".

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.

Investments in bonds or other fixed income instruments are subject to additional limits.

7.3.5 Model risk

Model risk is the risk of financial loss due to inappropriate model assumptions or inadequate model usage. In Leonteq's business, the major model risks arise when models are used to value financial securities and to calculate hedging ratios. The consequence of an inadequate model could be an incorrect valuation, leading to incorrect risk measurement and incorrect hedging positions, both of which could result in a financial loss.

Leonteq mitigates these risks through a comprehensive model validation process performed independently by the Risk Control department. The process includes the assessment of conceptual aspects, model implementation and integration into the risk management system, valuation results and best market practices, and it is concluded by the granting of a formal approval. Further validation is achieved through continuous monitoring of model performance in daily market operations.

7.3.6 Liquidity risk

Leonteq differentiates between market liquidity risk and funding liquidity risk.

7.3.6.1 Market liquidity risk

Since the Group hedges its liabilities arising from issued structured investment products through the sale or purchase of derivatives or other financial and non-financial instruments, it is exposed to the risk that it will be unable to sell or buy such hedging assets at fair value to cover its liabilities for the corresponding structured investment products. Leonteq refers to this risk as market liquidity risk related to outstanding structured investment products. As the product buy-back price is linked to the price of unwinding the asset, market liquidity risk related to trading activities is limited. Measures to mitigate market liquidity risks related to trading include:

- Issuance of financial instruments only on reasonably liquid underlying instruments (shares, bonds, freely convertible currencies and commodities) and markets;
- Diversification of OTC hedging counterparties;
- Quotation of structured investment products, including a bid-ask spread that provides an adequate buffer for less liquid underlyings. The buffer between the value of the product using the current market value of illiquid underlyings and the prices at which Leonteq is willing to trade these products is needed in order to compensate for the possibility that it may not be able to hedge its liabilities at the current market prices of the illiquid underlyings.

Furthermore, Leonteq invests excess proceeds from the issuance of structured products in a high-grade bond reinvestment portfolio managed by its Treasury department. Any market liquidity risk of the reinvestment portfolio is not offset by structured investment products. Measures to mitigate market liquidity risks related to treasury activities include:

- Investment universe comprises government and supranational agency credits with a high grade credit rating as well as bonds issued by corporates and financials with an investment grade rating
- Diversification with respect to countries and issuers
- Minimum issue size
- Maximum concentration per single issue

Disclosures on the investment portfolio are provided in section 7.6.3 "Investment portfolio".

7.3.6.2 Funding liquidity risk

Funding liquidity risk represents the risk that Leonteq will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without impacting either its daily operations or the financial condition of the Group. Funding consumption occurs mainly within Leonteq Securities AG Zurich and Leonteq Securities AG Amsterdam Branch.

Disclosures on funding liquidity risk are provided in section 7.6.4 "Funding liquidity risk".

7.3.7 Compliance and legal risk

Compliance risk and legal risk are the risks arising from violations of – or non-compliance with – laws, rules, regulations, prescribed practices or internal policies and procedures, or the non-enforceability of legal rights, including contractual rights.

This exposes Leonteq to the risk of fines, civil financial penalties, payment of damages and the voiding of contracts. Compliance and legal risks can lead to reputational harm, limited business opportunities, reduced expansion potential and an inability to enforce contracts. The Group's Compliance department is responsible for ensuring compliance with applicable rules and regulations. Changes in the regulatory environment are monitored, and directives and procedures are adapted as required.

7.3.8 Tax risk

Tax risk is defined as the risk of losses arising, in particular, from changes in taxation (derived from tax legislations and decisions by the courts), including the misinterpretation of tax regimes as well as the manner in which they may be applied and enforced. This also applies to new international tax laws that could have a negative impact on the taxation of structured products, making them unattractive for investors. Leonteq proactively manages and controls these risks. It usually asks the relevant tax authorities for written confirmation of its interpretation of the relevant regulations (tax rulings) or seeks appropriate advice from professional local tax consultants. Tax risk is monitored centrally by the Tax department in Zurich, which takes an integrated view of tax risks for the whole Group.

7.4 Risk appetite framework

Risk appetite defines the overall risk that the Group is willing to accept. The Board of Directors approves Leonteq's Risk Appetite Framework and sets risk appetite objectives to ensure sustainable profitability and the preservation of shareholder value. These objectives include the protection of capital, liquidity and earnings during plausible but severe stress scenarios. They are translated into risk limits for individual financial risks inherent in the Company's activities and qualitative statements for risks that cannot be quantified, e.g. operational risk.

7.5 Risk measurement

The Group measures risk at the level of individual positions and at portfolio level. Exposure and position-level risk measures comprise:

- Market risk factor sensitivities;
- Credit exposure measured on a country, counterparty or issuer level.

Portfolio-level risk measures market risk factors based on the following approaches:

- Sensitivity measures specifically address individual risk factors, such as correlations or dividends. This approach is used to calculate risk sensitivities to risk factors and model parameters.
- Stress loss measures at portfolio level are based on historical or hypothetical stress scenarios.
- Statistical loss measures such as Value at Risk (VaR) or Expected Shortfall are dependent on market behaviour during a specific historical time horizon and they complement stress loss measures.

VaR estimates the potential one-day loss from market risk exposure based on historically observed changes in risk factors applied to the current positions and a predefined confidence level. We use a confidence level of 99% and a historical time horizon of 300 business days.

Sensitivity, stress and statistical loss measures are calculated and stored at position level, facilitating the analysis of the results across multiple dimensions, such as entities, trading portfolios or individual asset classes.

Leonteq does not use any approximation techniques to calculate risk sensitivities or the results of sensitivity and stress scenarios. A full revaluation of all positions, including derivatives priced using Monte Carlo techniques, is used for risk-related calculations.

The resulting risk exposure and limit consumption for all established risk limits is reported to senior management on a daily basis. Risk limits are applied to credit exposure and market risk sensitivities.

7.6 Risk disclosure

7.6.1 Market risk

Risk sensitivity analysis

Equity, commodity, foreign exchange and interest rate risks are monitored and controlled through the daily calculation of the following measures:

- Delta risk measures the impact of a change in the price of the underlying (equity, precious metal or commodity) and the impact on profit and loss is measured based on a 1% increase in the price of all underlying securities.
- Vega risk is the sensitivity of the derivative value with respect to changes in the implied volatility of an underlying (equity, precious metal or commodity) and the impact on profit and loss is measured based on a 1% normalised shock on the implied volatility in absolute terms for all underlyings. A normalised volatility shock is defined by a term structure of shocks with shocks decaying by $1/\sqrt{t}$, with caps and floors applied at the short and long end.
- Correlation risk measures the impact on the derivative value of changes in implied correlation between underlying pairs and the impact on profit and loss is measured based on a change in implied correlation of 1 percentage point in absolute terms for all underlying pairs.
- Dividend risk measures the impact on the derivative value of changes in the expected dividend and the profit or loss impact is measured based on a change in dividend of -10% in relative terms for all underlyings.
- Foreign exchange risk measures the impact of a change in currency prices. The impact on profit and loss is measured for a 1% change in the value of all currencies against the Swiss Franc. Sensitivities are further classified into G10 currencies (FX G10) and non G10 currencies (FX EM).
- Interest rate risk measures the impact of a parallel shift in the yield curve and the impact on profit and loss is measured based on a change in all the yield curves of 1% (DV100) for the G10 interest rates (IR G10) and the non G10 interest rates (IR EM).
- IR Vega risk is the sensitivity of the derivative value with respect to changes in the implied volatility of interest rates and the profit or loss impact is measured based on a change in the normal implied volatility of +1 basis point for all interest rate curves.

As of 31 December 2018, the Group had the following exposures relating to its financial assets and liabilities, which include the interest rate exposure from the investment portfolio.

Structured Products

CHF thousands	31.12.2018 Impact on income statement	31.12.2017 Impact on income statement
Risk Factor		
Equity Delta	(319)	73
Precious Metal Delta	35	(127)
Commodity Delta	(30)	(94)
Equity Vega	3,657	3,893
Precious Metal Vega	(10)	84
Commodity Vega	(165)	(165)
Equity correlation	(9,820)	(4,583)
Equity dividend	(5,799)	(7,398)
FX G10 Delta	(328)	(346)
FX EM Delta	150	(530)
IR G10 DV100	3,980	3,107
IR EM DV100	310	319

Pension Products

CHF thousands	31.12.2018 Impact on income statement	31.12.2017 Impact on income statement
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Risk Factor

IR DV100	(200)	(402)
IR Vega	(66)	23

Stress analysis

The Group reports the PnL impact on its portfolio of the following relevant historical stress scenarios:

■ **9/11** is a 1-day crash scenario that happened on 11 September 2001 after the terrorist attack on the Twin Towers in NYC. Equity prices decreased significantly and equity volatilities increased.

■ **Rally** is a 1-day rally scenario that happened two weeks after 11 September 2001, i.e. on 24 September 2001. Equity prices increased and equity volatilities decreased.

The following tables give an indication of the overall risk exposure as of 31 December 2018:

Structured Products

CHF thousands	Vol. -5%	Vol. -2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	(55,542)	(23,995)	(8,995)	1,861	10,082	7,733
Spot -5%	(40,976)	(14,249)	(934)	8,391	16,180	13,252
Spot -2%	(30,576)	(10,325)	284	7,682	13,568	9,221
Spot 0%	(24,055)	(8,476)	—	5,944	9,883	4,846
Spot +2%	(19,627)	(7,435)	(1,228)	2,936	5,329	(458)
Spot +5%	(15,858)	(8,614)	(5,531)	(3,617)	(3,139)	(9,729)
Spot +10%	(16,345)	(17,022)	(17,888)	(19,250)	(21,997)	(29,439)

Pension Products

CHF thousands	Vol. -20bp	Vol. -10bp	Vol. 0bp	Vol. +10bp	Vol. +20bp
Spot -50bp	(92)	(1,019)	(895)	(114)	1,101
Spot -25bp	2,281	449	(224)	(113)	548
Spot 0bp	3,550	1,176	—	(330)	(55)
Spot +25bp	3,895	1,387	(9)	(595)	(589)
Spot +50bp	4,905	2,112	383	(532)	(835)

Scenarios that are close to the diagonal from the lower left corner to the upper right corner are more likely to be observed, especially over a short time period of time.

The long volatility exposure is induced by client flow. With downside and volatile market movements, the trading books make a profit, whereas with low volatility and positive market movements, the trading books can generate a loss that is expected to be offset by client activity.

7.6.2 Credit risk

Exposure to counterparties resulting from Leonteq's OTC derivatives and securities lending and borrowing activities are typically mitigated through the use of close-out netting arrangements, the daily exchange of mark-to-market collateral and additional collateral arrangements.

The largest exposures for OTC trading activities were:

Counterparty	Credit Rating	31.12.2018 Exposure (CHF million)	Counterparty	Credit Rating	31.12.2017 Exposure (CHF million)
OTC Counterparty 1	A1	49.6	OTC Counterparty 1	A3	25.0
OTC Counterparty 2	A3	37.2	OTC Counterparty 2	A1	23.0
OTC Counterparty 3	A3	33.3	OTC Counterparty 3	not rated	21.2

The largest credit exposures were for securities lending and borrowing (SLB) activities:

Counterparty	Credit Rating	31.12.2018 Exposure (CHF million)	Counterparty	Credit Rating	31.12.2017 Exposure (CHF million)
SLB Counterparty 1	A-	92.5	SLB Counterparty 1	A1	44.9
SLB Counterparty 2	Aa3	40.4	SLB Counterparty 2	Aa3	14.2
SLB Counterparty 3	Baa1	12.1	SLB Counterparty 3	A3	4.5

7.6.3 Investment portfolio

The Group has primarily invested proceeds from own product issuance in short- to mid-term high-quality bonds issued by core governments, organisations supported by these governments and supranational organisations. In addition, it started to invest a certain portion into mid-term high-quality bonds issued by corporates and financials in 2018.

A comprehensive overview of the investment portfolio by maturity and rating is given in the following table.

CHF million	Maturity 0-6 months	Maturity 6-12 months	Maturity 12-24 months	Maturity > 24 months	Total 31.12.2018	Total 31.12.2018 in %	Total 31.12.2017	Total 31.12.2017 in %
Governments ⁵	261.5	196.0	255.6	279.7	992.8	56.4%	762.8	74.8%
of which Aaa	232.4	119.8	173.1	207.1	732.4	41.6%	641.7	62.9%
of which Aa1-Aa2	29.1	76.2	82.5	72.6	260.4	14.8%	121.1	11.9%
Supranational agencies	104.9	98.8	11.2	307.7	522.6	29.7%	257.3	25.2%
of which Aaa	92.4	98.8	11.2	200.9	403.3	22.9%	233.7	22.9%
of which Aa1	12.5	—	—	106.8	119.3	6.8%	23.6	2.3%
Corporates	—	—	—	130.7	130.7	7.4%	—	—
of which Aa1-Aa3	—	—	—	64.1	64.1	3.6%	—	—
of which A1-A2	—	—	—	60.4	60.4	3.4%	—	—
of which Baa1	—	—	—	6.2	6.2	0.4%	—	—
Financials	0.4	0.5	15.0	98.4	114.3	6.5%	—	—
of which Aa1-Aa3	—	—	9.8	43.5	53.3	3.0%	—	—
of which A1-A3	0.4	0.5	5.0	41.8	47.7	2.7%	—	—
of which Baa1-Baa3	—	—	0.2	13.1	13.3	0.8%	—	—
Total	366.8	295.3	281.8	816.5	1,760.4	100.0%	1,020.1	100.0%

⁵ Comprises bonds issued by governments, national banks and issuers with an explicit and implicit government-guarantee for which the high probability of government support is reflected in their credit ratings.

7.6.4. Funding liquidity risk

The Group is exposed to funding liquidity and refinancing risk due primarily to structured product issuance both for the Group and its platform partners, for whom the Group provides derivative hedges. Funding liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected liquidity flows. In addition, Leonteq is required to post collateral with SIX to secure obligations relating to COSI® and TCM-issued products. The repatriation of certain offshore cash placements would be subject to Swiss withholding tax. Leonteq therefore avoids using such unsecured liquidity held in the Guernsey/Amsterdam branch of Leonteq Securities AG to fund the purchase of securities needed to hedge market risks in Switzerland.

The liquidity management framework requires Leonteq to maintain sufficient liquidity reserves across its locations, thus allowing for adequate liquidity during general market, industry-specific or Group-specific stress conditions. Under the framework, Leonteq is required to maintain certain levels of available or onshore liquidity, excluding funding that may not be repatriated to Switzerland. The framework metrics are independently verified by Risk Control each business day.

In addition, Risk Control simulate the effects of various stress scenarios on the amount of funding required under those scenarios on a daily basis. The framework requires that sufficient liquidity is available in locations to cover their respective funding requirements. If Leonteq were to experience shortfalls in any aspect relating to required liquidity, committed credit facilities can be drawn on in conjunction with other reserve liquidity measures, as specified in the liquidity framework.

The table on the next page shows the maturity analysis of the Group's financial assets and liabilities. Financial assets are presented based on either the first time period in which they can be contractually redeemed or, in the case of trading financial assets (principally equity instruments with no contractual maturity), in the "up to 1 month" category, reflecting management's view on the liquidity characteristics of these instruments. Financial liabilities are presented based on the first time period in which they are contractually redeemable. As undiscounted cash flows are not significantly different from discounted cash flows, the balances equal their carrying amount on the statement of financial position, with the exception of other financial assets and financial liabilities designated at fair value through profit or loss, and trading financial assets and liabilities, which have been adjusted to reverse the effects of changes in fair values due to changes in interest rates.

With a higher amount of financial assets redeemable within three months relative to financial liabilities, Leonteq has a surplus of short-term liquidity. This gives the Group the flexibility to repay its liabilities in the event of early redemptions of structured products due to unforeseen market movements. Assets with shorter durations are periodically renewed or rolled over. This ensures a constant funding match and facilitates the adequate liquidity management of assets and liabilities.

CHF thousands	Due				Total 31.12.2018
	Up to 1 month	1–3 months	3–12 months	Over 12 months	
Assets					
Amounts due from banks	1,375,066	—	—	—	1,375,066
Amounts due from securities financing transactions	84,076	—	—	—	84,076
Amounts due from customers	214,291	—	—	—	214,291
Trading financial assets	1,943,103	11,584	8,410	67,334	2,030,431
Positive replacement values of derivative financial instruments	109,790	2,448,518	1,001,716	1,388,869	4,948,893
Other financial assets designated at fair value through profit or loss	61,713	168,661	442,206	1,221,972	1,894,552
Accrued income	8,991	4,496	—	—	13,487
Total financial assets	3,797,030	2,633,259	1,452,332	2,678,175	10,560,796
Liabilities					
Amounts due to banks	924,049	—	—	—	924,049
Liabilities from securities financing transactions	428,901	—	—	—	428,901
Amounts due to customers	1,375,104	—	—	—	1,375,104
Trading financial liabilities	359,188	—	—	894	360,082
Negative replacement values of derivative financial instruments	152,096	739,749	915,560	1,880,948	3,688,353
Other financial liabilities designated at fair value through profit or loss	1,148,449	752,770	489,844	996,566	3,387,629
Accrued expenses	23,387	37,661	1,740	—	62,788
Total financial liabilities	4,411,174	1,530,180	1,407,144	2,878,408	10,226,906

CHF thousands	Due				Total 31.12.2017
	Up to 1 month	1–3 months	3–12 months	Over 12 months	
Assets					
Amounts due from banks	900,931	—	—	—	900,931
Amounts due from securities financing transactions	13,533	—	—	—	13,533
Amounts due from customers	108,048	—	—	—	108,048
Trading financial assets	2,250,160	10,946	13,749	69,130	2,343,985
Positive replacement values of derivative financial instruments	10,200	575,641	384,413	659,463	1,629,717
Other financial assets designated at fair value through profit or loss	137,339	158,272	544,248	293,682	1,133,541
Accrued income	6,190	3,095	—	—	9,285
Total financial assets	3,426,401	747,954	942,410	1,022,275	6,139,040
Liabilities					
Amounts due to banks	534,460	—	—	—	534,460
Liabilities from securities financing transactions	377,397	—	—	—	377,397
Amounts due to customers	168,109	—	—	—	168,109
Trading financial liabilities	99,864	—	—	994	100,858
Negative replacement values of derivative financial instruments	44,700	196,843	384,141	937,332	1,563,016
Other financial liabilities designated at fair value through profit or loss	626,715	702,277	485,496	1,258,903	3,073,391
Accrued expenses	30,914	29,093	—	—	60,007
Total financial liabilities	1,882,159	928,213	869,637	2,197,229	5,877,238

7.7 Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements. The net amount shown reflects the net credit exposure per asset class.

CHF thousands	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amount of financial assets as reported in IFRS balance sheet	Effect of Master Netting Agreements	Effect of collateral received	Net amount
Amounts due from banks	1,375,066	—	1,375,066	—	(519,195)	855,871
Amounts due from securities borrowing	84,076	—	84,076	—	(84,076)	—
Amounts due from customers	214,291	—	214,291	(44,974)	(529)	168,788
Positive replacement values of derivative instruments	4,948,893	—	4,948,893	(2,652,210)	(1,675,454)	621,229
Other financial assets designated at fair value through profit or loss	1,913,507	—	1,913,507	(165,386)	—	1,748,121
Total as of 31 December 2018	8,535,833	—	8,535,833	(2,862,570)	(2,279,254)	3,394,009

CHF thousands	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amount of financial assets as reported in IFRS balance sheet	Effect of Master Netting Agreements	Effect of collateral received	Net amount
Amounts due from banks	900,931	—	900,931	—	(203,833)	697,098
Amounts due from securities borrowing	13,533	—	13,533	—	(13,533)	—
Amounts due from customers	108,048	—	108,048	(21,508)	—	86,540
Positive replacement values of derivative instruments	1,629,717	—	1,629,717	(1,107,492)	(186,222)	336,003
Other financial assets designated at fair value through profit or loss	1,141,602	—	1,141,602	(129,875)	—	1,011,727
Total as of 31 December 2017	3,793,831	—	3,793,831	(1,258,875)	(403,588)	2,131,368

In addition to the above amounts, the exposure to credit risk from trading financial assets is reduced via credit protection through structured products issued. The effect of this credit protection is a reduction in trading assets presented in the statement of financial position of CHF 61,776 thousand for the year ended 31 December 2018 (2017: CHF 62,881 thousand).

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements. The net amount shown reflects the net credit exposure per asset class.

CHF thousands	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amount of financial liabilities as reported in IFRS balance sheet	Effect of Master Netting Agreements	Effect of collateral paid	Net amount
Amounts due to banks	924,049	—	924,049	—	(873,880)	50,169
Liabilities from securities financing transactions	428,901	—	428,901	—	(428,901)	—
Amounts due to customers	1,375,104	—	1,375,104	(44,974)	(1,297,071)	33,059
Negative replacement values of derivative financial instruments	3,688,353	—	3,688,353	(2,725,650)	(849,818)	112,885
Other financial liabilities designated at fair value through profit or loss	3,123,856	—	3,123,856	(91,946)	(806,784)	2,225,126
Total as of 31 December 2018	9,540,263	—	9,540,263	(2,862,570)	(4,256,454)	2,421,239

CHF thousands	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amount of financial liabilities as reported in IFRS balance sheet	Effect of Master Netting Agreements	Effect of collateral paid	Net amount
Amounts due to banks	534,460	—	534,460	—	(404,137)	130,323
Liabilities from securities financing transactions	377,397	—	377,397	—	(377,397)	—
Amounts due to customers	168,109	—	168,109	(19,298)	(148,811)	—
Negative replacement values of derivative financial instruments	1,563,016	—	1,563,016	(1,212,877)	(194,435)	155,704
Other financial liabilities designated at fair value through profit or loss	3,040,531	—	3,040,531	(24,490)	(628,345)	2,387,696
Total as of 31 December 2017	5,683,513	—	5,683,513	(1,256,665)	(1,753,125)	2,673,723

For the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial asset and financial liability when both parties elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting arrangement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7.8 Capital risk management

The capital base serves primarily to cover inherent business risks. The active management of the volume and structure of capital is therefore of key importance. The monitoring and management of capital adequacy is performed primarily on the basis of the regulatory capital requirements determined by the Swiss Federal Council and the Swiss Financial Market Supervisory Authority (FINMA), which follows the capital framework defined by the Bank for International Settlements (BIS), retaining the tradition of higher capital requirements through the application of capital buffers, depending on the size of the company. The Group is not subject to liquidity requirements, as they apply specifically to banks.

The Group's capital management is closely tied to the Group's overall income targets and budgeting process, which also provides a reliable forecast of available capital on the basis of future profits, dividend policy and corporate actions. Capital planning is based on realistic assumptions with regard to business performance and includes an analysis of potential sources of additional capital in times of stress. Management is responsible for the capital planning process. The Board of Directors approves the capital plan at least annually. The main drivers of capital consumption are monitored on a regular basis by the Risk Control department. Risk Control regularly considers the Group's current and future capital position and provides management and the Board of Directors with the necessary information for decision-making purposes.

Swiss capital adequacy requirements are applicable to the consolidated Group under the supervision of FINMA and to Leonteq Securities AG as required for a licensed securities dealer. Both the Group and Leonteq Securities AG have complied with these rules and met the minimum total capital ratio of 10.5% of risk-weighted assets as of 31 December 2018 and at all times through 2018.

Risk-weighted assets are determined according to specific requirements, which reflect the varying levels of risk attached to assets and off-balance sheet exposures and include amounts in respect of market risk, credit risk, operational risk and non-counterparty related risk.

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

- **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.
- **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.
- **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.

The tables below summarise the eligible capital, required capital, risk-weighted assets and capital ratios calculated as of 31 December 2018 and 31 December 2017:

CHF thousands	31.12.2018	31.12.2017
BIS eligible capital		
Total shareholders' equity	607,656	418,386
Capital deductions	—	—
Other adjustments	—	—
CET 1 capital	607,656	418,386
Additional Tier 1	—	—
Tier 1 capital	607,656	418,386
Tier 2 capital	2,950	1,310
Total BIS eligible capital	610,606	419,696

Tier 2 capital takes the general provisions for default risk into account (See Note 32).

CHF thousands	BIS required capital		Risk-weighted assets	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Market risk (incl. derivatives)	138,109	106,379	1,726,360	1,329,743
Interest rates	81,127	52,927	1,014,088	661,589
Equities	38,366	41,409	479,573	517,617
Foreign exchange and gold	10,020	8,235	125,247	102,943
Commodities	8,596	3,808	107,452	47,594
Credit risk	45,912	28,029	573,904	350,357
Operational risk	33,367	31,928	417,084	399,095
Non-counterparty related risk	4,360	4,196	54,497	52,451
Amounts below threshold for deductions ⁶	650	472	8,131	5,905
Cryptocurrencies ⁷	50	—	629	—
Total	222,448	171,004	2,780,605	2,137,551

⁶ With 250% to be risk-weighted positions.

⁷ As of 31 December 2018, cryptocurrencies are risk-weighted by 800% according to FINMA communication on 15 October 2018. As of 31 December 2017, cryptocurrencies are reported as commodities (part of market risk) with a capital requirement of CHF 4 thousand.

BIS capital ratios (%)	31.12.2018	31.12.2017
CET 1 capital ratio (required: 7.0% ⁸)	21.9%	19.6%
Tier 1 capital ratio (required: 8.5% ⁸)	21.9%	19.6%
Total capital ratio (required: 10.5%⁸)	22.0%	19.6%

⁸ Minimum requirement including capital conservation buffer according to Annex 8 CAO.

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 large credit risk to banks and insurance companies as a result of its cash holdings, securities transactions, derivative exposures arising from positions in OTC and listed derivatives, as well as securities lending and borrowing activities. The capital requirement for operational risk is based on average earnings over a three-year time period.

For additional information according to the FINMA circular 2016/1 Disclosure-Banks, refer to the separate Basel III Pillar 3 Report published in the Investor Relations section of the Company's website at: www.leonteq.com. The report will be available at the end of April 2019.

7.9 Leverage ratio

CHF thousands	31.12.2018 Exposure	31.12.2017 Exposure
Tier 1 capital	607,656	418,386
Total consolidated assets as per published financial statements	10,690,224	6,347,945
Adjustments	(3,264,863)	(331,737)
Leverage ratio exposure	7,425,362	6,016,208
Leverage ratio	8.2%	7.0%

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. For the calculation of the leverage ratio exposure the majority of derivative exposures can be netted or offset against cash collateral based on the netting agreements in place with trading counterparties (presented as Adjustments).

7.10 Risk concentrations

Management considers that a risk concentration exists when an individual or group of financial instruments is exposed to changes in the same risk factor and that exposure could result in a significant loss based on plausible adverse future market developments. Management reviews risk concentrations, including residual risks such as vega, correlation, dividend and gap risk, on a regular basis and takes corrective actions to ensure exposures are reduced to an acceptable level.

Under Swiss banking law, banks and securities dealers are required to manage risk concentration ('large exposures') within specific limits. Aggregated credit exposure to any single counterparty or a group of related counterparties must bear an adequate relationship to the bank's eligible capital, taking into account counterparty risks and risk mitigating instruments. As of 31 December 2018, the Group identified seven large exposures (as of 31 December 2017, three large exposures).

Credit risk concentrations are reflected in section 7.6.2 "Credit risk".

8 Fair values of financial instruments and trading inventories

Measurement methodologies

Derivative financial instruments, traded financial assets and liabilities, other financial assets designated at fair value, other financial liabilities designated at fair value and trading inventories are recognised at fair value in the statement of financial position. Changes in the fair values of these instruments are recognised in the income statement as the “result from trading activities and the fair value option”.

Fair value is determined using quoted prices in active markets when these are available. In other cases, fair value is determined using a valuation model. Valuation models use market observable inputs and rates derived from market-verifiable data, such as interest rates and foreign exchange rates, when available. Valuation models are primarily used for the valuation and hedging of issued structured products and derivatives.

The output of a model is typically an estimate or approximation of a value that cannot be determined with certainty, and the valuation techniques employed may not fully reflect all factors relevant to the positions held. Significant risks arise when models are used to value financial securities and calculate hedging ratios. The consequence of an inadequate model could be an incorrect valuation leading to an incorrect risk assessment and an incorrect hedging position, both of which could lead to a financial loss.

All models are validated before they are used as a basis for financial reporting, and they are periodically reviewed thereafter by qualified personnel independent of model developers and users. Whenever possible, valuations derived from models are compared with prices of similar financial instruments and with actual values when realised in order to further validate and calibrate the models.

Valuation models are generally applied consistently across products and from one period to the next, ensuring comparability and continuity of valuations over time. However, models are changed or adapted to market developments where necessary, and the Group considers additional factors to ensure that the valuations are appropriate. The factors considered include uncertainties in relation to models used, parameters used, liquidity risks and, in the case of structured products, the risk of early redemption. The adjustments reflect the inherent uncertainty in model assumptions and input parameters in relation to the valuation method used. Adjustments relating to liquidity risk take into account the expected cost of hedging open net risk positions. The Group believes that it is necessary and appropriate to take these factors into account to determine the fair value of these instruments.

There were no significant changes in the valuation models used for the period ending 31 December 2018.

All financial instruments and trading inventories carried at fair value are categorised into one of three fair value hierarchy levels at year-end, depending on how fair value has been determined:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2 – valuation techniques for which all significant inputs are observable in the market, either directly or indirectly
- Level 3 – valuation techniques that include significant inputs not based on observable market data

Transfers between levels resulting from changes due to the availability of market prices or market liquidity are made when the change of market liquidity occurs.

Fair value of financial instruments

The fair value of financial instruments contained in the financial position of the Group based on the valuation methods and assumptions explained below is the same as the book value. There is no deviation between fair value and book value.

Financial assets and liabilities at amortised costs

The financial assets and liabilities at amortised costs contain the positions “cash in hand”, “amounts due from banks”, “amounts due from securities financing transactions”, “amounts due from customers”, “accrued income”, “amounts due to banks”, “liabilities from securities financing transactions”, “amounts due to customers” and “accrued expenses”. All these positions have short-term maturities (i.e. less than three months) and it is assumed that the book value is equal to the fair value. to take these factors into account to determine the fair value of these instruments correctly.

Trading financial assets and liabilities, trading inventories, positive and negative replacement values of derivate financial instruments, other financial assets and liabilities designated at fair value through profit or loss.

Own credit

Leonteq determines its own credit spread regularly based on a model using observable market inputs such as market capitalisation, debt and product type-specific adjustments. Management compared the determined credit spread with observable and paid credit spreads for public distributed products of Leonteq to ensure that all available market information is reflected in the determined credit spread. Leonteq's management determines the own credit spread on a regular basis. No own credit spread adjustment was required in 2018 and 2017 respectively.

Valuation adjustments

The fair values of level 2 and level 3 instruments are based on valuation methods and therefore a level of uncertainty is inherent in those values. The valuation methods do not always reflect all relevant factors when determining fair values. The Group considers additional factors in the case of issued structured products as well as derivative instruments to ensure that the valuations are appropriate. The factors include uncertainties in relation to models used, to parameters used, to liquidity risks and, in the case of structured products, to the risk of early redemption. The adjustments reflect the uncertainty in model assumptions and input parameters in relation to the valuation method used. The adjustments relating to the liquidity risk take into account the expected cost of hedging open net risk positions. The Group believes that it is necessary and appropriate to take these factors into account to determine the fair value of these instruments correctly.

The valuation's appropriateness of financial instruments based on valuation method is ensured through the application of clearly defined processes, methods and independent controls. The controls comprise the analysis and approval of new instruments, the approval and regular assessment of used valuation models, the daily analysis of profit and loss, the regular independent price verification including the review of used input parameters. The controls are performed by a risk control unit that possesses the relevant specialist knowledge and operates independently from trading and treasury functions.

Level 1 instruments

The fair value of level 1 instruments is based on unadjusted quoted prices in active markets. Equity securities, interest rate or debt securities issued by governments, public sector entities and companies, quoted investment funds, precious metals, trading inventories, commodities and positive or negative replacement values of exchange traded derivatives are allocated to this category. The quoted market price used for the Group's equity securities, debt securities, quoted funds and exchange traded derivative instruments is the exit price. Generally accepted market prices are used for foreign currencies, precious metals, trading inventories and commodities. Mid-market prices are used for the valuation of debt securities, which are categorised as financial assets designated at fair value through profit or loss if the market price risks of these positions are offset fully or to a significant extent by issued structured products or other trading positions.

Level 2 instruments

The fair value of level 2 instruments is based on quoted prices in markets that are not active or on a valuation method using significant input parameters that are directly or indirectly observable. Level 2 instruments comprise positive or negative replacement values of derivative instruments, issued structured products, debt securities with reduced market liquidity and investment funds that are not quoted. The Group uses valuation methods to determine the fair value of positive and negative replacement value of derivative instruments and issued structured products if there is no active market pursuant to the definition of IFRS 13 or if market liquidity varies significantly over time. For the valuation of derivative instruments, including option components of structured products, and the interest rate components of structured products, generally recognised option pricing models and generally recognised valuation methods – e.g. discounted cash flow models – are used. If quoted prices for instruments are available but low trading volumes indicate that there is no active market or quoted prices are not available, then the fair values of equity securities, debt securities, other securities and trading inventories are based on pricing information from counterparties, brokers or other pricing services. In the case of investment funds, published net asset values are used. The input parameters for the valuation models are contract-specific and include the market price of the underlying asset, foreign exchange rates, yield curves, default risk, dividend estimates and volatility. The Group's credit risk is considered only in the determination of the fair value of financial liabilities if market participants would consider it when calculating prices. Derivative instruments are traded on a collateralised basis. The Group's own credit risk, as well as third-party credit risk in the case of assets, is not included in the valuation of collateralised derivative instruments.

Level 3 instruments

The fair value of level 3 instruments is based on a valuation method that uses at least one significant input parameter that cannot be observed directly or indirectly in the market. The Group's level 3 instruments are positive or negative replacement values for longer-term derivative financial instruments. The Group uses generally recognised pricing models to determine the fair value of derivative financial instruments. The input parameters for the valuation models are contract-specific and include the market prices of the underlying asset, yield curves, volatilities and possibly other parameters. Derivative financial instruments are traded predominantly on a collateralised basis and the Group's own credit risk, as well as third-party credit risk in the case of assets, is not included in the valuation of collateralised derivative instruments. Whenever possible, the Group uses market observable input parameters to determine the fair value of financial instruments. However, due to the longer-term nature of some instruments, significant input parameters are not always considered observable for those long-dated products and they are therefore classified as level 3. The Group estimates these unobservable input parameters using market information as well as historical data. The estimated input parameters are reviewed during monthly independent price verification processes and are further reviewed by an independent risk control function.

No day 1 gains or losses were recognised as a result of transactions involving level 3 instruments during the year. An unrealised gain of CHF 1,019 thousand for fair value movements was recognised in "result from trading activities and the fair value option" for the year 2018. The closing balance of level 3 financial liabilities as of 31 December 2018 totalled CHF 18,383 thousand (31 December 2017: CHF 14,975 thousand).

Valuation techniques and inputs used in the fair value measurement of level 3 liabilities

The table on the next page presents significant level 3 liabilities together with the valuation techniques used to measure their fair value, significant inputs used in the valuation technique that are considered unobservable, and a range of values for unobservable inputs. The range of values represents the highest and lowest level input used in the valuation techniques. Consequently, the range does not reflect the level of uncertainty regarding a particular input but rather the different underlying characteristics of the relevant liabilities. The ranges will therefore vary from period to period and parameter to parameter based on the characteristics of the instruments held at each balance sheet date. Further, the ranges of unobservable inputs may differ across other financial institutions due to the diversity of the products in each firm's inventory.

Significant unobservable inputs in level 3 positions

This section discusses the significant unobservable inputs used in the valuation of level 3 instruments and assesses the potential effect that a change in each unobservable input in isolation may have on fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown.

CHF thousands	31.12.2018	31.12.2017	Valuation technique	Significant unobservable input ⁹	Range of unobservable inputs				Unit ⁹
					31.12.2018		31.12.2017		
					low	high	low	high	
Negative replacement values of derivative financial instruments	18,383	14,975	Generic Replication Modell ¹⁰	Volatility of interest rates	62	72	63	72	basis points

⁹ The ranges of significant unobservable inputs are represented in basis points.

¹⁰ A Generic Replication Model is used to price interest rate derivatives, in the prior year a SABR model was applied. The change of the valuation technique had no material impact on the financial statements.

Volatility of interest rates

Volatility measures the variability of interest rates and is generally expressed as an absolute number in basis points (bps). The minimum level of volatility is 0 bps and there is no theoretical maximum. Volatility is a key input in option models, where it is used to derive a probability-based distribution of forward rates. The effect of volatility on individual positions within the portfolio is determined primarily on the basis of whether the option contract is a long or short position. In most cases, the fair value of an option increases as a result of an increase in volatility and is reduced following a decrease in volatility. Generally, volatility used in the measurement of fair value is derived from active market option prices (referred to as implied volatility). A key feature of implied volatility is the volatility "smile" or "skew", which represents the effect of pricing options of different option strikes at different implied volatility levels.

Sensitivity of level 3 fair values

The Group's management believes, based on the valuation approach used for the calculation of fair values and the related controls, that the level 3 fair values are appropriate.

The following table shows the impact of reasonably possible alternative assumptions to the unobservable input parameters used. These results show no significant impact on the Group's net profit, comprehensive income or shareholders' equity.

CHF thousands	31.12.2018	31.12.2017
Impact on income statements of shifts of unobservable input parameters on fair values		
Increase of volatility of interest rates (+5 bps)	(167)	(115)
Decrease of volatility of interest rates (-5 bps)	167	115

Day 1 result

According to IFRS 13, the transaction price represents the best indication of the fair value of financial instrument unless the fair value of the instrument can be better determined by comparing it with other observable current market transaction involving the same instrument (level 1 instrument) or is based on a valuation method using observable market data (level 2 instrument).

For level 3 instruments, day 1 profit is deferred and is recognised as deferred income. Day 1 profit is only recognised as "result from trading activities and the fair value option" when the fair value of the respective instrument is determined using observable market data. During the current and previous reporting period, the Group had no positions with deferred day 1 profit.

CHF thousands	Level 1	Level 2	Level 3	Total 31.12.2018
Financial assets				
Trading financial assets				
Debt securities (listed)	38,196	27,693	—	65,889
Equity securities	1,568,508	17,529	—	1,586,037
Funds	181,526	168,163	—	349,689
Other securities	—	24,966	—	24,966
of which hybrid financial instruments	—	24,966	—	24,966
Total trading financial assets	1,788,230	238,351	—	2,026,581
Positive replacement values of derivative instruments	2,942,009	2,006,884	—	4,948,893
Other financial assets designated at fair value through profit or loss	1,723,056	190,451	—	1,913,507
Total financial assets	6,453,295	2,435,686	—	8,888,981
Trading inventories	16,221	—	—	16,221
Total trading inventories	16,221	—	—	16,221
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	1,242	—	—	1,242
Equity securities	343,544	73	—	343,617
Funds	15,573	—	—	15,573
Other securities	—	—	—	—
of which hybrid financial instruments	—	—	—	—
Total trading financial liabilities	360,359	73	—	360,432
Negative replacement values of derivative instruments	2,112,672	1,557,298	18,383	3,688,353
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	501,498	—	501,498
Equities	—	2,538,007	—	2,538,007
Foreign currency	—	9,398	—	9,398
Commodities (incl. precious metals)	—	74,953	—	74,953
Total other financial liabilities designated at fair value through profit or loss	—	3,123,856	—	3,123,856
Total financial liabilities	2,473,031	4,681,227	18,383	7,172,641

In 2018, there were no significant reclassifications of positions between level 1 and level 2 and vice versa.

CHF thousands	Level 1	Level 2	Level 3	Total 31.12.2017
Financial assets				
Trading financial assets				
Debt securities (listed)	59,571	9,940	—	69,511
Equity securities	1,866,021	393	—	1,866,414
Funds	223,172	155,883	—	379,055
Other securities	—	29,430	—	29,430
of which hybrid financial instruments	—	29,430	—	29,430
Total trading financial assets	2,148,764	195,646	—	2,344,410
Positive replacement values of derivative instruments	982,901	646,816	—	1,629,717
Other financial assets designated at fair value through profit or loss	1,006,703	134,899	—	1,141,602
Total financial assets	4,138,368	977,361	—	5,115,729
Trading inventories	88,962	—	—	88,962
Total trading inventories	88,962	—	—	88,962
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	1,382	—	—	1,382
Equity securities	98,261	—	—	98,261
Funds	977	—	—	977
Other securities	—	626	—	626
of which hybrid financial instruments	—	626	—	626
Total trading financial liabilities	100,620	626	—	101,246
Negative replacement values of derivative instruments	754,039	794,002	14,975	1,563,016
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	497,244	—	497,244
Equities	—	2,405,208	—	2,405,208
Foreign currency	—	4,358	—	4,358
Commodities (incl. precious metals)	—	133,721	—	133,721
Total other financial liabilities designated at fair value through profit or loss	—	3,040,531	—	3,040,531
Total financial liabilities	854,659	3,835,159	14,975	4,704,793

In 2017, there were no significant reclassifications of positions between level 1 and level 2 and vice versa.

Level 3 financial instruments

CHF thousands	31.12.2018	31.12.2017
Statement of financial position		
Balance at the beginning of the year	14,975	2,178
Additions	7,410	3,214
Disposals	(1,317)	(495)
Result recognised as trading income	(298)	154
Result recognised as other comprehensive income	—	—
Reclassifications to level 3	—	11,045
Reclassifications from level 3	(2,387)	(1,121)
Translation differences	—	—
Total balance at the end of the year	18,383	14,975
Income in the financial year on holdings on balance sheet date		
Unrealised income/(loss) recognised in the trading income	1,019	650
Unrealised income/(loss) recognised in other income	—	—
Unrealised income/(loss) recognised in other comprehensive income	—	—

Financial instruments are reclassified into / out of level 2 and 3 is made based on changes in the observability of the significant input parameter "volatility of interest rates" for the valuation of financial instruments.

Based on the change in the observability of significant input parameters, a reclassification of certain financial instruments out of level 2 into level 3 and vice versa was required:

- CHF 0 thousand of level 2 financial instruments were reclassified to level 3 (CHF 11,045 thousand in 2017)
- CHF 2,387 thousand of level 3 financial instruments were reclassified to level 2 (CHF 1,121 thousand in 2017)

9 Net result from interest operations

CHF thousands	2018	2017
Interest and discount income	5,891	1,623
Total interest income from assets at fair value	5,891	1,623
Interest expense	(19,122)	(10,546)
Total interest expense from financial liabilities at fair value	(19,122)	(10,546)
Gross result from interest operations	(13,231)	(8,923)
Changes in value adjustments for default risks and losses from interest operations	(1,640)	125
Net result from interest operations	(14,871)	(8,798)

The increase in interest income and expense is primarily due to increased usage of credit facilities and higher collateral balances in connection with increased US dollar interest rates.

For further information on Changes in value adjustments for default risks and losses from interest operations refer to Note 32.

10 Net fee income

CHF thousands	2018	2017
Fee income from Leonteq sales distribution	207,545	194,153
Fee income from platform partner distribution	62,656	50,252
Other fee income	5,900	6,462
Total fee income from securities trading and investment activities	276,101	250,867
Fee expense	(3,592)	(3,850)
Total fee expense	(3,592)	(3,850)
Net fee income	272,509	247,017

Net fee income increased by 10% compared to 2017. Contributions from Leonteq sales distribution were 7% higher than in 2017 and fee income from platform partner distribution increased by 25% compared to 2017. Other fee income and fee expenses comprise primarily commission for securities lending and borrowing transactions and reduced by 9% and 7% respectively. Large ticket transactions (defined as transactions where Leonteq earns a fee of CHF 0.5 million or more) amounted to CHF 22.0 million and accounted for 8% of net fee income in 2018, up from 4% (or CHF 9.3 million) in 2017.

For a breakdown of revenue, see Note 40 where revenue from contracts is allocated to the operating segments as well as to geographic locations.

Since Leonteq collects the majority of its fees when the product is issued, the Group defers the recognition of fees until it satisfied all the respective service obligations. The following table shows a reconciliation of the balance of deferred fees:

CHF thousands	2018	2017
Balance of deferred fees as of 31 December 2017	45,553	N/A
Adjustment due to the first time adoption of IFRS 15	20,690	N/A
Balance of deferred fees as of 1 January	66,243	35,833
Recognition of deferred fees in the income statement	(92,610)	(59,231)
Deferral of fees collected	102,112	68,951
Translation differences	–	–
Balance of deferred fees as of 31 December	75,745	45,553
of which recognised within the next 12 months	39,988	18,973
of which recognised after 12 months	35,757	26,580

Deferred fees are included in “accrued expenses and deferred income” in the consolidated statement of financial position.

The balance of deferred fees will be recognised as fee income in the income statement when the respective service obligations are satisfied. In the Investment Solutions divisions, service obligations that are not satisfied upon issuance of the product are deemed to be satisfied over the average effective lifetime of issued products which is estimated to be 12 months as of 31 December 2018. Consequently, an amount of CHF 32.6 million is expected to be recognised as fee income over a period of 12 months. Due to the long-term nature of the pension business, service obligations in the Insurance & Wealth Planning Solutions division are satisfied over a period of up to 48 years. CHF 14.5 million are expected to be recognised as fee income over the next 5 years, CHF 18.5 million between 6 and 20 years and CHF 10.1 million after 20 years.

11 Result from trading activities and the fair value option

Net result from trading activities and the fair value option allocated to risk categories per underlying

CHF thousands	2018	2017
Debt securities (incl. funds)	(4,935)	37,407
Equity securities (incl. funds)	32,911	(31,419)
Forex	6,393	3,886
Precious metals / commodities / cryptocurrencies	8,711	(17,270)
Trading related costs	(21,697)	(18,380)
Result from trading activities and the fair value option	21,383	(25,776)
of which result due to financial assets designated at fair value	23,923	17,186
of which result due to financial liabilities designated at fair value	(287,799)	(677,244)

The result from trading activities due to financial liabilities designated at fair value represents the gross results from products issued. The offsetting result from hedging activities is reflected in various components of the trading result (excluding trading related costs).

The net result from trading inventories (cryptocurrencies) is reflected in the line item "precious metals / commodities / cryptocurrencies".

The increase in the result from trading activities and the fair value option is primarily due to the increase in volatility levels in 2018 compared to 2017.

12 Other ordinary income

CHF thousands	2018	2017
Rental income	2,396	342
Other fee income from platform partners	850	2,611
Other	150	18
Total other ordinary income	3,396	2,971

Other ordinary income mainly consists of rental income generated through the sub-leasing of office space and non-recurring income earned in connection with other services rendered to platform partners (i.e. set-up, onboarding, migration).

13 Personnel expenses

CHF thousands	2018	2017
Salaries and bonuses	103,269	98,651
of which share based compensation	5,115	6,981
Social contributions	6,167	6,053
Pension plan expense	5,278	6,339
Other personnel expense	983	2,618
Total personnel expenses	115,697	113,661

The Group employed 493 and 450 employees as of 31 December 2018 and 2017, respectively. It had 486 and 440 full-time equivalents as of 31 December 2018 and 2017, respectively.

Deferred variable compensation

Personnel expenses for 2018 of CHF 115,697 thousand (2017: CHF 113,661 thousand) include deferred benefits granted in prior years under the employee variable compensation plan. Commitments for future periods arising from such compensation plans totalled CHF 29.2 million for the year ending 31 December 2018 (2017: CHF 19.5 million).

Employee share-based benefit programs

Personnel expenses include the impact of the two equity-settled, employee share-based compensation plans operated by the Group.

Share-based compensation – plans

The Group operates a share-based compensation plan for certain Leonteq employees. Part of the deferred variable compensation of participating employees is paid in the form of Leonteq shares. The share-based compensation plan aligns the deferred variable compensation of such employees with the long-term performance of the Company. The number of shares granted is determined by the amount of deferred compensation awarded to the employee, as well as the fair value of Leonteq shares at the grant date. Allocations made under this plan are based on deferred variable compensation for services rendered in the financial year ending 31 December prior to the grant date. Eligible employees will earn one-third of the shares over the next three years (“stage vesting”), depending on the plan, provided the employee fulfils the vesting conditions in March of each of each of the following years.

Number of shares	Employees	Executive Committee	Total 2018
Leonteq AG shares at the beginning of the year	5,417	1,064	6,481
Allotted rights and transfers (additions)	—	—	—
Forfeited rights and transfers (reductions)	(82)	—	(82)
Settlement of Leonteq AG shares	(5,099)	(1,064)	(6,163)
Leonteq AG shares at the balance sheet date	236	—	236

CHF	
Average grant price of program 2015 to 2019	103.98

CHF thousands	Employees	Executive Committee	Total 2018
Personnel expenses recognised over the vesting period for shares	3,969	428	4,397
Market value of shares on the allocation date	3,969	428	4,397
Charged as personnel expense in the year under review	61	11	72
Cumulative charges recognised as personnel expenses up to the balance sheet date	3,581	428	4,009
Estimated personnel expenses for the remaining vesting periods without future terminations	3	—	3

Number of shares	Employees	Executive Committee	Total 2017
Leonteq shares at the beginning of the year	19,174	3,936	23,110
Allotted rights and transfers (additions)	2,029	—	2,029
Forfeited rights and transfers (reductions)	(556)	(1,546)	(2,102)
Settlement of Leonteq AG shares	(15,230)	(1,326)	(16,556)
Leonteq AG shares at the balance sheet date	5,417	1,064	6,481

CHF	
Average grant price of program 2015 to 2019	103.98

CHF thousands	Employees	Executive Committee	Total 2017
Personnel expenses recognised over the vesting period for shares	3,969	428	4,397
Market value of shares on the allocation date	3,969	428	4,397
Charged as personnel expense in the year under review	419	65	484
Cumulative charges recognised as personnel expenses up to the balance sheet date	3,520	417	3,937
Estimated personnel expenses for the remaining vesting periods without future terminations	65	11	76

Restricted stock unit (RSU) plans

The Group operates RSU plans for certain Leonteq employees. Part of the deferred compensation of participating employees is paid in the form of RSUs that are converted into Leonteq shares, whereby one RSU entitles to one Leonteq share. RSU plans align the deferred variable compensation of such employees with the long-term performance of the Company. The number of shares granted is determined by the amount of deferred variable compensation awarded to the employee, as well as the fair value of Leonteq shares at the grant date. Allocations made under this plan are based on deferred compensation for services rendered in the financial year ending 31 December prior to the grant date. Eligible employees will earn the RSUs over the pre-defined vesting period ("stage vesting"), provided the employee fulfils the vesting conditions as of 31 March of each of the following years. The members of the Executive Committee participate in an additional RSU plan, whereby members earn all their RSUs after a period of three years ('cliff vesting') if vesting conditions are fulfilled.

Number of RSUs	Employees	Executive Committee	Total 2018
RSUs at the beginning of the year	172,246	56,995	229,241
Allotted rights and transfers (additions)	36,248	15,517	51,765
Forfeited rights and transfers (reductions)	(2,475)	—	(2,475)
Settlement of RSUs by Leonteq AG shares	(42,783)	(18,059)	(60,842)
RSUs at the balance sheet date	163,236	54,453	217,689

CHF	Total 2018
Average grant price of program 2016 to 2022 – both plans	55.56

CHF thousands	Employees	Executive Committee	Total 2018
Personnel expenses recognised over the vesting period for RSUs	16,303	3,059	19,362
Market value of RSUs on the allocation date	16,303	3,059	19,362
Charged as personnel expenses in the year under review	3,109	1,023	4,132
Cumulative charges recognised as personnel expenses up to the balance sheet date	12,633	2,283	14,916
Estimated personnel expenses for the remaining vesting periods without future terminations	2,593	776	3,369

Number of RSUs	Employees	Executive Committee	Total 2017
RSUs at the beginning of the year	97,133	22,599	119,732
Allotted rights and transfers (additions)	118,974	52,600	171,574
Forfeited rights and transfers (reductions)	(3,060)	(16,649)	(19,709)
Settlement of RSUs by Leonteq AG shares	(40,801)	(1,555)	(42,356)
RSUs at the balance sheet date	172,246	56,995	229,241

CHF	Total 2017
Average grant price of program 2016 to 2021 – both plans	57.84

CHF thousands	Employees	Executive Committee	Total 2017
Personnel expenses recognised over the vesting period for RSUs	14,129	2,151	16,280
Market value of RSUs on the allocation date	14,129	2,151	16,280
Charged as personnel expenses in the year under review	4,560	1,045	5,605
Cumulative charges recognised as personnel expenses up to the balance sheet date	9,496	1,260	10,756
Estimated personnel expenses for the remaining vesting periods without future terminations	3,736	891	4,627

14 Other operating expenses

CHF thousands	2018	2017
Rent and accommodation	10,895	9,622
Information and communications technology	21,629	17,822
Audit fees	1,677	1,420
of which for financial and regulatory audit	1,399	938
of which for other services	278	482
Other administrative expenses	19,002	21,178
of which for professional services other than audit fees	5,806	6,242
Total other operating expenses	53,203	50,042

15 Taxes

Income taxes

CHF thousands	2018	2017
Income tax expense		
Switzerland	—	—
Foreign	2,464	1,047
Current income tax expense	2,464	1,047
Switzerland	(242)	(553)
Foreign	(380)	(272)
Deferred income tax (benefit)/expense	(622)	(825)
Total income tax expense	1,842	222
Profit before tax	93,334	23,293
Income tax expense computed at the Swiss statutory tax rate	19,739	4,926
Explanations for higher (lower) tax expense		
Participation income tax relief	(2,893)	(2,019)
Tax rate differential	(9,891)	(7,341)
De-recognition of lease	—	1,399
Transfer pricing adjustments	683	855
Addition/(Utilisation) of unrecognised tax losses carried forward	(2,529)	2,198
Impact of first time adoption of IFRS15 recognised through equity	(2,760)	—
Impact of cost relating to capital increase recognised through equity	(635)	—
Adjustments related to prior years	113	—
Other impacts	15	204
Total income tax expense	1,842	222
Capital tax expense	691	450
Corporate tax expense	2,533	672

The statutory tax rate of the Group's main operating entity, Leonteq Securities AG, was 21.15% and 21.15% for the years ended 31 December 2018 and 2017, respectively. Any income generated by Leonteq AG is generally taxed in accordance with preferential holding company tax rules in Switzerland. The Group's foreign operations are taxed at varying rates. The tax rate differential presented relates primarily to the income of the Group's Guernsey Branch, which is taxed at the Guernsey company standard rate of 0%.

The main operating entity Leonteq Securities AG, Zurich, applied for participation income tax exemption in line with the applicable Swiss tax legislation. The resulting impact was CHF 2,893 thousand for the tax period 2018 and CHF 2,019 thousand for the 2017 tax period. The size of the benefit of the income tax exemption is directly linked to the taxable profits of the Company, among other factors.

The adjustments in "De-recognition of lease" relate to differences in relation to the derecognition of the lease for the former office space in London, incurred during 2017.

The adjustments in transfer pricing mainly relate to interest rate adjustments (including corresponding adjustments) to the Contingent Convertible Loan issued by Leonteq Securities AG and currently fully owned by the holding company Leonteq AG.

From the impact of tax losses not recognised are CHF 2.7 million incurred from entities abroad and CHF -0.2 million from the holding company Leonteq AG.

Current tax assets and current tax liabilities reported as of the date of the statement of financial position, and the resulting current tax expenses for the periods presented, are based partly on estimates and assumptions and may differ from the amounts determined by tax authorities in the future.

Deferred taxes

CHF thousands	Assets 31.12.2018	Assets 31.12.2017	Liabilities 31.12.2018	Liabilities 31.12.2017
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Composition of deferred taxes

Pension liability	2,690	2,119	—	—
Share based payment expenses	—	—	—	—
Timing differences in depreciation of long-lived assets	231	243	(179)	(234)
Other	331	—	—	—
Total deferred taxes	3,252	2,362	(179)	(234)

CHF thousands	Assets 2018	Assets 2017	Liabilities 2018	Liabilities 2017
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Changes in deferred taxes

Balance at the beginning of the year	2,362	3,719	(234)	(264)
Changes affecting the income statement	567	796	55	30
of which revaluation of share based payment plans	—	—	—	—
of which movement in pension liability	241	553	—	—
of which other temporary differences	326	243	55	30
Changes recognised through equity related to share based payment plans	—	—	—	—
Translation adjustment	(7)	—	—	—
Changes affecting the statement of other comprehensive income from pension liability	330	(2,153)	—	—
Balance at the end of the year	3,252	2,362	(179)	(234)

16 Amounts due from banks

CHF thousands	31.12.2018	31.12.2017
Due from banks on demand (cash and cash equivalents)	300,530	367,587
Due from banks on demand (precious metals)	2,807	7,056
Cash collateral paid to banks or regulated financial institutions	849,289	212,768
Settlement receivables with banks or regulated financial institutions	220,993	304,376
Settlement receivables with platform partners – banks or regulated financial institutions	1,447	9,144
Total amounts due from banks	1,375,066	900,931

Amounts with related parties are reflected in Note 37. As of 31.12.2018, amounts due from financial market infrastructure entities are presented under Amounts due from customers.

Amounts due from banks increased due to higher collateral requirements on the back of higher volatility levels at the end of 2018 resulting in an increase in negative replacement values.

17 Amounts due from customers

CHF thousands	31.12.2018	31.12.2017
Cash balances with financial market infrastructure entities	115,733	—
Settlement receivables with platform partners – non-banks	88,709	98,635
Other amounts due from platform partners – non-banks	6,975	6,501
Cash collateral paid to non-banks	529	912
Other amounts due from customers	2,345	2,000
Total amounts due from customers	214,291	108,048

Amounts with related parties are reflected in Note 37. As of 31.12.2017, amounts due from financial market infrastructure entities are presented under Amounts due from banks.

18 Securities financing transactions (assets and liabilities)

CHF thousands	Book value of assets as reported on balance sheet	Cash collateral received	Securities lent or used for collateralisation ¹¹	Total Net amount
Amounts due from securities financing transactions	84,076	—	—	84,076
Trading portfolio	2,026,581	428,901	(1,588,298)	867,184
Other financial instruments at fair value	1,913,507	—	(1,224,804)	688,703
Total as of 31 December 2018	4,024,164	428,901	(2,813,102)	1,639,963
With unrestricted right to resell or pledge	—	—	(145,737)	(145,737)

CHF thousands	Book value of liabilities as reported on balance sheet	Cash collateral paid	Securities borrowed or received for collateralisation	Total Net amount
Amounts due in respect of securities financing transactions	428,901	—	—	428,901
Trading portfolio	360,432	84,076	(419,710)	24,798
Liabilities from other financial instruments at fair value	3,123,856	—	—	3,123,856
Total as of 31 December 2018	3,913,189	84,076	(419,710)	3,577,555
of which repledged	—	—	—	—
of which resold	—	—	—	—

CHF thousands	Book value of assets as reported on balance sheet	Cash collateral received	Securities lent or used for collateralisation ¹¹	Total Net amount
Amounts due from securities financing transactions	13,533	—	—	13,533
Trading portfolio	2,344,410	377,397	(1,554,728)	1,167,079
Other financial instruments at fair value	1,141,602	—	(762,373)	379,229
Total as of 31 December 2017	3,499,545	377,397	(2,317,101)	1,559,841
With unrestricted right to resell or pledge	—	—	(75,299)	(75,299)

CHF thousands	Book value of liabilities as reported on balance sheet	Cash collateral paid	Securities borrowed or received for collateralisation	Total Net amount
Amounts due in respect of securities financing transactions	377,397	—	—	377,397
Trading portfolio	101,246	13,533	(144,156)	(29,377)
Liabilities from other financial instruments at fair value	3,040,531	—	—	3,040,531
Total as of 31 December 2017	3,519,174	13,533	(144,156)	3,388,551
of which repledged	—	—	—	—
of which resold	—	—	—	—

¹¹ Securities lent or used for collateralisation of securities financing transactions are equal to the amounts of collateral received or paid (taking haircuts into account). The remaining amount is used as collateral for other purposes (i.e. initial margin for ETDs or add-ons).

19 Trading financial assets

CHF thousands	31.12.2018	31.12.2017
Debt securities (listed)	65,889	69,511
of which pledged as collateral	33,850	32,376
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	—	—
Equity securities	1,586,037	1,866,414
of which pledged as collateral	1,103,096	1,161,062
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	140,050	57,034
Funds	349,689	379,055
of which pledged as collateral	305,615	284,856
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	5,687	18,265
Other securities	24,966	29,430
of which hybrid financial instruments	24,966	29,430
of which pledged as collateral	—	1,135
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	—	—
Total trading financial assets	2,026,581	2,344,410
of which based on valuation-model (see Note 8)	238,351	195,646
of which repo-eligible securities	1,894	2,483

Trading financial assets are purchased to offset the economic exposures arising from the non-host debt component of the Group's issued products or other financial liabilities.

20 Trading inventories

Since 2017, Leonteq is issuing certificates that replicate the performance of cryptocurrencies. To hedge the exposure resulting from the issuance of these certificates, Leonteq purchases or sells the respective underlying. At year end 2018 Leonteq issued products with Bitcoin, Bitcoin Cash, Ether, Litecoin and Ripple as underlyings. As the characteristics of a cryptocurrency do not match the existing classification criteria, IAS 8.10 is applicable. IAS 8.10 requires management to use its own judgement when developing and applying an accounting policy. Management must consider IFRS' approach to similar topics and accepted industry practices, among other factors. Based on the assessment performed, management decided to classify cryptocurrencies held as an asset as "trading inventories" and to apply the commodity broker-trader exemption (IAS 2.3) and therefore measure cryptocurrencies at fair value less costs to sell. The changes in fair value are recognised in the line item "result from trading activities and the fair value option".

21 Replacement values of derivative instruments

CHF thousands	Trading instruments		
	Positive RV	Negative RV	Contract volume
Interest rate instruments			
Forward contracts incl. FRAs	—	—	—
Swaps	78,124	78,164	11,344,737
Futures	—	—	12,666,416
Options (OTC)	29,334	115,333	4,714,918
Options (exchange traded)	—	—	—
Foreign currencies/precious metals			
Forward contracts	38,000	37,253	4,259,824
Swaps	13,106	799	1,116,297
Futures	—	—	—
Options (OTC)	36,641	60,233	4,046,200
Options (exchange traded)	—	—	—
Precious metals			
Forward contracts	—	—	—
Swaps	36	39	4,619
Futures	—	—	77,724
Options (OTC)	1,341	1,201	26,383
Options (exchange traded)	—	—	—
Equities/indices			
Forward contracts	—	—	—
Swaps	1,376,719	111,597	8,849,982
Futures	—	—	866,863
Options (OTC)	267,559	761,511	7,966,372
Options (exchange traded)	3,002,957	2,411,872	35,758,997
Credit instruments			
Credit default swap	89,042	106,360	2,844,506
Total return swap	—	—	—
First to default swaps	—	—	—
Other credit derivatives	—	—	—
Other			
Forward contracts	—	—	—
Swaps	13,349	3	77,616
Futures	—	—	158,880
Options (OTC)	2,685	3,988	76,489
Options (exchange traded)	—	—	—
Total before deduction of netting agreements (incl. cash collaterals) as of 31 December 2018	4,948,893	3,688,353	94,856,823
of which based on valuation-model (see Note 8)	2,006,884	1,575,681	—
Total after deduction of netting agreements (incl. cash collaterals) as of 31 December 2018	751,589	237,145	—
of which balances against central clearing institutions	723,161	131,295	—
of which balances against banks or securities dealers	23,216	9,185	—
of which balances against other customers	5,212	96,665	—

CHF thousands	Trading instruments		
	Positive RV	Negative RV	Contract volume
Interest rate instruments			
Forward contracts incl. FRAs	—	—	—
Swaps	54,980	53,766	5,668,950
Futures	—	—	9,570,447
Options (OTC)	27,470	103,333	4,070,382
Options (exchange traded)	—	—	—
Foreign currencies/precious metals			
Forward contracts	34,419	31,340	3,161,045
Swaps	6,247	2,034	923,188
Futures	—	—	—
Options (OTC)	19,341	37,692	2,705,321
Options (exchange traded)	—	—	—
Precious metals			
Forward contracts	—	—	—
Swaps	269	55	10,059
Futures	—	—	46,115
Options (OTC)	21	1,356	12,842
Options (exchange traded)	—	—	—
Equities/indices			
Forward contracts	—	—	—
Swaps	294,008	99,679	7,620,780
Futures	—	—	516,495
Options (OTC)	126,121	301,167	7,047,669
Options (exchange traded)	990,561	838,499	23,150,310
Credit instruments			
Credit default swap	72,257	91,642	2,896,075
Total return swap	—	—	—
First to default swaps	—	—	—
Other credit derivatives	—	—	—
Other			
Forward contracts	—	—	—
Swaps	2,361	520	86,497
Futures	—	—	134,408
Options (OTC)	1,662	1,933	20,361
Options (exchange traded)	—	—	—
Total before deduction of netting agreements (incl. cash collaterals) as of 31 December 2017	1,629,717	1,563,016	67,640,944
of which based on valuation-model (see Note 8)	646,816	808,977	—
Total after deduction of netting agreements (incl. cash collaterals) as of 31 December 2017	1,293,715	1,301,927	—
of which balances against central clearing institutions	691,909	692,108	—
of which balances against banks or securities dealers	315,151	460,469	—
of which balances against other customers	286,655	149,350	—

22 Other financial assets designated at fair value through profit or loss

CHF thousands	31.12.2018	31.12.2017
Debt securities (listed)	1,723,656	1,011,728
of which pledged as collateral	1,154,783	686,848
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	70,021	75,525
Other securities	24,465	—
of which hybrid financial instruments	24,465	—
Receivables from Insurance & Wealth Planning Solutions counterparties	165,386	129,874
Total financial assets designated at fair value through profit or loss	1,913,507	1,141,602
of which based on valuation-model (see Note 8)	190,451	134,899
of which repo-eligible securities	1,165,024	817,575

Bonds are used to offset exposures to similar term components of the Group's issued products, principally the host debt component of structured products issued.

Receivables from Insurance & Wealth Planning Solutions counterparties relate to expenses incurred to purchase economic hedges for interest rate risks on behalf of Insurance & Wealth Planning Solutions counterparties prior to the inception of their specific client contracts. These expenses are reimbursed to the Group by the respective Insurance & Wealth Planning Solutions counterparty.

The financial assets designated at fair value through profit or loss range from 1 month to 15 years.

23 Accrued income and prepaid expenses

CHF thousands	31.12.2018	31.12.2017
Prepaid operating expenses	2,362	8,718
Accrued interest	13,484	9,284
Other	3	3
Total accrued income and prepaid expenses	15,849	18,005

Prepaid operating expenses relate to rent, staff and other operating expense items. Accrued interest consists mainly of accrued interest from debt instruments held as an asset.

24 Long-lived assets

CHF thousands	Property and equipment		Total 31.12.2018
	Furniture / equipment	Leasehold improvements	
Historical cost			
Balance as of 1 January 2018	4,513	12,021	16,534
Additions	78	748	826
Disposals	(2)	(634)	(636)
Reclassifications	—	—	—
Other value adjustments/impairments	—	—	—
Translation adjustments	(21)	(17)	(38)
Balance as of 31 December 2018	4,568	12,118	16,686
Accumulated depreciation cost			
Balance as of 1 January 2018	2,160	2,468	4,628
Depreciation ¹²	727	1,850	2,577
Disposals	(2)	(634)	(636)
Reclassifications	—	—	—
Other value adjustments/impairments	30	2	32
Translation adjustments	(16)	(8)	(24)
Balance as of 31 December 2018	2,899	3,678	6,577
Net book value as of 31 December 2018	1,669	8,440	10,109

CHF thousands	Property and equipment		Total 31.12.2017
	Furniture / equipment	Leasehold improvements	
Historical cost			
Balance as of 1 January 2017	5,233	13,118	18,351
Additions	1	629	630
Disposals	(786)	(1,841)	(2,627)
Reclassifications	—	—	—
Other value adjustments/impairments	—	—	—
Translation adjustments	65	115	180
Balance as of 31 December 2017	4,513	12,021	16,534
Accumulated depreciation cost			
Balance as of 1 January 2017	1,527	748	2,275
Depreciation ¹²	882	1,993	2,875
Disposals	(730)	(1,841)	(2,571)
Reclassifications	—	—	—
Other value adjustments/impairments ¹³	434	1,495	1,929
Translation adjustments	47	73	120
Balance as of 31 December 2017	2,160	2,468	4,628
Net book value as of 31 December 2017	2,353	9,553	11,906

¹² All internally developed and purchased software is currently depreciated over a period of five years.

¹³ Impairments were recognised in connection with the onerous office leases in Zurich and London. See Note 33 for further information.

Leonteq's IT platform consists of different components: Leonteq developed proprietary front-end tools for product construction, product set-up and product documentation. The position management and risk management system is based on off-the-shelf software. Leonteq enhanced the software through the addition of specific functionalities such as in-built model libraries developed by Leonteq. The back-office tools used by Leonteq comprise standard software.

Information technology and systems			Total 31.12.2018	Total 31.12.2018
Internally developed software	Purchased software	IT equipment		
68,278	25,254	9,856	103,388	119,922
9,138	5,934	3,005	18,077	18,903
—	—	(175)	(175)	(811)
—	—	—	—	—
—	—	—	—	—
—	—	(10)	(10)	(48)
77,416	31,188	12,676	121,280	137,966
38,843	19,546	4,454	62,843	67,471
9,719	2,507	1,877	14,103	16,680
—	—	(77)	(77)	(713)
—	—	—	—	—
—	14	17	31	63
—	—	(8)	(8)	(32)
48,562	22,067	6,263	76,892	83,469
28,854	9,121	6,413	44,388	54,497

Information technology and systems			Total 31.12.2017	Total 31.12.2017
Internally developed software	Purchased software	IT equipment		
58,183	23,777	5,936	87,896	106,247
10,095	1,477	3,906	15,478	16,108
—	—	(1)	(1)	(2,628)
—	—	—	—	—
—	—	—	—	—
—	—	15	15	195
68,278	25,254	9,856	103,388	119,922
30,014	15,291	3,172	48,477	50,752
8,829	4,255	1,270	14,354	17,229
—	—	(1)	(1)	(2,572)
—	—	—	—	—
—	—	—	—	1,929
—	—	13	13	133
38,843	19,546	4,454	62,843	67,471
29,435	5,708	5,402	40,545	52,451

Commitments arising from operational leases

CHF thousands	31.12.2018	31.12.2017
Due within one year	9,527	9,516
Due between two and five years	27,511	38,872
Due later than five years	24,846	22,192
Commitments for minimum payments under operational leases	61,884	70,580

Commitments arising from operational sublease rental income

CHF thousands	31.12.2018	31.12.2017
Due within one year	2,611	2,614
Due between two and five years	5,785	8,274
Due later than five years	—	—
Commitments for minimum payments under operational leases	8,396	10,888

In 2017 and 2018, the Group sublet office space that it does not expect to be used in the coming years.

25 Other assets

CHF thousands	31.12.2018	31.12.2017
Withholding and other tax receivables	37,008	46,744
Other assets	19	177
Total other assets	37,027	46,921

The derivative component of structured products with Swiss underlyings, are generally hedged with Swiss shares. Withholding tax receivables represent the withholding taxes on dividends from such Swiss shares. In the period under review, Leonteq received CHF 17.3 million from the Swiss Federal Tax Authority.

26 Amounts due to banks

CHF thousands	31.12.2018	31.12.2017
Cash overdrafts (cash and cash equivalents)	168,865	102,114
Cash collateral received from banks or regulated financial institutions	497,576	63,447
Settlement liabilities with banks or regulated financial institutions	254,968	365,118
Settlement liabilities with platform partners – banks or regulated financial institutions	2,640	3,781
Total amounts due to banks	924,049	534,460

Amounts with related parties are reflected in Note 37. As of 31.12.2018, amounts due to financial market infrastructure organisations are presented under Amounts due to customers.

Amounts due to banks increased due to higher collateral requirements on the back of higher volatility levels at the end of 2018 resulting in an increase in positive replacement values.

27 Amounts due to customers

CHF thousands	31.12.2018	31.12.2017
Cash collateral received from non-banks	1,177,878	151,208
Settlement and other payables to platform partners – non-banks	10,310	15,996
Settlement and other payables to others – non-banks	186,481	—
Other fees payable	435	905
Total amounts due to customers	1,375,104	168,109

Amounts with related parties are reflected in Note 37. As of 31.12.2017, amounts due to financial market infrastructure entities are presented under Amounts due to banks.

Amounts due to customers increased due to higher collateral requirements on the back of higher volatility levels at the end of 2018 resulting in an increase in positive replacement values.

28 Trading financial liabilities

CHF thousands	31.12.2018	31.12.2017
Debt securities (listed)	1,242	1,382
Equity securities	343,617	98,261
Funds	15,573	977
Other securities	—	626
Total trading financial liabilities	360,432	101,246
of which based on valuation-model (see Note 8)	73	626

Trading financial liabilities represent short positions of securities, primarily government bonds, equity securities and exchange traded funds that are temporary short positions entered into if facilities to borrow the respective securities are in place.

29 Other financial liabilities designated at fair value through profit or loss

CHF thousands	31.12.2018	31.12.2017
Other financial liabilities designated at fair value through profit or loss		
Interest rate instruments	501,498	497,244
with own debt component	501,498	497,244
without own debt component	—	—
Equities	2,538,007	2,405,208
with own debt component	2,511,547	2,372,888
without own debt component	26,460	32,320
Foreign currency	9,398	4,358
with own debt component	9,398	4,344
without own debt component	—	14
Commodities (incl. precious metals)	74,953	133,721
with own debt component	58,656	42,575
without own debt component	16,297	91,146
Total other financial liabilities designated at fair value through profit or loss	3,123,856	3,040,531
of which based on valuation-model (see Note 8)	3,123,856	3,040,531

Financial liabilities designated at fair value include the Group's issued products. These issued products contain hybrid financial instruments, certificates (including actively managed certificates) and mini-futures. These products can be allocated to different categories, including: capital protection products, yield enhancement products, participation products and leverage products.

Hybrid financial instruments are composed of debt components and embedded derivatives. Certificates may comprise an underlying instrument (or a basket of underlyings) combined with derivatives (but do not comprise debt components). Alternatively, the pay-off of a certificate could be achieved through the combination of a debt host and an embedded derivative (similar to a hybrid financial instrument). Warrants are usually derivatives that replicate the performance of a position in the underlying instruments. Changes in the fair value of instruments with an own debt component relate to changes in the fair value of the embedded derivatives and changes to own credit risk. Changes in the fair value of instruments without an own debt component relate to changes in the fair value of the underlying instrument (or the basket of underlyings) and changes to the fair value of the embedded derivative.

The contractual amounts to be paid at maturity of the structured products may differ from the fair values recognised as of the respective balance sheet dates.

CHF thousands	31.12.2018	31.12.2017
Classification in accordance with SVSP Swiss Derivative Map		
Capital protection	288,175	248,536
Yield enhancement	2,032,774	1,835,414
Participation	754,200	897,302
Leverage	48,707	59,279
Total other financial liabilities designated at fair value through profit or loss¹⁴	3,123,856	3,040,531

¹⁴ All issued structured products are booked as financial liabilities designated at fair value through profit or loss.

Any changes in the Group's own credit risk are reflected in "Other financial liabilities designated at fair value through profit or loss".

30 Accrued expenses and deferred income

CHF thousands	31.12.2018	31.12.2017
Accrued operating expenses	57,968	53,981
Deferred fee income	75,745	45,553
Accrued interest	2,860	2,613
Other	10,000	13,707
Total accrued expenses and deferred income	146,573	115,854

Accrued operating expenses include rent, staff, audit fee and other operating expense items. For more details on the deferred fee income, see Note 10. Other accrued expenses consist of accrued capital tax, outstanding social security expense as well as accrued distribution fees.

In the course of the adoption of IFRS 15 deferred fee income was increased by CHF 20.7 million (refer to Note 6).

31 Other liabilities

CHF thousands	31.12.2018	31.12.2017
Other tax liabilities	5,428	6,613
Pension liability	12,715	10,012
Other liabilities	151	720
Total other liabilities	18,294	17,345

See Note 35 for further information on the change in net pension liability.

32 Expected credit loss

In accordance with IFRS 9, Leonteq applies the expected credit loss methodology to calculate and recognise an impairment provision for its financial assets measured at amortised cost. These assets comprise the balance sheet items “cash in hand”, “amounts due from banks”, “amounts due from securities transactions” and “amounts due from customers”.

Credit risk management

Assets measured at amortised costs mainly consist of cash balances that are liquid stocks or cash collateral in connection with Leonteq’s business operations. Leonteq holds cash collateral in connection with its tracking activities relating to derivative instruments and/or securities financing transactions.

The credit quality of Leonteq’s counterparties is monitored continuously: The Risk Committee of the Executive Committee approves the counterparties and allocates individual counterparty limits to them. Risk Control supervises adherence to these limits on an ongoing basis. If of the deterioration of a counterparty credit risk is identified, business activities are reduced accordingly.

Leonteq products usually have a short duration. Consequently, all credit exposures are of a short-term nature or could be reduced with risk-mitigating actions such as the unwinding of trades and removal of excess cash.

Expected credit loss calculation

The Expected Credit Loss (ECL) takes into account the Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD). The starting point for the ECL calculation is the determination of the input factors that are based on market observable inputs whenever possible: The EAD is based on exposures to different counterparties, taking into account the time value of money and risk-mitigating measures. The PD and LGD are based on industry standard values, observable market inputs such as CDS, and the extrapolation of observable market inputs. The calculation of the ECL provision is performed on a portfolio basis.

Development of expected credit loss allowance

CHF thousands	31.12.2018	31.12.2017
Statement of financial position		
Balance at the beginning of the reporting period	1,310	1,435
Change in 12 months expected credit loss	1,640	(125)
Change in lifetime expected credit loss	—	—
For not credit impaired financial assets with significant increased credit risk	—	—
For credit impaired financial assets	—	—
For trade receivables contract assets or lease receivables	—	—
Purchased or originated credit impaired assets	—	—
Balance at the end of the reporting period	2,950	1,310

Leonteq calculates the ECL provision on a portfolio basis. Due to the short duration of financial assets measured at amortised cost, no discounting of the ECL provision is needed.

The expected credit loss increased due to higher balances of assets in scope as well as an increased PD on the back of the higher volatility levels at the end of 2018 compared to 2017.

33 Provisions

CHF thousands	2018 Total provisions	2017 Total provisions
Balance as of 1 January	8,890	6,674
Utilisation in conformity with designated purpose	(730)	(7,329)
Increase in provisions recognised in the income statement	4,016	10,293
Release of provisions recognised in the income statement	(518)	(1,033)
Translation differences	(73)	285
Balance as of 31 December	11,585	8,890
of which short-term provisions	2,922	1,299
of which long-term provisions	8,663	7,591

From time to time, the Group is involved in legal proceedings and litigation that arise in the normal course of business. Such proceedings and litigation are subject to many uncertainties and the outcome is often difficult to predict, particularly in the early stages of a case. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows. The Group makes provisions for legal proceedings and litigation brought against it based on Management's assessment after seeking legal advice.

In 2017 management reassessed the office space required in the future. Lease contracts subject to overcapacities were deemed onerous contracts in accordance with IAS 37. In 2017, the Group has built provisions of CHF 6,858 thousand in relation to onerous office leases in Zurich and London. CHF 6,200 thousand were used to settle the lease contract in London and CHF 921 thousand were released through the income statement which is partially due to the successful sublease of the office space in Zurich. Additionally related long-lived assets were impaired by CHF 1,864 thousand accounted for in the line item "depreciation of long-lived assets" in 2017. At the end of 2017 no provisions for onerous lease contracts were required anymore and none were created in 2018. An agreement regarding the former office leases at the Hürlimann areal has been reached in 2017. The respective liability has been settled and the remaining provision was released through the income statement in 2017.

In connection with a VAT audit for the years 2007 through and including 2011, the Swiss Federal Tax Administration ("SFTA") has taken the view that distribution services of foreign providers, including those from the subsidiary Leonteq Securities (Europe) GmbH, rendered to Leonteq Securities AG are subject to VAT as a reverse charge (Bezugssteuer). Leonteq has filed an appeal against the SFTA determination. In October 2018 the Federal Administrative Court has decided in favour of the SFTA and Leonteq has thereafter filed an appeal with the Swiss Federal Supreme Court. A negative outcome could have an adverse impact on the Group's business and results of operations. The provision related to the pending Swiss VAT litigation in connection with distribution services of foreign third party providers is totalling CHF 7,025 thousand as of 31 December 2018 and was increased by CHF 525 thousand compared to 31 December 2017. The provision covers the period from 2007 to 2018.

Provisions in the amount of CHF 564 thousand (31 December 2017: CHF 1,299) were recognised due to employment law related matters. In addition a provision in the amount of CHF 670 thousand for legal fees was recognised as of 31 December 2018. For further potential disputes and litigations related to the main business activities of Leonteq, CHF 3,326 thousand (31 December 2017: CHF 1,091) are provisioned.

Selected cases where no provision was recognised

Old Mutual International

As announced on 13 April 2018, Leonteq was informed by the legal representatives of the Old Mutual International Isle of Man Ltd and Old Mutual International Ireland dac (together "OMI") by way of informal letter dated 9 April 2018 that OMI filed a claim form with the High Court of Justice of the Isle of Man against Leonteq Securities AG and other (non-Leonteq) parties in relation to Structured Investment Products transactions and related fees and commissions. The filing of a claim form is the initial procedural step that commences court proceedings in the Isle of Man. Leonteq understands that OMI has been granted permission from the High Court of Justice of the Isle of Man on 20 March 2018 to serve the claim form outside of the Isle of Man, and it is expected that OMI will take steps to effect this service. In addition, on an application by OMI, the Isle of Man allowed Leonteq Securities (Europe) GmbH to be added as a defendant to the proceedings and Leonteq Securities (Europe) GmbH was served with the proceedings, including the particulars of claim, on 20 December 2018. The allegations against Leonteq Securities (Europe) GmbH, as set out in the particulars of claim, are not materially different from those informally made by OMI against Leonteq Securities AG previously. Both Leonteq Securities (Europe) GmbH and Leonteq Securities AG (should it be served with the proceedings) intend to contest the proceedings. To date, neither the claim form nor any particulars of claim have been served on Leonteq Securities AG.

OMI states, in the particulars of claim, that between 2012 and 2016 OMI invested approximately GBP 200 million in approximately 1,386 structured products. OMI alleges that it suffered losses of approximately GBP 22 million (as of 31 October 2018). While Leonteq aims to vigorously defend its position, the outcome of any matter or litigation in relation to OMI is difficult to predict. Indeed, if a court was to decide in full or even in partial favour of OMI, such a decision could have an adverse impact on the Group's results of operations. Furthermore, while Leonteq is not aware of any other claims or threatened claims specifically relating to these matters to date, such actions by other customers cannot be excluded.

Direct taxes

Following a tax audit relating to the accounts and tax returns for the years 2013, 2014 and 2015 of Leonteq Securities AG, the tax authority in Zurich issued assessments for federal, cantonal and municipal tax purposes, in essence applying a different method of calculation for the so-called participation relief (Beteiligungsabzug). The participation relief under applicable Swiss tax law reduces income tax liability provided dividends are received from qualifying Swiss or foreign shares. In addition, a transfer price adjustment for interest payments made by Leonteq Securities AG to Leonteq AG was considered. The tax authority assessed the potential additional tax liability for the years 2013, 2014 and 2015 in the amount of approximately CHF 12 million in the aggregate, plus interest. Leonteq filed a formal objection (Einsprache) against the tax assessments and a decision on this objection is still outstanding to date. Based on the evaluation of Leonteq's method of calculation performed by independent tax professionals that Leonteq engaged, Management believes that Leonteq's application of the relevant tax provisions relating to the participation relief is in compliance with and justifiable under applicable tax laws, and Leonteq continues to apply this method of calculation in good faith. However, it cannot be excluded that the tax authority confirms its initial position. Leonteq intends to file appeals, if this should be the case.

If, contrary to management's expectations, the courts were to decide in favour of the tax authority regarding the relevant participation relief provision, such outcome would have a significant negative impact on the profit of the Group. In addition, while the tax assessments cover the historical periods 2013, 2014 and 2015, to the extent that Leonteq would have to revisit its method of calculation of the participation relief going forward, this could have a significant negative impact on the overall profitability of the Group during more profitable years.

34 Shareholders' equity

Share capital

	31.12.2018			31.12.2017		
	Total par value (CHF)	Number of shares	Capital eligible for dividends	Total par value (CHF)	Number of shares	Capital eligible for dividends
Share capital	18,934,097	18,934,097	18,934,097	15,944,504	15,944,504	15,944,504
of which fully paid in	18,934,097	18,934,097	18,934,097	15,944,504	15,944,504	—
Total share capital	18,934,097	18,934,097	18,934,097	15,944,504	15,944,504	15,944,504
Authorised capital	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	—
of which capital increase completed	2,989,593	2,989,593	2,989,593	—	—	—
Conditional share capital	100,000	100,000	100,000	100,000	100,000	—
of which capital increase completed	18,584	18,584	—	18,584	18,584	—

Leonteq AG issued 2,989,593 new registered shares from authorised capital with a nominal value of CHF 1.00 each on 3 August 2018. Costs that are directly related to the capital increase in the amount of CHF 5.4 million were deducted from the gross proceeds of CHF 124.4 million. CHF 3.0 million of the net proceeds were accounted for as share capital and CHF 116 million as capital reserves.

Authorised capital

On 23 March 2017, the Annual General Meeting approved the authorisation to increase share capital until 22 March 2019 up to an equal amount of CHF 3 million fully paid in registered shares. Upon completion of the capital increase on 3 August 2018 the Board of Directors is authorised to increase the Company's share capital by a maximum amount of CHF 10,407 through the issuance of a maximum of 10,407 shares, which is approximately 0.1% of the share capital of Leonteq.

Conditional share capital

Share capital may be increased by a maximum of CHF 81,416 by issuing 81,416 fully paid-in registered shares with a nominal value of CHF 1.00 each to cover potential exposures arising from RSUs granted to certain employees of the Group.

Own shares

	2018			2017		
	Number of shares	Total purchase value CHF thousands	Average Price CHF	Number of shares	Total purchase value CHF thousands	Average Price CHF
Balance at the beginning of the period	250,231	15,335	61	152,959	14,279	93
Purchases	57,481	3,300	57	156,184	4,667	30
Disposal	(83,291)	(5,494)	66	(58,912)	(3,611)	61
Balance at the end of the period	224,421	13,141	59	250,231	15,335	61

Own shares are held in connection with the Group's share-based payment programs. See Note 13 for further information.

Capital distribution

The Board of Directors plans to propose to the Annual General Meeting of Leonteq AG on 27 March 2019 that no dividend be paid out of retained earnings and that there be no distribution out of reserves from capital contributions for the financial year 2018 and, accordingly, that all accumulated profits as well as accumulated reserves from capital contributions be carried forward.

No dividend out of retained earnings and no distribution from reserves from capital contributions were paid for the financial year 2017 and 2016, respectively.

35 Retirement benefit obligations

The Group's principal pension plan is operated in Switzerland and covers most of the Group's employees. This pension scheme is run in accordance with Swiss law.

The Group also contributes to pension schemes on behalf of employees domiciled in other locations. These pension schemes qualify as defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The contributions are recognised as employee benefit expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions totalling CHF 1,007 thousand and CHF 836 thousand for the years ended 31 December 2018 and 2017, respectively, related to contribution plans in other jurisdictions, were also recognised in personnel expenses.

Under the Swiss pension scheme, the Company has an obligation to pay defined contributions. However, in accordance with the Swiss 'LPP/BVG' law, the pension scheme incorporates certain guarantees, such as minimum interest accumulation at defined rates, conversion of capital at defined rates upon transfer of vested benefits, and potential life-long pension annuities. The pension scheme has therefore been reported as a defined benefit pension plan in accordance with IFRS.

The characteristics of the plan as of 31 December 2018 were as follows:

- Employees were insured up to a salary of CHF 250 thousand
- The benefits of the pension scheme are funded by the employer and employee as a fixed percentage of the insured salaries
- Conversion rate = 5.7% – 7.6% (increasing with retirement age)
- Total number of members: 332 (active members: 331/pensioners: 1)

The pension plan is maintained by a foundation that is a separate legal entity. The plan provides cover against retirement, death and disability for all staff employed in Switzerland. The foundation is governed by a Board of Trustees and is supervised by the BVG und Stiftungsaufsicht (BVS) of the canton of Zurich. The pension scheme also includes the Leonteq Pension Committee, which has three employee and three employer representatives.

The collective foundation was maintained by Zürich Lebensversicherungs-Gesellschaft AG for the years ended 31 December 2018 and 2017, respectively. It covers all actuarial and investment risks. The foundation has elected to fully insure death and disability insurance risks within the Swiss pension plan with a third-party insurance company. The insurance contract is renewable on an annual basis.

In addition to the abovementioned risks, the pension plan is exposed to other risks such as asset volatility, changes in bond yields and changes in life expectancy. These risks have a significant impact on the pension plan: Asset volatility could increase or reduce the plan assets. Bond yields are the basis for the discount rate. Low yields (or discount rates) and a higher life expectancy lead to a higher plan obligation. The managers of the pension plan address these risks as part of their efforts to ensure the consistency and sustainability of the pension plan's assets and liabilities based on a diversified investment strategy that is aligned with the volatility and maturity of the pension obligation.

The below table outlines where the Group's post-employment amounts related to the Swiss pension scheme are included in the financial statements.

CHF thousands	31.12.2018	31.12.2017
Reconciliation of the amount recognised in the statement of financial position		
Defined benefit obligation	54,106	48,778
Fair value of plan assets	(41,391)	(38,766)
Adjustment to asset ceiling	—	—
Net defined benefit liability/(asset)	12,715	10,012
of which recognised as separate (asset)	—	—
of which recognised as separate liability	12,715	10,012

CHF thousands	2018	2017
Components of defined benefit cost in profit or loss		
Current service cost (employer)	4,287	5,992
Past service cost	—	—
(Gains)/losses on settlement	—	—
Interest expense on defined benefit obligation	414	299
Interest (income) on plan assets	(329)	(204)
Interest expense/(income) on effect of asset ceiling	—	—
Interest (income) on reimbursement right	—	—
Administration cost (excl. cost for managing plan assets)	24	31
Others	—	—
Net expense recognised in the income statement	4,396	6,118
of which service and administration cost	4,312	6,024
of which net interest on the net defined benefit liability/(asset)	84	94

CHF thousands	2018	2017
Components of defined benefit cost in OCI		
Actuarial (gain)/loss on defined benefit obligation	(972)	(8,171)
(Gain)/loss on plan assets (excl. interest income)	2,531	(2,010)
Change in effect of asset ceiling (excl. interest income/expense)	—	—
Return on reimbursement right (excl. interest income)	—	—
Others	—	—
Defined benefit cost/(income) recognised in OCI	1,559	(10,181)

The effect of the discount rate applied when determining the actuarial gains and losses is recognised in Actuarial (gain)/loss on defined benefit obligation through OCI. The interest rate applied increased from 0.8% as of 31 December 2017 to 1.0% as of 31 December 2018 and resulted in a gain for 2018.

CHF thousands	31.12.2018	31.12.2017
Reconciliation in net defined benefit liability (asset)		
Net defined benefit liability/(asset) as of 1 January	10,012	17,578
Defined benefit cost recognised in profit or loss	4,396	6,118
Defined benefit cost/(income) recognised in OCI	1,559	(10,181)
Contributions by the employer	(3,252)	(3,503)
Benefits paid directly by the entity	—	—
Effect of business combination and disposal	—	—
Effect of reimbursement right	—	—
Others	—	—
Net defined benefit liability/(asset) as of 31 December	12,715	10,012

CHF thousands	31.12.2018	31.12.2017
Reconciliation of defined benefit obligation		
Defined benefit obligation as of 1 January	48,778	62,902
Interest expense on defined benefit obligation	414	299
Current service cost employer	4,287	5,992
Contribution by plan participants	2,426	2,622
Benefits (paid)/deposited	(851)	(14,897)
Past service cost	—	—
(Gain)/loss on settlement	—	—
Effect of business combinations and disposal	—	—
Administration cost (excl. cost for managing plan assets)	24	31
Others	—	—
Actuarial (gain)/loss on defined benefit obligation	(972)	(8,171)
Net defined benefit liability/(asset) as of 31 December	54,106	48,778

CHF thousands	2018	2017
Components of actuarial gain/losses on obligations		
Actuarial (gain)/loss arising from changes in financial assumptions	(1,089)	(1,508)
Actuarial (gain)/loss arising from changes in demographical assumptions	(991)	—
Actuarial (gain)/loss arising from experience adjustments	1,108	(6,663)
Actuarial (gain)/loss on defined benefit obligation	(972)	(8,171)

CHF thousands	31.12.2018	31.12.2017
Reconciliation of fair value of plan assets		
Fair value of plan assets as of 1 January	38,766	45,324
Interest income on plan assets	329	205
Contribution by employer	3,252	3,503
Contribution by plan participants	2,426	2,622
Benefits (paid)/deposited	(851)	(14,897)
Gain/(Loss) on settlement	—	—
Effect of business combinations and disposal	—	—
Others	—	—
Gain/(loss) on plan assets (excl. interest income)	(2,531)	2,010
Fair value of plan assets as of 31 December	41,391	38,766

CHF thousands	2018	2017
Actual return on plan assets		
Interest income on plan assets	329	205
Gain/(loss) on plan assets (excl. interest income)	(2,531)	2,010
Actual return on plan assets	(2,201)	2,215

The significant actuarial assumptions were as follows:

CHF thousands	31.12.2018	31.12.2017
Significant actuarial assumptions		
Discount rate	1.00%	0.80%
Salary growth rate	1.00%	1.00%
Pension growth rate	0.00%	0.00%
Future inflation rate	1.00%	1.00%

Assumptions regarding future mortality as set forth below are based on Swiss BVG / LLP 2015 mortality tables, which include generational mortality rates allowing for future projections of increasing longevity.

	31.12.2018	31.12.2017
Assumptions regarding future mortality		
Longevity at age 65/64 (use plan retirement age) for current pensioners:		
male	22.6	22.4
female	24.5	24.4
Longevity at age 65/64 (use plan retirement age) for future pensioners (age 45):		
male	24.4	24.3
female	26.4	26.3
Weighted average duration of defined benefit obligation in years	16.7	17.4

	Change in assumption	DBO after increase in assumption (CHF thousand)	DBO after decrease in assumption (CHF thousand)
Sensitivity analysis			
Discount rate	0.25%	51,917	56,487
Salary growth rate	0.25%	54,596	53,712
Life expectancy	1 year	53,712	54,509

The above sensitivity analyses are based on a change in one assumption, while all other assumptions remain constant. In practice, this is unlikely to occur and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

CHF thousands	Quoted	Unquoted	Total	In %
Plan assets are comprised as follows				
Cash and cash equivalents	6,613	204	6,817	16.47%
Equity instruments	12,891	—	12,891	31.14%
Debt instruments	17,043	—	17,043	41.18%
Real Estate	3,584	—	3,584	8.66%
Other	1,056	—	1,056	2.55%
Total plan assets as of 31 December 2018	41,187	204	41,391	100%

CHF thousands	Quoted	Unquoted	Total	In %
Plan assets are comprised as follows				
Cash and cash equivalents	6,194	191	6,385	16.47%
Equity instruments	12,073	—	12,073	31.14%
Debt instruments	15,963	—	15,963	41.18%
Real Estate	3,356	—	3,356	8.66%
Other	989	—	989	2.55%
Total plan assets as of 31 December 2017	38,575	191	38,766	100.00%

CHF thousands	31.12.2018	31.12.2017
Best estimate of contributions of next year		
Contributions by the employer	3,325	2,941
Contributions by plan participants	2,532	2,164

36 Significant shareholders

	31.12.2018		31.12.2017	
	Current Number of shareholding	Current Number of voting rights in %	Current Number of shareholding	Current Number of voting rights in %
Raiffeisen Switzerland Cooperative ¹⁵	5,495,157	29.02%	4,626,397	29.02%
Lukas Ruffin family interests ^{16, 17, 18}	1,543,756	8.15%	1,283,762	8.05%
Sandro Dorigo ¹⁸	463,317	2.45%	390,082	2.45%
Subtotal shareholders' agreement	7,502,230	39.62%	6,300,241	39.51%
Rainer-Marc Frey ^{19, 20, 21}	2,201,081	11.63%	1,015,000	6.37%
Credit Suisse Funds AG	—	—	478,750	3.00%
Directors and Executives ²²	157,523	0.83%	76,255	0.48%
Total	9,860,834	52.08%	7,870,246	49.36%

¹⁵ As of 31 December 2017, 158,879 shares were directly held by Notenstein La Roche Private Bank Ltd, St. Gallen as a wholly owned subsidiary of Raiffeisen Switzerland Cooperative, St. Gallen. These shares were transferred to Raiffeisen Switzerland Cooperative prior to the sale of Notenstein La Roche Private Bank Ltd, which was completed in July 2018.

¹⁶ Lukas Ruffin family interests represents all the holdings of Lukas T. Ruffin (founding partner), Clairmont Trust Company Limited and Thabatseka LP; Clairmont Trust Company Limited acts as trustee of a trust that holds shares in Leonteq AG through Thabatseka LP (which, in turn, is indirectly wholly owned by Clairmont Trust Company Limited); the trust was settled by Lukas T. Ruffin.

¹⁷ In addition, Lukas Ruffin family interests holds 462,325 call options issued by Raiffeisen subject to the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style.

¹⁸ Founding partner.

¹⁹ H21 Macro Limited, Cayman Islands, is the direct shareholder.

²⁰ Includes 486,081 written put options as of 31 December 2018 subject to the following conditions: strike CHF 48.35; subscription ratio 1:1; maturity 21 October 2019.

²¹ Creation of obligation to notify: 31 October 2018.

²² Excluding shareholdings of founding partners.

37 Related-party transactions

The Group entered into various transactions and agreements with related parties. Significant transactions and agreements can be categorised as financial and platform partner agreements with Raiffeisen and its former group companies Notenstein La Roche Private Bank Ltd. as well as Notenstein Finance (Guernsey) Ltd.

CHF thousands	Amounts due from 31.12.2018	Amounts due from 31.12.2017	Amounts due to 31.12.2018	Amounts due to 31.12.2017	Income from 2018	Income from 2017	Expense to 2018	Expense to 2017
Significant shareholders								
Raiffeisen Switzerland Cooperative								
Amounts due from banks	25,112	50,204	—	—	—	—	—	—
Positive replacement values of derivative instruments	186,462	43,800	—	—	—	—	—	—
Amounts due to banks	—	—	285,891	98,942	—	—	—	—
of which credit facility	—	—	98,160	97,435	—	—	—	—
Negative replacement values of derivative instruments	—	—	29,632	61,217	—	—	—	—
Accrued expenses and deferred income	—	—	555	—	—	—	—	—
Platform partner service fee income	—	—	—	—	11,952	13,985	—	—
Interest income	—	—	—	—	298	118	—	—
Interest expense	—	—	—	—	—	—	4,951	3,003
Affiliated companies								
Raiffeisen Switzerland B.V. Amsterdam								
Amounts due from customers	31,331	78,240	—	—	—	—	—	—
Amounts due from banks	—	4,001	—	—	—	—	—	—
Positive replacement values of derivative instruments	383,233	74,615	—	—	—	—	—	—
Accrued income and deferred expenses	3	—	—	—	—	—	—	—
Amounts due to customers	—	—	377,581	24,080	—	—	—	—
Negative replacement values of derivative instruments	—	—	25,917	43,730	—	—	—	—
Platform partner service fee income	—	—	—	—	24,337	27,662	—	—
Interest income	—	—	—	—	347	—	—	—
Interest expense	—	—	—	—	—	—	611	—
Notenstein La Roche Private Bank Ltd								
Amounts due from banks	—	120	—	—	—	—	—	—
Positive replacement values of derivative instruments	—	102	—	—	—	—	—	—
Amounts due to banks	—	—	—	3,139	—	—	—	—
Platform partner service fee income	—	—	—	—	—	1,308	—	—
Notenstein Finance (Guernsey) Ltd								
Platform partner service fee income	—	—	—	—	—	2,158	—	—
Governing bodies								
Transactions with members of governing bodies								
		—		—		—		—

On 7 March 2016, Leonteq entered into a term sheet with Raiffeisen, which was replaced on 6 April 2018 by a cooperation agreement (“the Raiffeisen Agreement”). Pursuant to the Raiffeisen Agreement, Leonteq and Raiffeisen agreed to cooperate in the structuring, issuance, hedging, distribution, market making and lifecycle management of structured products and the provision of related services. The Raiffeisen Agreement ends on 31 March 2026, unless the parties otherwise agree to renew or amend it.

On 6 April 2018, The group entered into a credit facility framework agreement with Raiffeisen (the “Raiffeisen Facility”). The Raiffeisen Facility is valid from 1 April 2018 and ends automatically and without notice on 31 March 2022, if not renewed for another four years by the parties. The Raiffeisen Facility has a maximum limit of CHF 350 million (unsecured). Leonteq Securities has the right to reduce the facility to CHF 300 million at any time at the end of a calendar quarter. Conditions of business activities with related parties are in line with normal market rates.

Governing bodies

The Group’s governing bodies consist of the Board of Directors and the Executive Committee. The members of the governing bodies are designated as key management personnel.

As of 31 December 2018, the Board consisted of eight members (including the Chairman), all of whom are non-executive directors. The below table lists the name and position of each Board member. It also specifies their membership of Board committees and the date on which they were elected to the Board, as well as the end of their term in office.

Name	Year of birth	Nationality	Position	Committee membership	First election	Term expires
Christopher M. Chambers ²³	1961	British/Swiss	Chairman	—	2017	2019
Hans Isler ²³	1953	Swiss	Vice-Chairman	AC (Chair), NRC, RC	2012	2019
Jörg Behrens ²³	1964	Swiss	Member	AC, RC (Chair)	2012	2019
Paulo Brügger ^{24, 25}	1966	Swiss	Member	RC	2017	2019
Vince Chandler ²³	1956	British	Member	NRC (Chair)	2012	2019
Patrick de Figueiredo ²⁶	1950	Swiss	Member	RC	2010	2019
Richard Laxer ²³	1961	American/British	Member	NRC	2018	2019
Thomas R. Meier ²³	1962	Swiss	Member	AC, RC	2017	2019

²³ Independent directors.

²⁴ Representative of Raiffeisen.

²⁵ On 2 February 2019, Paulo Brügger resigned from Leonteq’s Board of Directors with immediate effect.

²⁶ Representative of Founding Partners.

As of 31 December 2018, the Executive Committee of the Group consisted of seven members. The below table lists the name, position and nationality of the current members of the Executive Committee, as well as the date on which they were appointed.

Name	Year of Birth	Nationality	Function	Appointment
Lukas T. Ruffin	1975	Swiss	Chief Executive Officer	May 2018
Marco Amato	1981	Italian/Swiss	Deputy CEO & Chief Financial Officer	September 2016
Jochen Kühn	1977	German	Head of Insurance & Wealth Planning Solutions	January 2017
Manish Patnaik	1973	German	Chief Operating Officer	March 2014
Reto Quadroni	1963	Swiss	Chief Risk Officer	October 2017
David Schmid	1982	Swiss	Head of Investment Solutions	January 2016
Ingrid Silveri	1976	Italian/Venezuelan	General Counsel	October 2017

Remuneration

Compensation awarded to the Board of Directors and the Executive Committee is determined by the Group's Nomination & Remuneration Committee and is reviewed annually. The Nomination & Remuneration Committee provides the Board with recommendations on the remuneration of Board members and the Executive Committee and defines the basic principles for the establishment, amendment and implementation of incentive plans. Taking into account the maximum amount of remuneration for members of the Board of Directors and the members of the Executive Committee approved by the Annual General Meeting (AGM), the Board reaches its final decisions regarding remuneration.

The members of the Board of Directors, including the Chairman, receive non-performance related compensation in the form of a director's fee. When assessing and determining the director's fee, the Nomination & Remuneration Committee take into account the different functions and individual accountability of the respective members of the Board of Directors. No additional compensation is paid to members of the Board of Directors for the attendance of meetings. The annual director's fee is paid in cash and in shares of Leonteq AG; a minimum of 40% of the remuneration is paid in Leonteq AG shares. The shares are blocked for a period of three years.

The base salary of the Executive Committee members is assessed annually based on the responsibility and experience of each member and is adjusted if necessary. Variable remuneration is awarded annually based on contractual agreements or assessments of the performance of the Company and the individual member. These assessments are carried out by the Board of Directors. If the Company's performance is lower than anticipated based on defined KPIs, this can result in a significant reduction, or even the elimination, of the partly discretionary variable remuneration for senior executives.

Total personnel expenses for the Board of Directors and the Executive Committee of the Group for the year ending 31 December 2018 amounted to:

CHF thousands Name	Director's fee		Post employment benefits ²⁸	Total compensation 2018	Total compensation 2017
	Cash	Share-based payment ²⁷			
Board of Directors					
Christopher M. Chambers (Chairman since EGM 2017)	175	175	—	350	29
Hans Isler (Vice-Chairman since AGM 2018)	41	187	14	242	217
Jörg Behrens (Chairman RC)	57	133	14	204	217
Paulo Brügger (Member since EGM 2017)	90	60	—	150	13
Vince Chandler (Chairman NRC)	114	76	10	200	218
Patrick de Figueiredo (Member)	75	75	11	161	170
Richard A. Laxer (Member since AGM 2018)	39	73	9	121	—
Thomas R. Meier (Member since EGM 2017)	75	75	14	164	13
Patrik Gisel (Member until EGM 2017)	—	—	—	—	150
Lukas T. Ruffin (Vice-Chairman until AGM 2018)	31	57	5	93	384
Pierin Vincenz (Chairman until EGM 2017)	—	—	—	—	322
Total	697	911	77	1,685	1,733

²⁷ These share-based payment amounts reflect the fair value of the shares at time of grant.

²⁸ These charges comprise the employer's social security contributions.

CHF thousands	2018	2017
Executive Committee		
Fixed compensation ²⁹	5,087	5,161
Variable compensation ³⁰	2,400	2,150
Total compensation	7,487	7,311

²⁹ Fixed compensation comprise payments in cash for base salaries, the employer' contributions to social security and pension and other minor fringe benefits.

³⁰ Variable compensation includes payments in cash and recognised expenses related to deferred bonuses in cash and shares from prior years.

Ownership of shares and options

The below table shows the number of shares held by the individual members of the Board of Directors and members of the Executive Committee as of 31 December 2018 and 31 December 2017, respectively. Members of the Board of Directors and members of the Executive Committee did not hold any options to acquire shares as of 31 December 2018 and as of 31 December 2017, respectively. RSUs issued to members of the Executive Committee convert into shares upon vesting. See Note 34 for further information.

	31.12.2018			31.12.2017		
	Shares	Granted Shares	Restricted Stock Units	Shares	Granted Shares	Restricted Stock Units
Board of Directors						
Christopher M. Chambers	18,419	—	—	5,968	—	—
Hans Isler	19,000	—	—	12,259	—	—
Jörg Behrens	11,802	—	—	9,350	—	—
Paulo Brügger	—	—	—	—	—	—
Vince Chandler	20,741	—	—	16,223	—	—
Patrick de Figueiredo	8,846	—	—	6,069	—	—
Richard Laxer ³¹	1,797	—	—	N/A	N/A	N/A
Thomas R. Meier	2,136	—	—	415	—	—
Lukas T. Rufin ^{32, 33, 34}	N/A	N/A	N/A	10,424	—	—
Total³⁵	82,741	—	—	60,708	—	—
Executive Committee						
Lukas T. Rufin ^{36, 37, 38}	12,380	—	—	N/A	N/A	N/A
Marco Amato	27,000	—	8,330	7,500	—	3,152
Jochen Kühn	16,734	—	35,563	—	—	50,201
Manish Patnaik	4,550	—	2,159	3,844	706	—
Reto Quadroni	4,889	—	1,535	699	—	1,420
David Schmid	20,926	—	5,658	13,640	358	1,243
Ingrid Silveri	683	—	1,208	288	—	979
Total	87,162	—	54,453	25,971	1,064	56,995

³¹ Richard Laxer joined the Board of Directors on 28 March 2018.

³² This excludes 1,273,338 shares as of 31 December 2017 held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Rufin.

³³ Excluding 462,325 call options as of 31 December 2017 held by Thabatseka LP; call options are subject the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

³⁴ Lukas T. Rufin resigned from the Board of Directors on 28 March 2018.

³⁵ As of 31 December 2018 34,293 shares were locked (31.12.2017: 21,646 shares).

³⁶ This excludes 1,531,376 shares as of 31 December 2018 held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Rufin.

³⁷ Excluding 462,325 call options as of 31 December 2018 held by Thabatseka LP; call options are subject to the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

³⁸ Lukas T. Rufin joined the Executive Committee on 1 May 2018.

The Company has not granted any loans or guarantee commitments to members of the Board of Directors or members of the Executive Committee.

Granted shares represent the balance of unvested shares granted in 2015 for prior year variable compensation with vesting periods 2016 – 2018. Restricted Stock Units represent the balance of unvested restricted stock units granted for prior year variable compensation or contractually agreed with vesting periods 2018 – 2021.

38 Earnings per share

	2018	2017
Group net profit (CHF thousands)	91,492	23,071
Weighted average number of shares outstanding (undiluted)	16,943,068	15,691,953
Dilution effect (number of shares)	218,031	236,614
Weighted average number of shares outstanding (diluted)	17,161,099	15,928,567
Basic earnings per share (CHF)	5.40	1.47
Diluted earnings per share (CHF)	5.33	1.45

The dilution effect (number of shares) includes the effects of employee share-based benefit plans as explained in Note 13.

39 Off-balance

CHF thousands	31.12.2018	31.12.2017
Off-balance-sheet transactions		
Contingent liabilities	42,092	35,669
Irrevocable commitments	32	28
Obligations to pay up shares and make further contributions	—	—
Credit commitments	—	—

Contingent liabilities arise from deferred payments in relation to employee variable compensation plans. For further information refer to Note 13.

Irrevocable commitments relate to Swiss Deposit Insurance.

On 10 April 2015 Leonteq AG signed a letter of undertaking with SFM HK Management Limited relating to the lease of the office premises of Leonteq Securities (Hong Kong) Ltd. As at 31 December 2018 the total commitment relating to future rental payments under this lease amounted to HKD 0 (CHF 0) (for 2017 of HKD 2.8 million or CHF 0.3 million, respectively), excluding taxes. The lease ended and was not extended or renewed.

On 10 August 2015, Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017 the lease has been assigned to a third party. In connection with the transfer it was agreed that this deed of guarantee will remain with Leonteq AG. As of 31 December 2018, the total commitment relating to future rental payments under the original lease contract was GBP 9.9 million (CHF 12.4 million) (2017: GBP 11.4 million or CHF 15.0 million, respectively), excluding taxes.

On 11 December 2017, Leonteq AG provided a guarantee relating to the lease of the office premises of its newly established subsidiary Leonteq Securities (Japan) Ltd. As of 31 December 2018, the total commitment relating to future rental payments under this lease was JPY 54.7 million (CHF 0.5 million) (2017: JPY 85.5 million or CHF 0.7 million, respectively), excluding taxes.

40 Segment reporting

Leonteq defined strategic priorities aimed at enhancing the scalability of its business and facilitating further growth in the first half of 2018. In this context, the Banking Solutions business line was merged with the Investment Solutions business line to increase the efficiency of the organisation, reduce functional overlaps and clarify roles and responsibilities. Leonteq's Executive Committee, which is the chief operating decision maker, manages and assesses the performance of the Group and its businesses based on the following operating segments:

- Investment Solutions
- Insurance & Wealth Planning Solutions
- Corporate Centre

Leonteq is an independent expert for structured investment products and long-term savings and retirement solutions. The Group focuses on industrialising the production process for structured investment products and unit-linked life insurance policies and on providing its clients and partners with high standards of service delivered by an international team of experienced industry professionals. Leonteq has a strong presence in its home market of Switzerland and Europe as well as an established footprint in Asia.

Investment Solutions

The Investment Solutions business line manufactures and distributes structured investment products, which it offers to and distributes on behalf of financial intermediaries (our clients) in more than 50 countries. The business line further enables and enhances the structured product capabilities of its issuance partners. Structured investment products are manufactured and managed for Leonteq's own name or for an issuance partner, which acts as the issuer or guarantor of the respective products. The services cover the entire lifecycle of a structured product, and clients are serviced by an experienced sales force with the possibility to choose from a variety of issuers available on the platform. The structured investment product offerings are grouped into three main categories: capital protection, yield enhancement and participation with a variety of different payoffs, all managed on Leonteq's platform. Distribution of structured investment products is done by Leonteq or by its issuance partners and distribution capabilities are complemented by a dedicated in-house ideation, structuring, and trading team and include a digital and automated pricing engine.

Insurance & Wealth Planning Solutions

The Insurance & Wealth Planning Solutions business line offers a digital platform to life insurers, enabling unit-linked retail products with financial protection. This provides a viable alternative to traditional guarantee product approaches, which are no longer economically sustainable. Partners and their end customers benefit from attractive and transparent long-term savings and draw-down solutions with both upside potential and downside protection. Partners have the advantage of high capital and cost efficiency based on third party-guarantees, upfront hedging and scalable straight-through digital processes covering the full policy lifecycle on individual policy level.

Beyond the platform business, Leonteq provides structured solutions with downside protection both to life insurers for their single premium business and to insurance brokers.

Corporate Centre

Costs related to corporate functions such as Finance, Human Resources, Investor Relations & Communications, Legal & Compliance, Marketing, Information Technology, Operational Services and Risk Control are largely allocated to the business lines based on cost allocation keys. The unallocated corporate functions are presented within the Corporate Centre.

CHF thousands	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total 2018
Net fee income	246,736	25,773	—	272,509
Net trading income/(loss)	18,087	3,296	—	21,383
Net interest income/(expense)	(15,499)	628	—	(14,871)
Other ordinary income	850	—	2,546	3,396
Total operating income	250,174	29,697	2,546	282,417
Personnel expenses	(97,331)	(8,323)	(10,043)	(115,697)
Other operating expenses	(41,248)	(2,349)	(9,606)	(53,203)
Depreciation of long-lived assets	(13,936)	(1,022)	(1,722)	(16,680)
Changes to provisions and other value adjustments, and losses	(1,756)	—	(1,747)	(3,503)
Total operating expenses	(154,271)	(11,694)	(23,118)	(189,083)
Result from operating activities	95,903	18,003	(20,572)	93,334

CHF thousands	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total 2017
Net fee income	226,064	20,953	—	247,017
Net trading income/(loss)	(26,952)	1,176	—	(25,776)
Net interest income/(expense)	(9,317)	519	—	(8,798)
Other ordinary income	2,611	—	360	2,971
Total operating income	192,406	22,648	360	215,414
Personnel expenses	(95,415)	(7,322)	(10,924)	(113,661)
Other operating expenses	(39,017)	(2,319)	(8,706)	(50,042)
Depreciation of long-lived assets	(14,459)	(1,208)	(3,491)	(19,158)
Changes to provisions and other value adjustments, and losses	(1,000)	—	(8,260)	(9,260)
Total operating expenses	(149,891)	(10,849)	(31,381)	(192,121)
Result from operating activities	42,515	11,799	(31,021)	23,293

The Group applies a distribution view to allocate its revenues to the different business lines. The allocation of the expenses is based on different activities performed by the segments to provide their services. Leonteq does not have reportable major customer concentrations in the distribution of structured investment products; however, Leonteq does have concentrations with issuance partners providing their balance sheets.

In the year under review, Investment Solutions experienced continued high client demand for structured investment products, which resulted in increased net fee income compared to full-year 2017. On the back of increased volatility levels during 2018, Investment Solutions' net trading income improved to CHF 18.1 million (compared to a net trading loss of CHF -27.0 million in 2017). The segment's net interest income decreased to CHF -15.5 million due to higher usage of credit facilities driven by increased business volumes as well as higher interest rates in US dollar.

Compared to 2017, Insurance & Wealth Planning Solutions' total operating income increased by 31% in line with the development of unit-linked life insurance policies.

Other ordinary income generated within Investment Solutions comprises cost reimbursements from issuance partners whereas Corporate Centre's other ordinary income is a result of rental income from subleased office space.

Personnel expenses in both segments Investment Solutions and Insurance & Wealth Planning Solutions increased compared to 2017 mainly due to strong top-line performance. On the other hand, this increase is partially offset by lower personnel expenses within the Corporate Centre which is mainly impacted by a lower average number of FTEs compared to the previous year's period.

Other operating expenses within Investment Solutions increased by 6% mainly driven by top-line dependent cost positions as a result of increased business volumes. Corporate Centre's other operating expenses grew by CHF 0.9 million driven by increased investments for support functions. Depreciation in the Corporate Centre in 2018 is more than halved compared to 2017, as the previous year was impacted by one-off expenses related to office optimisation in the amount of CHF 1.9 million.

Information by geographic location

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 2018
Net fee income	115,274	125,374	31,861	272,509
Net trading income/(loss)	10,128	8,295	2,960	21,383
Net interest income/(expense)	(5,571)	(7,730)	(1,570)	(14,871)
Other ordinary income	3,234	162	—	3,396
Total operating income	123,065	126,101	33,251	282,417

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2018
Accrued income and prepaid expenses	2,469	13,142	238	15,849
Current tax assets	964	—	—	964
Deferred tax assets	2,690	197	365	3,252
Long-lived assets	52,395	497	1,605	54,497
Other assets	36,115	749	163	37,027

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 2017
Net fee income	102,314	108,547	36,156	247,017
Net trading income/(loss)	(9,111)	(9,683)	(6,982)	(25,776)
Net interest income/(expense)	(3,466)	(4,093)	(1,239)	(8,798)
Other ordinary income	2,390	581	—	2,971
Total operating income	92,127	95,352	27,935	215,414

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2017
Accrued income and prepaid expenses	8,980	8,591	434	18,005
Current tax assets	964	39	—	1,003
Deferred tax assets	2,119	243	—	2,362
Long-lived assets	50,021	436	1,994	52,451
Other assets	44,235	2,604	82	46,921

The Group has offices in various international locations to diversify its revenue generation. The Company distributes its own and issuance partners' structured investment products either through its own sales distribution and coverage desks or through the distribution channels of its issuance partners. The distribution network is empowered by the related group companies outside Switzerland. The geographical allocation of the Group's revenue is undertaken based on the location of the distributor, servicing primarily banks, insurance companies and asset managers/financial intermediaries. Switzerland consists of the headquarters in Zurich and of its office in Geneva. Europe subsumes the Group's operations in its offices located in Amsterdam, Frankfurt, Guernsey, London, Monaco and Paris. Asia represents the locations Hong Kong, Singapore and Tokyo.

Compared to the full-year 2017, net fee income grew in Switzerland and Europe due to higher demand for structured investment products as well as increased net fee income in Insurance & Wealth Planning Solutions which is fully allocated to Switzerland. Net fee income in Asia decreased by 12% reflecting lower client activity and increased competition in the Asian market. The net trading income from Investment Solutions is allocated across the regions whereas net trading income from Insurance & Wealth Planning Solutions is recognised in Switzerland.

41 Shares in subsidiary undertakings

The Group's subsidiaries as of 31 December 2018 are listed below:

Name	Line of business	Country of incorporation	Currency	Share capital	Share of votes and capital in %
Leonteq Securities AG ³⁹	Securities dealer	Switzerland	CHF	15,000,000	100
Leonteq Securities (Monaco) SAM	Financial services provider	Monaco	EUR	500,000	99.9
Leonteq Securities (Hong Kong) Ltd.	Financial services provider	Hong Kong	HKD	10,000,000	100
Leonteq Securities (Europe) GmbH ⁴⁰	Financial services provider	Germany	EUR	200,000	100
Leonteq Securities (Singapore) PTE Ltd.	Financial services provider	Singapore	SGD	1,000,000	100
Leonteq Securities (Japan) Ltd. ⁴¹	Financial services provider	Japan	JPY	250,000,000	100

³⁹ Leonteq Securities AG has branches in Amsterdam and Guernsey.

⁴⁰ Leonteq Securities (Europe) GmbH has branches in London and Paris.

⁴¹ In January 2018 the share capital was increased to JPY 250 million.

42 Post-balance sheet events

No events occurred after the balance sheet date which would materially affect the financial statements.

On 14 January 2019, the rating agency Fitch Ratings Ltd. has assigned Leonteq AG a long-term issuer default rating (IDR) of "BBB-" with a Positive Outlook and a short-term IDR of "F3".

43 Statutory banking regulations

The Group's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). FINMA stipulates that banks or security dealers domiciled in Switzerland that report their financial statements according to US GAAP or IFRS must explain any material differences between Swiss accounting regulations for banks (Banking Ordinance and FINMA Circular 2015/1) and the reporting standard used. The most significant differences between IFRS and Swiss accounting regulations for banks that are of relevance to the Group are as follows:

Extraordinary profit

Under IFRS, all items of income and expense are allocated to ordinary operating activities. In accordance with Swiss accounting regulations for banks, income and expenses are classified as extraordinary if they are not recurring or not related to operational activities.

Pensions and post-retirement benefits

Under IFRS, the liability and related pension expense are determined based on the projected unit credit actuarial calculation of the benefit obligation. Under the Swiss accounting regulation for banks, the liability and related pension expense are determined primarily on the basis of the pension plan valuation. A pension asset is recognised if a statutory overfunding of a pension plan leads to a future economic benefit, and a pension liability is recognised if a statutory underfunding of a pension plan leads to a future economic obligation. Pension expenses include the required contributions defined by the Swiss accounting regulation for banks, any additional contribution required by the pension fund trustees, and any change in the value of the pension asset or liability between two measurement dates, as determined on the basis of the annual year-end pension plan valuation.

Share based payments

The Swiss accounting regulations for banks allow the same accounting treatment for share-based payments as IFRS with the following exceptions: The expense for share-based payments is recognised in the income statement with a corresponding entry in accrued expenses and deferred income.

Deferred taxes

The Swiss accounting regulations for banks generally do not recognise deferred tax assets. Deferred tax liabilities are recognised as provisions. Leonteq Securities AG does not recognise any deferred taxes for its stand-alone financial statement in accordance with the Swiss accounting regulations for banks.

Current taxes

The Swiss accounting regulations for banks recognise current tax assets (liabilities) for income taxes under accrued income and prepaid expenses (accrued expenses and deferred income).

Changes in own credit

Under IFRS 9, changes in fair value related to own credit risk for financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income. The changes in other comprehensive income in own credit risk are subsequently transferred within equity to retained earnings reserves over the same period as the sales fee income is deemed earned. Any fair value impact not related to changes in own credit risk is recognised in the income statement.

Under Swiss accounting regulations for banks, the changes in own credit risk are recognised through the compensation account and amortised through the income statement over the same period as the sales fee income is deemed earned. Any fair value impact not related to changes in own credit risk is also recognised in the income statement.

Assets under management

CHF thousands	31.12.2018	31.12.2017
Type of managed assets		
Assets in collective investment schemes managed by the bank	—	—
Assets under discretionary asset management agreements	11,507	10,297
Other managed assets	—	—
Total managed assets (including double-counting)		
Of which double-counted items	—	—
Total Assets under management (incl. double counted) at beginning of the period	10,297	8,859
+/- Net new money inflow / -outflow	975	981
+/- effect of fair value movements, currency translation, interest	235	457
+/- other	—	—
Total assets under management at the end of the period	11,507	10,297

Assets are classified as “assets under management” if the Group provides investment advisory or discretionary portfolio management services in respect of those assets. In particular, this includes certain issued certificates where the Group offers such services. Structured products where no investment advice or discretionary portfolio management services are provided, including rule-based investment certificates, do not meet the Group’s definition of assets under management.



Report of the statutory auditor to the General Meeting of Leonteq AG, Zurich

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Leonteq AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes for the year ended 31 December 2018 (pages 93 to 176), including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 4.7 million

- We conducted full scope audit work at two reporting units in Zurich, Switzerland: Leonteq AG and Leonteq Securities AG (including its branches in Amsterdam and Guernsey).
- The two reporting units where we performed full scope audits, accounted for 99% of the Group’s total assets.
- In addition, we have performed analytical procedures over the remaining five reporting units in Frankfurt am Main (including its branches in London and Paris), Hong Kong, Monaco, Singapore and Japan. These subsidiaries are not considered material for consolidation purposes.

The following are the key audit matters that we identified:

- Valuation of financial instruments held at fair value,
- Recognition of fee income, and
- Portfolio and risk management system

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<i>Overall Group materiality</i>	CHF 4.7 million
<i>How we determined it</i>	5% of the profit before tax
<i>Rationale for the materiality benchmark applied</i>	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 0.2 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.



Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of financial instruments held at fair value

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>The Group exercises considerable judgement in valuing certain assets and liabilities at fair value where valuation models are used for the valuation of these assets and liabilities. These assets and liabilities are known as Level 2 or Level 3 financial instruments.</p> <p>For the Group, these financial instruments consist of issued structured products and derivative instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs such as the Group's own credit risk, implied volatility or correlations between different risk factors.</p> <p>Given the extent of judgement involved in valuing these financial instruments, we considered this to be a key audit matter.</p> <p>See Note 8 to the financial statements on pages 127 to 134.</p>	<p>Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 2 or Level 3 financial instruments, including controls over:</p> <ul style="list-style-type: none"> - approval of new instruments, - approval and validation of models adopted, - daily analysis of profit and loss, and - accuracy of data feeds, inputs to models and the Group's independent price verification. <p>For issued structured products and derivatives, we assessed a sample of valuations by considering the modelling approaches, inputs and valuation adjustments, assisted by PwC valuation experts. We have assessed the Group's own credit spread by comparing the calculated model spread to credit spreads of peers.</p> <p>We assessed the appropriateness of the Group's disclosure in the financial report.</p>

Recognition of fee income

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>The Group exercises considerable judgement in recognising revenue from fee income for services rendered over a specific period. Fees from these services include the initial margin earned upon the issuance of financial instruments.</p> <p>For the Group, such financial instruments consist of issued structured products and unit linked life insurance policies. Judgement is required in recognising fee income for these financial instruments in determining the service obligations, allocating the transaction price to service obligations and estimating the fulfilment of these performance obligations at a point in time or over time.</p> <p>Given the extent of judgement involved in recognising fee income for such services, we considered this to be a key audit matter.</p>	<p>Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the recognition of fee income, including controls over:</p> <ul style="list-style-type: none"> - completeness of fee income received, - accuracy of data and input for portfolio calculation to derive the average effective lifetime of structured investment products, - the Group's review and governance over its IFRS 15 adoption. <p>For issued structured products and unit linked life insurance policies we reconciled and compared the amounts of fee income in the Group's IT system with the initial margin tool. We further tested the inputs in the fee deferral calculation against assumptions approved by the</p>



See Note 10 to the financial statements on page 135.

Board of Directors and we re-performed the deferred revenue calculation.

We assessed the appropriateness of the Group's disclosure in the financial report.

Portfolio and risk management system

Key audit matter

We focussed on this area because the Group's financial accounting and reporting system is dependent on a complex system and there is a risk that the IT system architecture, the interfaces controls and business continuity measures used are not designed and operating effectively.

See Note 24 to the financial statements on pages 150 to 152.

How our audit addressed the key audit matter

Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the Group's IT systems relating to financial reporting.

The system's suitability was tested by means of inquiry with management and users and by considering the Group's IT strategy and its implementation status. We further tested logical and physical access restrictions in place.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Leonteq AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A blue ink signature consisting of several vertical, slightly wavy lines.

Andrin Bernet
Audit expert
Auditor in charge

A blue ink signature consisting of a series of connected, flowing loops and lines.

Roman Schnider
Audit expert

Zurich, 6 February 2019

STATUTORY FINANCIAL STATEMENTS

To further support the growth of the business and focus on an increase in available capital, the Board of Directors proposes no dividend or other distributions from capital for 2018.

FINANCIAL

Leonteq AG

Income statement for the years ended 31 December 2018 and 2017

CHF thousands	Note	2018	2017
Operating income			
Interest income from Leonteq Securities AG	6	6,731	9,252
Interest expense on cash overdrafts		(6)	(2)
Total operating income		6,725	9,250
Operating expenses			
Personnel expenses	7	1,685	2,002
Other operating expenses	8	8,166	2,839
Total operating expenses		9,851	4,841
Profit/(loss) before taxes		(3,126)	4,409
Taxes	9	286	114
Net profit/(loss)		(3,412)	4,295

Leonteq AG

Balance sheet as of 31 December 2018 and 2017

Assets

CHF thousands	Note	31.12.2018	31.12.2017
Current assets			
Due from banks	1	5,152	6,855
Due from subsidiaries	2	—	345
Accrued income and prepaid expenses	3	2,370	2,395
Total current assets		7,522	9,595
Non-current assets			
Due from Leonteq Securities AG	2	25,500	7,000
Financial investments	4	100,000	100,000
Investments in subsidiaries	5	294,195	192,179
Total non-current assets		419,695	299,179
Total assets		427,217	308,774
whereof subordinated in favour of Leonteq Securities AG		127,647	109,147

Liabilities & shareholders' equity

CHF thousands	Note	31.12.2018	31.12.2017
Short-term liabilities			
Due to Leonteq Securities AG		2,061	7,256
Due to other customers		57	—
Accrued expenses		1,126	725
Total short-term liabilities		3,244	7,981
Total liabilities		3,244	7,981
Shareholders' equity			
Share capital	13	18,934	15,945
Legal reserves		307,169	185,761
of which general legal reserves		3,189	3,189
of which reserves from capital contribution		303,980	182,572
Own shares	13	(13,141)	(15,336)
Profit carried forward		114,423	110,128
Net profit/(loss)		(3,412)	4,295
Total shareholders' equity		423,973	300,793
Total liabilities and shareholders' equity		427,217	308,774

Proposal to the Annual General Meeting

The Board of Directors plans to propose to the Annual General Meeting of Leonteq AG on 27 March 2019 that no dividend be paid out of retained earnings and that there be no distribution out of reserves from capital contributions for the financial year 2018 and, accordingly, that all accumulated profits as well as accumulated reserves from capital contributions be carried forward.

Proposed appropriation of retained earnings

The Board of Directors plans to propose the following allocation of retained earnings.

CHF thousands	2018	2017
Net profit/(loss)	(3,412)	4,295
Profit carried forward	114,423	110,128
Accumulated profit	111,011	114,423
Distribution of profit		
Allocation to general legal reserves	—	—
Allocation to other reserves	—	—
Profit carried forward	111,011	114,423

Proposed appropriation of reserves from capital contribution

The Board of Directors plans to propose to carry forward reserves from capital contributions.

CHF thousands	31.12.2018	31.12.2017
Reserves from capital contributions		
Balance carried forward	182,572	182,572
Distribution from reserves from capital contributions on treasury shares relating to the prior year period	—	—
Proceeds from capital increase	121,408	—
Balance before distribution	303,980	182,572
of which confirmed by the tax authorities ¹	168,997	168,997
Proposed distribution from reserves from capital contributions	—	—
Balance after distribution	303,980	182,572

¹ The proceeds from the capital increase have been reported to the tax authorities. Leonteq is awaiting the formal confirmation.

NOTES TO THE STATUTORY FINANCIAL STATEMENT

Accounting policies and valuation principles

The financial statements of Leonteq AG, Zurich (Leonteq or “the Company”), have been prepared in accordance with the Swiss Code of Obligations. The most significant accounting policies are summarised below:

Recognition of transactions

All transactions are accounted for at the time of their contractual initiation. Spot and forward transactions are recorded as off-balance sheet items until their value date becomes effective.

Foreign currency transactions and translation

Assets and liabilities denominated in foreign currencies are converted at exchange rates prevailing at year-end. Transactions occurring during the year are recorded at the actual exchange rate of the respective date. The differences between the year-end exchange rate and the average rate are recorded as a foreign exchange difference in the net trading income.

Major exchange rates used in CHF

	Balance sheet rate as of 31.12.2018	Balance sheet rate as of 31.12.2017
EUR	1.1253	1.1692
GBP	1.2519	1.3155
HKD	0.1253	0.1247
SGD	0.7201	0.7285
JPY	0.0090	0.0086

Risk assessment

The risk assessment of Leonteq AG is performed regularly according to Swiss Code of Obligations Art. 961c and was approved by the Board of Directors on 4 December 2018.

1 Due from banks

CHF thousands	31.12.2018	31.12.2017
Due from banks at sight	5,152	6,855
Total due from banks	5,152	6,855

2 Due from subsidiaries

CHF thousands	31.12.2018	31.12.2017
Leonteq Securities (Japan) Ltd. – other receivables	—	265
Leonteq Securities AG – other receivables	—	80
Total due from subsidiaries – current	—	345
Due from Leonteq Securities AG	25,500	7,000
Total due from subsidiaries – non-current	25,500	7,000

3 Accrued income and prepaid expenses

CHF thousands	31.12.2018	31.12.2017
Accrued interest income from Leonteq Securities AG	2,147	2,147
Prepaid expenses	223	248
Total accrued income and prepaid expenses	2,370	2,395

4 Financial investments

CHF thousands	31.12.2018	31.12.2017
Leonteq Securities AG – Tier 1 Contingent Convertible Loan Notes – Tranche 1 – subordinated	50,000	50,000
Leonteq Securities AG – Tier 1 Contingent Convertible Loan Notes – Tranche 4 – subordinated	50,000	50,000
Total financial investments	100,000	100,000

5 Investments in subsidiaries

CHF thousands Name	Domicile	Business activity	Equity interest in %	Share capital	
				31.12.2018	31.12.2017
Leonteq Securities AG ²	Zurich, Switzerland	Securities dealer	100%	15,000	15,000
Leonteq Securities (Monaco) SAM	Monte Carlo, Monaco	Financial services provider	99.9%	759	759
Leonteq Securities (Europe) GmbH ³	Frankfurt, Germany	Financial services provider	100%	256	256
Leonteq Securities (Hong Kong) Ltd.	Central, Hong Kong	Financial services provider	100%	1,224	1,224
Leonteq Securities (Singapore) Pte Ltd.	Singapore, Singapore	Financial services provider	100%	741	741
Leonteq Securities (Japan) Ltd. ⁴	Tokyo, Japan	Financial services provider	100%	2,192	175

² Leonteq Securities AG has branches in Amsterdam and in Guernsey.

³ Leonteq Securities (Europe) GmbH has branches in London and Paris.

⁴ In January 2018 the share capital was increased to JPY 250 million.

6 Interest income from Leonteq Securities AG

CHF thousands	2018	2017
Subordinated interest income from Leonteq Securities AG	571	554
Contingent convertible loan interest income from Leonteq Securities AG	5,924	8,698
Other interest income from Leonteq Securities AG	236	—
Total interest income from Leonteq Securities AG	6,731	9,252

7 Personnel expenses

CHF thousands	2018	2017
Board remuneration	1,685	1,750
Recruitment costs	—	252
Total personnel expenses	1,685	2,002

8 Other operating expenses

CHF thousands	2018	2017
Intercompany service recharges	1,370	1,037
Marketing expenses	299	486
Banking fees	40	40
Consulting fees	3,922	736
Insurances	1,071	486
Indirect taxes	1,197	(22)
Other	267	76
Total other operating expenses	8,166	2,839

Other operating expenses increased primarily due to costs totalling CHF 5.4 million incurred in connection with the capital increase.

9 Taxes

CHF thousands	2018	2017
Income taxes	135	—
Capital taxes	151	114
Total taxes	286	114

10 Headcount

Leonteq AG did not have any employees during the financial years 2018 and 2017. All members of the executive committee are employed and paid by Leonteq Securities AG.

11 Guarantees and commitments

On 10 April 2015 Leonteq AG signed a letter of undertaking with SFM HK Management Limited relating to the lease of the office premises of Leonteq Securities (Hong Kong) Ltd. The total commitment relating to future rental payments, excluding taxes, under this lease amounted to HKD 0 and HKD 2.8 million or CHF 0.3 million as of 31 December 2018 and 31 December 2017, respectively. The lease ended in July 2018 and was not extended or renewed.

On 10 August 2015 Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017 the lease was assigned to a third party. In connection with the transfer it was agreed that this deed of guarantee will remain with Leonteq AG. The total commitment relating to future rental payments under the original lease contract, excluding taxes, amounted to GBP 9.9 million or CHF 12.4 million and GBP 11.4 million or CHF 15.0 million as of 31 December 2018 and 31 December 2017, respectively.

On 11 December 2017 Leonteq AG committed to a guarantee relating to the lease of the office premises of its newly established subsidiary Leonteq Securities (Japan) Ltd. The total commitment relating to future rental payments under this lease, excluding taxes, amounted to JPY 54.7 million or CHF 0.5 million and JPY 85.5 million or CHF 0.7 million as of 31 December 2018 and 31 December 2017, respectively.

12 Significant shareholders

	31.12.2018		31.12.2017	
	Current Number of shareholding	Current Number of voting rights in %	Current Number of shareholding	Current Number of voting rights in %
Raiffeisen Switzerland Cooperative ⁵	5,495,157	29.02%	4,626,397	29.02%
Lukas Ruffin family interests ^{6, 7, 8}	1,543,756	8.15%	1,283,762	8.05%
Sandro Dorigo ⁸	463,317	2.45%	390,082	2.45%
Subtotal shareholders' agreement	7,502,230	39.62%	6,300,241	39.51%
Rainer-Marc Frey ^{9, 10, 11}	2,201,081	11.63%	1,015,000	6.37%
Credit Suisse Funds AG	—	—	478,750	3.00%
Directors and Executives ¹²	157,523	0.83%	76,255	0.48%
Total	9,860,834	52.08%	7,870,246	49.36%

⁵ As of 31 December 2017, 158,879 shares were directly held by Notenstein La Roche Private Bank Ltd, St. Gallen as a wholly owned subsidiary of Raiffeisen Switzerland Cooperative, St. Gallen. These shares were transferred to Raiffeisen Switzerland Cooperative prior to the sale of Notenstein La Roche Private Bank, which was completed in July 2018.

⁶ Lukas Ruffin family interests represents all the holdings of Lukas T. Ruffin (founding partner), Clairmont Trust Company Limited and Thabatseka LP; Clairmont Trust Company Limited acts as trustee of a trust that holds shares in Leonteq AG through Thabatseka LP (which, in turn, is indirectly wholly owned by Clairmont Trust Company Limited); the trust was settled by Lukas T. Ruffin.

⁷ In addition, Lukas Ruffin family interests holds 462,325 call options issued by Raiffeisen subject to the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style.

⁸ Founding partner.

⁹ H21 Macro Limited, Cayman Islands, is the direct shareholder.

¹⁰ Includes 486,081 written put options as of 31 December 2018 subject to the following conditions: strike CHF 48.35; subscription ratio 1:1; maturity 21 October 2019.

¹¹ Creation of obligation to notify: 31 October 2018.

¹² Excluding shareholdings of founding partners.

13 Share capital

The share capital of the Company consisted of 18,934,097 registered shares at a nominal value of CHF 1.00 each and 15,944,504 registered shares at a nominal value of CHF 1.00 each as of 31 December 2018 and 31 December 2017, respectively.

Leonteq AG issued 2,989,593 newly registered shares from authorised capital with a nominal value of CHF 1.00 each on 3 August 2018. The gross proceeds amounted to CHF 124.4 million. CHF 3.0 million of the proceeds were accounted for as share capital and CHF 121.4 million as capital reserves.

Authorised capital

On 23 March 2017, the Annual General Meeting approved the authorisation to increase share capital until 22 March 2019 up to an equal amount of CHF 3 million fully paid in registered shares. Upon completion of the capital increase on 3 August 2018 the Board of Directors is authorised to increase the Company's share capital by a maximum amount of CHF 10,407 through the issuance of a maximum of 10,407 shares.

Conditional share capital

Share capital may be increased by a maximum of CHF 81,416 by issuing 81,416 fully paid up registered shares with a nominal value of CHF 1.00 each to cover potential exposures arising from RSUs granted to certain employees of the Group.

Own shares

During the course of 2018, Leonteq AG decreased its balance of own shares by 25,810 shares through deliveries. The Company held 224,421 and 250,231 own shares for potential future share deliveries as of 31 December 2018 and 31 December 2017, respectively.

14 Ownership of shares and options by members of the Board of Directors and Executive Committee

The table below shows the number of shares held by the individual members of the Board of Directors and members of the Executive Committee as of 31 December 2018 and 31 December 2017, respectively. Members of the Board of Directors and members of the Executive Committee did not hold any options to acquire shares as of 31 December 2018 and as of 31 December 2017, respectively. RSUs issued to members of the Executive Committee convert into shares upon vesting. See Note 13, Shareholder's equity for further information.

	31.12.2018			31.12.2017		
	Shares	Granted Shares	Restricted Stock Units	Shares	Granted Shares	Restricted Stock Units
Board of Directors						
Christopher M. Chambers	18,419	—	—	5,968	—	—
Hans Isler	19,000	—	—	12,259	—	—
Jörg Behrens	11,802	—	—	9,350	—	—
Paulo Brügger	—	—	—	—	—	—
Vince Chandler	20,741	—	—	16,223	—	—
Patrick de Figueiredo	8,846	—	—	6,069	—	—
Richard Laxer ¹³	1,797	—	—	N/A	N/A	N/A
Thomas R. Meier	2,136	—	—	415	—	—
Lukas T. Rufli ^{14, 15, 16}	N/A	N/A	N/A	10,424	—	—
Total¹⁷	82,741	—	—	60,708	—	—
Executive Committee						
Lukas T. Rufli ^{18, 19, 20}	12,380	—	—	N/A	N/A	N/A
Marco Amato	27,000	—	8,330	7,500	—	3,152
Jochen Kühn	16,734	—	35,563	—	—	50,201
Manish Patnaik	4,550	—	2,159	3,844	706	—
Reto Quadroni	4,889	—	1,535	699	—	1,420
David Schmid	20,926	—	5,658	13,640	358	1,243
Ingrid Silveri	683	—	1,208	288	—	979
Total	87,162	—	54,453	25,971	1,064	56,995

¹³ Richard Laxer joined the Board of Directors on 28 March 2018.

¹⁴ This excludes 1,273,338 shares as of 31 December 2017 held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Rufli.

¹⁵ Excluding 462,325 call options as of 31 December 2017 held by Thabatseka LP; call options are subject the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

¹⁶ Lukas T. Rufli resigned from the Board of Directors on 28 March 2018.

¹⁷ As of 31 December 2018 34,293 shares were locked (31.12.2017: 21,646 shares).

¹⁸ This excludes 1,531,376 shares as of 31 December 2018 held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Rufli.

¹⁹ Excluding 462,325 call options as of 31 December 2018 held by Thabatseka LP; call options are subject to the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

²⁰ Lukas T. Rufli joined the Executive Committee on 1 May 2018.

The Company has not granted any loans or guarantee commitments to members of the Board of Directors or members of the Executive Committee.

Granted shares represent the balance of unvested shares granted in 2015 for prior year variable compensation with vesting periods 2016 – 2018. Restricted Stock Units represent the balance of unvested restricted stock units granted for prior year variable compensation or contractually agreed with vesting periods 2018 – 2021.

15 Auditor's remuneration

Audit fees

The Group paid PwC audit fees of CHF 0.9 million for the year 2018 and CHF 0.9 million for the year 2017.

Additional fees

Additional fees of CHF 0.1 million were paid to PWC in 2018 and CHF 0.3 million in 2017.

16 Collateralised assets

As of the balance sheet date, Leonteq AG has no transactions outstanding in relation to collateralisation or securitisation.

17 Events after the balance sheet date

No events occurred after the balance sheet date which would materially affect the financial statements.

On 14 January 2019, the rating agency Fitch Ratings Ltd. has assigned Leonteq AG a long-term issuer default rating (IDR) of "BBB-" with a Positive Outlook and a short-term IDR of "F3".

18 Waiver due to publication of Consolidated Statements

In accordance with Swiss Code of Obligation Art. 961d we refer to the consolidated financial statements of the Group for the financial and operational review and the statement of cash flows.



Report of the statutory auditor to the General Meeting of Leonteq AG, Zurich

Report on the audit of the financial statements

Opinion

As the statutory auditor, we have audited the financial statements of Leonteq AG (the Company), which comprise the income statement, balance sheet and notes for the year ended 31 December 2018.

In our opinion, the financial statements (pages 183 to 191) as at 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 4.3 million

We conducted full scope audit work at Leonteq AG.

The following is the key audit matter that we identified:

- Valuation of investments in subsidiaries

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall materiality</i>	CHF 4.3 million
<i>How we determined it</i>	1% of total assets
<i>Rationale for the materiality benchmark applied</i>	We chose total assets as a critical measure because, in our view, it is the commonly applied measure for a holding company. The 1% benchmark is a generally accepted auditing practice and there were no significant unusual elements that merited adjustments to this benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 0.2 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.



Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>We focussed on this area because of its magnitude and the judgement exercised by the Company when assessing the valuation of its investments in subsidiaries. Investments in subsidiaries are held at historical cost with impairment being recognised for any loss in value.</p> <p>The Company identifies impairment by comparing the carrying amount of the investment in subsidiary with the recoverable amount, which is calculated based on the net asset value.</p> <p>See Note 5 to the financial statements on page 187.</p>	<p>We assessed the applied methodology and reviewed the judgement exercised by the Company. We further analysed the calculations and evaluated the Company's assessment of potential impairment.</p> <p>We assessed the appropriateness of the Company's disclosure in the financial statements.</p>

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the entity's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A blue ink signature of Andrin Bernet, consisting of several vertical, slightly wavy lines.

Andrin Bernet
Audit expert
Auditor in charge

A blue ink signature of Roman Schnider, featuring a stylized 'R' followed by a series of connected loops and a final upward stroke.

Roman Schnider
Audit expert

Zurich, 6 February 2019

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