SWISS INVESTMENT ENGINE

ANNUAL REPORT LEONTEQ SECURITIES AG

2018

FINANCIAL STATEMENTS

Leonteq Securities AG
Income statement for the years ended 31 December 2018 and 2017

CHF thousands	Note	2018	2017
Fee income from securities trading and investment activities		276,082	250,855
Fee income from other services		1,385	1,051
Fee expense		(52,735)	(50,950)
Net fee income	10	**224,732**	**200,956**
Result from trading activities and the fair value option	11	**21,465**	**(25,158)**
Interest and discount income		5,893	1,631
Interest expense		(25,842)	(19,783)
Changes in value adjustments for default risks and losses from interest operations		(1,640)	125
Net result from interest operations	9	**(21,589)**	**(18,027)**
Other ordinary income	12	3,363	2,971
Total operating income		**227,971**	**160,742**
Personnel expenses	13	(79,278)	(79,214)
Other operating expenses	14	(42,963)	(40,328)
Depreciation of long-lived assets	24	(15,736)	(16,121)
Changes to provisions and other value adjustments, and losses	34	(3,706)	(2,719)
Total operating expenses		**(141,683)**	**(138,382)**
Result from operating activities		**86,288**	**22,360**
Taxes	15	(758)	553
Net profit		**85,530**	**22,913**
of which allocated to shareholders of Leonteq Securities AG		85,530	22,913

Leonteq Securities AG

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

CHF thousands	Note	2018	2017
Net profit		**85,530**	**22,913**
Other comprehensive (loss)/income that will not be reclassified to the income statement			
Remeasurement of the defined benefit plan	36	(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		—	—
Hedge accounting reserves		—	130
Total other comprehensive (loss)/income that may be reclassified to the income statement		**–**	**130**
Total other comprehensive (loss)/income		**(1,229)**	**8,158**
Total comprehensive income		**84,301**	**31,071**
of which allocated to shareholders of Leonteq Securities AG		84,301	31,071

The notes on pages 8 to 80 are an integral part of these financial statements.

Leonteq Securities AG
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	1,341,405	873,216
Amounts due from securities financing transactions	18	84,076	13,533
Amounts due from customers	17	214,784	114,648
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	15,148	17,191
Current tax assets	15	964	964
Deferred tax assets	15	2,690	2,118
Long-lived assets	24	52,527	50,379
Other assets	25	36,574	45,132
Total assets		**10,653,370**	**6,321,872**
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	1,404,709	180,506
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
Bond issued and central mortgage instiution loan	30	100,000	100,000
Accrued expenses and deferred income	31	133,830	104,395
Current tax liabilities	15	1,100	100
Other liabilities	32	18,130	17,214
Expected credit loss provision	33	2,950	1,310
Provisions	34	11,360	8,264
Total liabilities		**10,197,670**	**6,028,439**
Equity			
Share capital	35	15,000	15,000
Share premium		269,306	170,306
Retained earnings[1]		175,144	110,648
Accumulated other comprehensive income/(loss)		(3,750)	(2,521)
Total shareholders' equity		**455,700**	**293,433**
Total liabilities and equity		**10,653,370**	**6,321,872**
Total subordinated liabilities		127,644	109,147
of which subject to mandatory conversion and/or debt waiver		100,000	100,000

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

The notes on pages 8 to 80 are an integral part of these financial statements.

Leonteq Securities AG

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		**15,000**	**120,306**	**86,047**
Employee participation schemes	13	—	—	1,688
Capital increase	30	—	50,000	—
Dividends and other distributions	35	—	—	—
Other allocations to / (transfers from) other comprehensive income		—	—	—
Net profit		—	—	22,913
Balance as of 31 December 2017		**15,000**	**170,306**	**110,648**

CHF thousands	Note	Share capital	Share premium	Retained earnings[2]
Balance as of 31 December 2017		**15,000**	**170,306**	**110,648**
Impact of change in accounting principle	6	—	—	(20,690)
Balance as of 1 January 2018		**15,000**	**170,306**	**89,958**
Employee participation schemes	13	—	—	(344)
Capital increase	35	—	99,000	—
Dividends and other distributions	35	—	—	—
Other allocations to / (transfers from) other comprehensive income		—	—	—
Net profit		—	—	85,530
Balance as of 31 December 2018		**15,000**	**269,306**	**175,144**

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

OCI				Own shares	Total shareholders' equity
Defined benefit plans	Change in own credit	Hedge accounting reserve	Currency translation adjustments		
(10,549)	**—**	**(130)**	**—**	**—**	**210,674**
—	—	—	—	—	1,688
—	—	—	—	—	50,000
—	—	—	—	—	—
8,028	—	130	—	—	8,158
—	—	—	—	—	22,913
(2,521)	**—**	**—**	**—**	**—**	**293,433**

OCI				Own shares	Total shareholders' equity
Defined benefit plans	Change in own credit	Hedge accounting reserve	Currency translation adjustments		
(2,521)	**—**	**—**	**—**	**—**	**293,433**
—	—	—	—	—	**(20,690)**
(2,521)	**—**	**—**	**—**	**—**	**272,743**
—	—	—	—	—	**(344)**
—	—	—	—	—	**99,000**
—	—	—	—	—	**—**
(1,229)	—	—	—	—	**(1,229)**
—	—	—	—	—	**85,530**
(3,750)	**—**	**—**	**—**	**—**	**455,700**

The notes on pages 8 to 80 are an integral part of these financial statements.

Leonteq Securities AG
Statement of cash flows for the years ended 31 December 2018 and 2017

CHF thousands	Note	2018	2017
Cash flow from operating activities			
Net profit		85,530	22,913
Reconciliation to net cash flows from operating activities			
Non-cash positions in net profit			
Depreciation	24	15,736	16,056
Impairment of long-lived assets	24	—	65
Deferred tax expense / (benefit)	15	(572)	1,600
Change in expected credit loss provision	33	1,640	(125)
Share-based benefit programs	13	(344)	1,688
Change of general provision	34	3,705	2,719
Other non-cash income and expenses		(1,229)	7,960
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	(100,136)	(76,222)
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	2,043	(1,420)
Other assets	25	8,558	(10,081)
Net increase/(decrease) in liabilities related to operating activities			
Amounts due to banks	26	322,838	128,213
Liabilities from securities financing transactions	18	51,504	53,270
Amounts due to customers	27	1,224,203	(134,161)
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	31	8,745	18,124
Other liabilities	32	916	(5,664)
Utilisation of general provision	34	(542)	(1,129)
Current taxes, non-cash adjustment	15	1,000	(394)
Current taxes paid	15	—	—
Cash flow from operating activities		**(209,310)**	**173,630**
Cash flow from investing activities			
Purchases of long-lived assets	24	(18,045)	(15,855)
Proceeds from long-lived assets	24	161	30
Cash flow from investing activities		**(17,884)**	**(15,825)**
Cash flow from financing activities			
Gross proceeds from capital increase	35	100,000	—
Costs incurred from capital increase	35	(1,000)	—
Cash flow from financing activities[3]		**99,000**	**–**
Exchange rate differences		(67)	224

[3] The redemption of the contingent convertible loan note and following capital increase in the amount of CHF 50 million is considered a non-cash transaction and therefore not separately disclosed in the statement of cash flows for 2017.

CHF thousands	2018	2017
Net (decrease) / increase in cash and cash equivalents	**(128,261)**	**158,029**
Cash and cash equivalents, beginning of the year	226,265	68,236
Cash and cash equivalents at the balance sheet date	**98,004**	**226,265**
Cash and cash equivalents		
Due from banks on demand[4]	266,869	328,379
Due to banks on demand	(168,865)	(102,114)
Net cash and cash equivalents at the balance sheet date	**98,004**	**226,265**
Further information:		
Dividends received	69,148	54,378
Interest received	5,761	1,631
Interest paid	26,818	20,097

Fund of cash

CHF thousands	Note	31.12.2018	31.12.2017
Due from banks on demand[4]		266,869	328,379
Cash overdrafts		(168,865)	(102,114)
Total fund of cash		**98,004**	**226,265**

[4] 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 8 to 80 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Leonteq Securities AG (Leonteq or 'the Company') is the main operating subsidiary of Leonteq AG (together with its subsidiaries referred to hereinafter as 'the Group'). The Company is an independent expert for structured investment products and long-term savings and retirement solutions.

The Company's business divisions – Investment Solutions and Insurance & Wealth Planning Solutions – leverage the Company'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 Company provides some of these core services to platform partners under the terms of cooperation agreements. The Company 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.

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

2 Basis of presentation

The Company prepares its 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 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 Company believes that the assumptions it has made are appropriate, and that the Company's financial statements are therefore a fair representation of the financial position and results in all material respects.

The most relevant areas in which the Company exercises judgment include the application of the Company'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 33 and 34); share-based payments (Note 13); and retirement benefit obligations (Note 36).

Sensitivities are presented solely to assist the reader in understanding the Company's 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 General principles

Foreign currency translation

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

The Company 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 Company prepares its financial statements in the functional currency. Transactions in a currency other than the functional currency are recognised by the Company 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.

Accrued and deferred income/prepaid and accrued expenses

The Company 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 Company provides specific services to its platform partners. Services provided to platform partners include services provided within the Company'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 Company 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 divisions 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" includes rental income from subleased office spaces and 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 Company 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.

5.2 Financial instruments

Initial recognition and derecognition

The Company uses trade date accounting to recognise financial transactions. The Company 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 Company 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 credit 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 (including clearing debit balances with regulated clearing institutions), 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 Company'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 Company 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 Company 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 Company generally enters into securities lending and securities borrowing transactions on a collateralised basis. In such transactions, the Company typically lends or borrows securities in exchange for securities or cash collateral. Additionally, the Company'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 Company's normal credit risk control processes. The Company 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 Company 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 Company's normal credit risk control processes. The Company 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 Company 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 Company has the right to resell or repledge them, with securities that the Company 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 Company 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 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 Company uses derivative financial instruments to hedge risks associated with foreign exchange movements. At the inception of the transaction, the Company 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 Company 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 Company 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 Company does not currently 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 Company 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.

5.3 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

Leonteq AG purchases its own shares to hedge its employee share-based benefit/restricted stock unit (RSU) programs. The Company does not hold any own shares as of 31 December 2018 and 31 December 2017, respectively.

Variable compensation plans for employees

The Company implemented variable compensation plans for its employees. Depending on the function and seniority of each employee, variable compensation is deferred between 20% and 80% for variable compensation equal to or greater than CHF 50 thousand. 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 Company 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 Company 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 Company 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 Company 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 Company'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 Company operates a defined benefit plan and defined contribution plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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 Company recognises a provision if, as a result of a past event, the Company 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 Company'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 Company's Executive Committee to manage and assess the performance of the Company. 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 Company 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 Company 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 10 to 11.

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

Balance sheet CHF thousands	**Balance as of 31.12.2017**	**Adjustment due to the first time adoption of IFRS 15**	**Balance as of 01.01.2018**
Liabilities			
Accrued expenses and deferred income	104,395	20,690	125,085
Equity			
Retained earnings	110,648	(20,690)	89,958

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 CHF thousands	**Balance for the period ended on 31.12.2018**		
	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	276,390	(308)	276,082

Balance sheet CHF thousands	**Balance as of 31.12.2018**		
	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	112,932	20,998	133,830
Equity			
Retained earnings[5]	110,304	(20,690)	89,614

[5] Excluding Group net profit for 2018.

All other standards and interpretations did not have a significant impact on the Company or were not relevant to the Company 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 Company has performed an assessment of the new standards and interpretations. Based on this assessment, the Company 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, the majority of all lease contracts, the lessee recognises a lease liability reflecting future lease payments and a right-of-use asset. The Company 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 IFRS16 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 Company 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 Company will recognise a right-of-use asset and a lease liability totalling approximately CHF 54 million and CHF 57 million respectively. In accordance with the previous requirements, the rent free period was accrued and released over the expected lifetime of the lease. In connection with the implementation of IFRS 16, the respective balances (accrued rent) in the total amount of approximately CHF 3 million will be released through equity. The net impact on equity is therefore expected to be neutral. Related expenses, previously presented as rent or other operating expense, comprise depreciation, amortisation and interest expense under the new standard. Consequently Leonteq expects 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 Company 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 Company's overall risk appetite and breaks it down into individual risk categories. It also approves the Company's risk management policies and procedures. Implementation of the Company's policies and compliance with procedures are the responsibility of the Company'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 Company in the area of risk management and control are defined in the Company'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 Company is exposed.
- The Risk Committee of the Board of Directors is responsible for monitoring all kind of risks to which the Company 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 Company'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 Company'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 Company 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 Company'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 Company 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 Company 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 Company'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 Company 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 the general risk of financial loss if a counterparty or an issuer of a financial security does not meet its contractual obligations. The Group distinguishes the following credit risks:

- 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 Company'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 Company 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 Company. 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 Company'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 Company 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 Company 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
Risk Factor		
IR DV100	(200)	(402)
IR Vega	(66)	23

Stress analysis

The Company reports the impact on its income statement when the following relevant historical stress scenarios are applied to its portfolio:

- **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.
- **Dot-com** is a 1-day bear scenario that happened on 5 April 2000 immediately after the dot-com bubble reached its peak in March 2000. Equity prices decreased and equity volatilities increased.

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	Group Credit Rating	31.12.2018 Exposure (CHF million)	Counterparty	Group 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	Group Credit Rating	31.12.2018 Exposure (CHF million)	Counterparty	Group 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 Company has primarily invested proceeds from own product issuance in short- to mid-term high-quality bonds issued by 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[6]	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%**

[6] 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 Company is exposed to funding liquidity and refinancing risk due primarily to structured product issuance both for the Company and its platform partners, for whom the Company provides derivative hedges. Funding liquidity risk is the risk that the Company 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 Company'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 Company 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	1,341,405	—	—	—	1,341,405
Amounts due from securities financing transactions	84,076	—	—	—	84,076
Amounts due from customers	214,784	—	—	—	214,784
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	**3,763,862**	**2,633,259**	**1,452,332**	**2,678,175**	**10,527,628**
Liabilities					
Amounts due to banks	924,049	—	—	—	924,049
Liabilities from securities financing transactions	428,901	—	—	—	428,901
Amounts due to customers	1,404,709	—	—	—	1,404,709
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
Bond issues and central mortgage institution loans	—	—	—	100,000	100,000
Accrued expenses	23,101	26,176	—	—	49,277
Total financial liabilities	**4,440,493**	**1,518,695**	**1,405,404**	**2,978,408**	**10,343,000**

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	873,216	—	—	—	873,216
Amounts due from securities financing transactions	13,533	—	—	—	13,533
Amounts due from customers	114,648	—	—	—	114,648
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	**3,405,286**	**747,954**	**942,410**	**1,022,275**	**6,117,925**
Liabilities					
Amounts due to banks	534,460	—	—	—	534,460
Liabilities from securities financing transactions	377,397	—	—	—	377,397
Amounts due to customers	180,506	—	—	—	180,506
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
Bond issues and central mortgage institution loans	—	—	—	100,000	100,000
Accrued expenses	30,914	30,154	—	—	61,068
Total financial liabilities	**1,894,555**	**929,887**	**869,637**	**2,297,229**	**5,990,696**

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	1,341,405	—	1,341,405	—	(519,195)	822,210
Amounts due from securities financing transactions	84,076	—	84,076	—	(84,076)	—
Amounts due from customers	214,784	—	214,784	(44,974)	(529)	169,281
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	**8,502,665**	**—**	**8,502,665**	**(2,862,570)**	**(2,279,254)**	**3,360,841**

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	873,216	—	873,216	—	(203,833)	669,383
Amounts due from securities financing transactions	13,533	—	13,533	—	(13,533)	—
Amounts due from customers	114,648	—	114,648	(21,508)	—	93,140
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	**3,772,716**	**—**	**3,772,716**	**(1,258,875)**	**(403,588)**	**2,110,253**

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	1,404,709	—	1,404,709	(44,974)	(1,297,071)	62,664
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	**9,569,868**	**—**	**9,569,868**	**(2,862,570)**	**(4,256,454)**	**2,450,844**

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	180,506	—	180,506	(19,298)	(148,811)	12,397
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	**5,695,910**	**—**	**5,695,910**	**(1,256,665)**	**(1,753,125)**	**2,686,120**

For financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements detailed above, each agreement between the Company and the counterparty allows for the net settlement of the relevant financial asset and financial liability when both parties elect to settle on a net basis. If this is not the case, financial assets and financial liabilities are settled on a gross basis; however, each party to the master netting arrangement or similar agreement has the option to settle all such amounts on a net basis if the other party defaults.

7.8 Capital risk management

For an overview of capital risk management disclosure in accordance with ARB, refer to the statuory financial statements of Leonteq Securities AG on pages 96 to 97.

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 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 Company identified seven large exposures (as of 31 December 2017, five 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 Company 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 Company 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 Company 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.

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. 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 Company 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 Company believes that it is necessary and appropriate to take these factors into account to determine the fair value of these instruments correctly.

The appropriateness of the valuation of financial instruments based on the 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 the valuation models used, the daily analysis of profit and loss, and regular independent price verification, including the review of the input parameters used. Controls are performed by a risk control unit that possesses the relevant specialist knowledge and operates independently from the 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 Company'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 Company 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 Company'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 Company'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 Company's level 3 instruments comprise positive or negative replacement values for longer-term derivative financial instruments. The Company 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 Company'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 Company 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 Company 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[7]	Range of unobservable inputs 31.12.2018 low	31.12.2018 high	31.12.2017 low	31.12.2017 high	Unit[7]
Negative replacement values of derivative financial instruments	**18,383**	14,975	SABR Model[8]	Volatility of interest rates	**62**	**72**	63	72	basis points

[7] The ranges of significant unobservable inputs are represented in basis points.
[8] SABR Model is used to price swaptions. SABR stands for "stochastic alpha, beta, rho".

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 Company'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 Company'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 Company 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	5,893	1,631
Total interest income from assets at fair value	**5,893**	**1,631**
Interest expense	(25,842)	(19,783)
Total interest expense from financial liabilities at fair value	**(25,842)**	**(19,783)**
Gross result from interest operations	**(19,949)**	**(18,152)**
Changes in value adjustments for default risks and losses from interest operations	(1,640)	125
Net result from interest operations	**(21,589)**	**(18,027)**

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 33.

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	5,881	6,450
Total fee income from securities trading and investment activities	**276,082**	**250,855**
Fee income from other services	1,385	1,051
Total fee income from other services	**1,385**	**1,051**
Fee expense	(52,735)	(50,950)
Total fee expense	**(52,735)**	**(50,950)**
Net fee income	**224,732**	**200,956**

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 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	6,381	4,471
Precious metals / commodities / cryptocurrencies	8,711	(17,270)
Trading related costs	(21,603)	(18,346)
Result from trading activities and the fair value option	**21,465**	**(25,158)**
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 results of financial instruments designated at fair value are compensated with results from other financial instruments measured at fair value.

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	117	18
Total other ordinary income	**3,363**	**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	71,070	68,369
of which share based compensation	3,083	4,896
Social contributions	3,392	3,298
Pension plan expense	4,430	5,587
Other personnel expense	386	1,960
Total personnel expenses	**79,278**	**79,214**

The Company employed 363 and 333 employees as of 31 December 2018 and 2017 respectively. It had 357 and 324 full-time equivalents as of 31 December 2018 and 2017 respectively.

Deferred variable compensation
Personnel expenses for 2018 of CHF 79,278 thousand (2017: CHF 79,214 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 22.6 million for the year ending 31 December 2018 (2017: CHF 14.1 million).

Employee share-based benefit programs
Personnel expenses include the impact of the two equity-settled, employee share-based compensation plans operated by the Company.

Share-based compensation – plans

The Company 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 AG shares. The share-based compensation plan aligns the deferred variable compensation of such employees with the long-term performance of the Group. 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 AG 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	4,730	1,064	5,794
Allotted rights and transfers (additions)	—	—	—
Forfeited rights and transfers (reductions)	—	—	—
Settlement of Leonteq AG shares	(4,730)	(1,064)	(5,794)
Leonteq AG shares at the balance sheet date	**—**	**—**	**—**

CHF	
Average grant price of program 2015 to 2019	101.27

CHF thousands	Employees	Executive Committee	Total 2018
Personnel expenses recognised over the vesting period for shares	3,259	428	3,687
Market value of shares on the allocation date	3,259	428	3,687
Charged as personnel expense in the year under review	37	11	48
Cumulative charges recognised as personnel expenses up to the balance sheet date	3,259	428	3,687
Estimated personnel expenses for the remaining vesting periods without future terminations	—	—	—

Number of shares	Employees	Executive Committee	Total 2017
Leonteq AG shares at the beginning of the year	17,782	3,936	21,718
Allotted rights and transfers (additions)	1,800	—	1,800
Forfeited rights and transfers (reductions)	(556)	(1,546)	(2,102)
Settlement of Leonteq AG shares	(14,296)	(1,326)	(15,622)
Leonteq AG shares at the balance sheet date	**4,730**	**1,064**	**5,794**

CHF	
Average grant price of program 2015 to 2019	101.27

CHF thousands	Employees	Executive Committee	Total 2017
Personnel expenses recognised over the vesting period for shares	3,259	428	3,687
Market value of shares on the allocation date	3,259	428	3,687
Charged as personnel expense in the year under review	273	65	338
Cumulative charges recognised as personnel expenses up to the balance sheet date	3,222	417	3,639
Estimated personnel expenses for the remaining vesting periods without future terminations	37	11	48

Restricted stock unit (RSU) plans

The Company 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 AG shares, whereby one RSU entitles to one Leonteq AG share. RSU plans align the deferred variable compensation of such employees with the long-term performance of the Group. 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 AG 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	124,354	56,995	181,349
Allotted rights and transfers (additions)	22,719	15,517	38,236
Forfeited rights and transfers (reductions)	(528)	—	(528)
Settlement of RSUs by Leonteq AG shares	(32,326)	(18,059)	(50,385)
RSUs at the balance sheet date	**114,219**	**54,453**	**168,672**

CHF	
Average grant price of program 2016 to 2022 – both plans	55.49

CHF thousands	Employees	Executive Committee	Total 2018
Personnel expenses recognised over the vesting period for RSUs	12,315	3,059	15,374
Market value of RSUs on the allocation date	12,315	3,059	15,374
Charged as personnel expenses in the year under review	2,013	1,023	3,036
Cumulative charges recognised as personnel expenses up to the balance sheet date	9,618	2,283	11,901
Estimated personnel expenses for the remaining vesting periods without future terminations	1,738	776	2,514

Number of RSUs	Employees	Executive Committee	Total 2017
RSUs at the beginning of the year	74,443	22,222	96,665
Allotted rights and transfers (additions)	89,683	52,600	142,283
Forfeited rights and transfers (reductions)	(5,082)	(16,272)	(21,354)
Settlement of RSUs by Leonteq AG shares	(34,690)	(1,555)	(36,245)
RSUs at the balance sheet date	**124,354**	**56,995**	**181,349**

CHF	
Average grant price of program 2016 to 2021 – both plans	57.77

CHF thousands	Employees	Executive Committee	Total 2017
Personnel expenses recognised over the vesting period for RSUs	10,093	2,151	12,244
Market value of RSUs on the allocation date	10,093	2,151	12,244
Charged as personnel expenses in the year under review	3,435	1,045	4,480
Cumulative charges recognised as personnel expenses up to the balance sheet date	7,558	1,260	8,818
Estimated personnel expenses for the remaining vesting periods without future terminations	2,535	891	3,426

14 Other operating expenses

CHF thousands	2018	2017
Rent and accommodation	7,140	6,608
Information and communications technology	20,144	16,662
Vehicles, Equipment, Furniture and other accomodation expenses	(99)	421
Audit fees	1,105	987
of which for financial and regulatory audit	903	591
of which for other services	202	396
Other administrative expenses	14,673	15,650
of which for professional services other than audit fees	4,441	4,292
Total other operating expenses	**42,963**	**40,328**

15 Taxes

Income taxes

CHF thousands	2018	2017
Income tax expense		
Current income tax expense	1,000	—
Deferred income tax (benefit)/expense	(242)	(553)
Total income tax (benefit)/expense	**758**	**(553)**
Profit before tax	**86,288**	**22,360**
Income tax expense computed at the Swiss statutory tax rate	18,249	4,729
Explanations for higher (lower) tax expense		
Participation income tax relief	(2,893)	(2,019)
Tax rate differential	(9,539)	(6,809)
Transfer pricing adjustments	683	1,192
Addition/(Utilisation) of unrecognised tax losses carried forward	(2,786)	2,198
Impact of first time adoption of IFRS15 recognised through equity	(2,760)	—
Impact of cost relating to capital increase recognised through equity	(211)	—
Other impacts	15	156
Total income tax (benefit)/expense	**758**	**(553)**
Capital tax expense	528	336
Corporate tax (benefit)/expense	**1,286**	**(217)**

The statutory tax rate of the Company was 21.15% and 21.15% for the years ended 31 December 2018 and 2017, respectively. The tax rate differential presented relates primarily to the income of the Company's Guernsey Branch, which is taxed at the Guernsey company standard rate of 0%.

The Company 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 transfer pricing mainly relate to interest rate adjustments (including corresponding adjustments) to the Contingent Convertible Loan issued by the Company and currently fully owned by the holding company Leonteq AG and of which a further tranche of CHF 50 million was redeemed in 2017.

Tax losses carried forward not recognised are incurred from entities abroad.

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
Composition of deferred taxes				
Pension liability	2,690	2,118	—	—
Share based payment expenses	—	—	—	—
Timing differences in depreciation of long-lived assets	—	—	—	—
Other	—	—	—	—
Total deferred taxes	**2,690**	**2,118**	**—**	**—**

CHF thousands	Assets 2018	Assets 2017	Liabilities 2018	Liabilities 2017
Changes in deferred taxes				
Balance at the beginning of the year	2,118	3,719	—	—
Changes affecting the income statement	241	553	—	—
of which revaluation of share based payment plans	—	—	—	—
of which movement in pension liability	241	553	—	—
of which other temporary differences	—	—	—	—
Changes recognised trough equity related to share based payment plans	—	—	—	—
Translation adjustment	1	(1)	—	—
Changes affecting the statement of other comprehensive income from pension liability	330	(2,153)	—	—
Balance at the end of the year	**2,690**	**2,118**	**—**	**—**

16 Amounts due from banks

CHF thousands	31.12.2018	31.12.2017
Due from banks on demand (cash and cash equivalents)	266,869	339,872
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	**1,341,405**	**873,216**

Amounts with related parties are reflected in Note 38. 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	2,838	8,600
Total amounts due from customers	**214,784**	**114,648**

Amounts with related parties are reflected in Note 38. 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[9]	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[9]	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	—	—	—	—

[9] 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 Company’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 Company'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 Company 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	1,661	7,902
Accrued interest	13,484	9,286
Other	3	3
Total accrued income and prepaid expenses	**15,148**	**17,191**

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	2,596	9,838	12,434
Additions	33	43	76
Disposals	—	—	—
Reclassifications	—	—	—
Other value adjustments/impairments	—	—	—
Balance as of 31 December 2018	**2,629**	**9,881**	**12,510**
Accumulated depreciation cost			
Balance as of 1 January 2018	1,057	1,433	2,490
Depreciation [10]	412	1,299	1,711
Disposals	—	—	—
Reclassifications	—	—	—
Other value adjustments/impairments	29	2	31
Balance as of 31 December 2018	**1,498**	**2,734**	**4,232**
Net book value as of 31 December 2018	**1,131**	**7,147**	**8,278**

CHF thousands	Property and equipment		Total 31.12.2017
	Furniture / equipment	Leasehold improvements	
Historical cost			
Balance as of 1 January 2017	2,814	9,449	12,263
Additions	—	389	389
Disposals	(218)	—	(218)
Reclassifications	—	—	—
Other value adjustments/impairments	—	—	—
Balance as of 31 December 2017	**2,596**	**9,838**	**12,434**
Accumulated depreciation cost			
Balance as of 1 January 2017	656	173	829
Depreciation [10]	498	1,260	1,758
Disposals	(162)	—	(162)
Reclassifications	—	—	—
Other value adjustments/impairments [11]	65	—	65
Balance as of 31 December 2017	**1,057**	**1,433**	**2,490**
Net book value as of 31 December 2017	**1,539**	**8,405**	**9,944**

[10] All internally developed and purchased software is currently depreciated over a period of five years.
[11] Impairments were recognised in connection with the onerous office leases in Zurich and London. See Note 34 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		
68,279	25,251	9,387	102,917	115,351
9,137	5,934	2,898	17,969	18,045
—	—	(175)	(175)	(175)
—	—	—	—	—
—	—	—	—	—
77,416	**31,185**	**12,110**	**120,711**	**133,221**
38,844	19,543	4,095	62,482	64,972
9,719	2,507	1,799	14,025	15,736
—	—	(77)	(77)	(77)
—	—	—	—	—
(1)	14	19	32	63
48,562	**22,064**	**5,836**	**76,462**	**80,694**
28,854	**9,121**	**6,274**	**44,249**	**52,527**

Information technology and systems			Total 31.12.2017	Total 31.12.2017
Internally developed software	Purchased software	IT equipment		
58,184	23,773	5,494	87,451	99,714
10,095	1,478	3,893	15,466	15,855
—	—	—	—	(218)
—	—	—	—	—
—	—	—	—	—
68,279	**25,251**	**9,387**	**102,917**	**115,351**
30,015	15,288	2,881	48,184	49,013
8,829	4,255	1,214	14,298	16,056
—	—	—	—	(162)
—	—	—	—	—
—	—	—	—	65
38,844	**19,543**	**4,095**	**62,482**	**64,972**
29,435	**5,708**	**5,292**	**40,435**	**50,379**

Commitments arising from operational leases

CHF thousands	31.12.2018	31.12.2017
Due within one year	6,631	6,582
Due between two and five years	24,350	32,091
Due later than five years	24,846	22,192
Commitments for minimum payments under operational leases	**55,827**	**60,865**

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 Company 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	36,573	45,126
Other assets	1	6
Total other assets	**36,574**	**45,132**

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 38. 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
Subordinated loans	25,500	7,000
Settlement and other payables to platform partners – non-banks	10,310	15,996
Settlement and other payables to others – non-banks	186,481	—
Fees payable to other Leonteq companies	4,107	5,437
Other fees payable	433	865
Total amounts due to customers	**1,404,709**	**180,506**

Amounts with related parties are reflected in Note 38. 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 Company'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 loss[12]	**3,123,856**	**3,040,531**

[12] All issued structured products are booked as financial liabilities designated at fair value through profit or loss.

Any changes in the Company's own credit risk are reflected in "Other financial liabilities designated at fair value through profit or loss".

30 Bond issued and central mortgage institution loans

CHF thousands	Type of debt	Coupon rate	Year of issue	Early redemption date	Maturity	31.12.2018	31.12.2017
Leonteq Securities AG							
Tier 1 Contingent Convertible Loan Notes – Tranche 1	Subordinated with PONV[13] clause	6.75% + 6-months CHF LIBOR	2015	26 August 2020	perpetual	50,000	50,000
Tier 1 Contingent Convertible Loan Notes – Tranche 4	Subordinated with PONV[13] clause	6.25% + 6-months CHF LIBOR	2015	26 August 2020	perpetual	50,000	50,000
Total outstanding						**100,000**	**100,000**

[13] PONV = Point of non-viability

Maturities of issued loans

CHF thousands	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	31.12.2018	31.12.2017
Leonteq Securities AG								
Tier 1 Contingent Convertible Loan Notes – Tranche 1	—	—	—	—	—	50,000	50,000	50,000
Tier 1 Contingent Convertible Loan Notes – Tranche 4	—	—	—	—	—	50,000	50,000	50,000
Total outstanding	**—**	**—**	**—**	**—**	**—**	**100,000**	**100,000**	**100,000**

The Tier 1 Contingent Convertible Loan Note – Trance 2 was redeemed with value date 13 December 2017.

31 Accrued expenses and deferred income

CHF thousands	31.12.2018	31.12.2017
Accrued operating expenses	45,109	40,953
Deferred fee income	75,745	45,553
Accrued interest	5,005	4,760
Other	7,971	13,129
Total accrued expenses and deferred income	**133,830**	**104,395**

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).

32 Other liabilities

CHF thousands	31.12.2018	31.12.2017
Other tax liabilities	5,391	6,521
Pension liability	12,715	10,012
Other liabilities	24	681
Total other liabilities	**18,130**	**17,214**

See Note 36 for further information on the change in net pension liability.

33 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.

34 Provisions

CHF thousands	2018 Total provisions	2017 Total provisions
Balance as of 1 January	8,264	6,674
Utilisation in conformity with designated purpose	(542)	(1,129)
Increase in provisions recognised in the income statement	3,750	3,350
Release of provisions recognised in the income statement	(44)	(631)
Translation differences	(68)	—
Balance as of 31 December	**11,360**	**8,264**
of which short-term provisions	2,697	673
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 our 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 our 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 673 thousand) were recognised due to employment law related matters. In addition a provision in the amount of CHF 445 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 thousand) 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 business and 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 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.

35 Shareholders' equity

Share capital

	Total par value (CHF) 31.12.2018	Number of shares 31.12.2018	Capital eligible for dividends 31.12.2018	Total par value (CHF) 31.12.2017	Number of shares 31.12.2017	Capital eligible for dividends 31.12.2017
Share capital	15,000,000	15,000	15,000,000	15,000,000	15,000	15,000,000
of which fully paid in	15,000,000	15,000	—	15,000,000	15,000	—
Total share capital	**15,000,000**	**15,000**	**15,000,000**	**15,000,000**	**15,000**	**15,000,000**
Authorised capital	—	—	—	—	—	—
of which capital increase completed	—	—	—	—	—	—
Conditional share capital	—	—	—	—	—	—
of which capital increase completed	—	—	—	—	—	—

The Company does not hold any own shares. The Group's share-based payments plans are settled with Leonteq AG shares. For further information, refer to Note 13.

Capital distribution
The Board of Directors plans to propose to the Annual General Meeting of Leonteq Securities 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 form capital contributions were paid for the financial year 2017 and 2016, respectively.

Capital increase
Following the capital increase of Leonteq AG, the capital of Leonteq Securities AG was increased by CHF 100 million by way of contribution to the capital reserves. Stamp duty costs totalling CHF 1 million directly linked to this capital increase were netted with the gross proceeds.

36 Retirement benefit obligations

The Company's principal pension plan is operated in Switzerland and covers most of the Company's employees. This pension scheme is run in accordance with Swiss law.

The Company also contributes to pension schemes on behalf of employees domiciled in other locations and as required by the various jurisdictions. These pension schemes qualify as defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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 124 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 from the Company. 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 risk 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 shows where the Company'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) and 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 resultet 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	—	—
(Gains)/losses 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)
Gains/(losses) 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

37 Significant shareholders

Leonteq Securities AG is wholly owned by Leonteq AG. The significant shareholders of Leonteq AG are the following:

	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 [14]	5,495,157	29.02%	4,626,397	29.02%
Lukas Ruflin family interests [15, 16, 17]	1,543,756	8.15%	1,283,762	8.05%
Sandro Dorigo [17]	463,317	2.45%	390,082	2.45%
Subtotal shareholders' agreement	**7,502,230**	**39.62%**	**6,300,241**	**39.51%**
Rainer-Marc Frey [18, 19, 20]	2,201,081	11.63%	1,015,000	6.37%
Credit Suisse Funds AG	—	—	478,750	3.00%
Directors and Executives [21]	157,523	0.83%	76,255	0.48%
Total	**9,860,834**	**52.08%**	**7,870,246**	**49.36%**

14 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.

15 Lukas Ruflin family interests represents all the holdings of Lukas T. Ruflin (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. Ruflin.

16 In addition, Lukas Ruflin 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.

17 Founding partner.

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

19 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.

20 Creation of obligation to notify: 31 October 2018.

21 Excluding shareholdings of founding partners.

38 Related-party transactions

The Company 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	Amount due from 31.12.2018	Amount due from 31.12.2017	Amount due to 31.12.2018	Amount 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
Leonteq AG								
Amounts due from customers	2,061	7,256	—	—	—	—	—	—
Amounts due to customers	—	—	25,500	7,080	—	—	—	—
Bond issues and central mortgage institution loans	—	—	100,000	100,000	—	—	—	—
Accrued expenses and deferred income	—	—	2,147	2,147	—	—	—	—
Fee income	—	—	—	—	1,370	1,037	—	—
Interest expense	—	—	—	—	—	—	6,731	9,252
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 prepaid 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	—	—

CHF thousands	Amount due from 31.12.2018	Amount due from 31.12.2017	Amount due to 31.12.2018	Amount due to 31.12.2017	Income from 2018	Income from 2017	Expense to 2018	Expense to 2017
Leonteq Securities (Europe) GmbH								
Amounts due from customers	23	796	—	—	—	—	—	—
Accrued income and prepaid expenses	—	2	—	—	—	—	—	—
Amounts due to customers	—	—	1,949	2,459	—	—	—	—
Interest income	—	—	—	—	1	—	—	—
Fee expense	—	—	—	—	—	—	22,465	20,943
Leonteq Securities (Hong Kong) Ltd.								
Amounts due from customers	13	—	—	—	—	—	—	—
Amounts due to customers	—	—	517	687	—	—	—	—
Fee expense		—		—	—	—	4,716	6,853
Leonteq Securities (Japan) Ltd.								
Amounts due from customers	—	5	—	—	—	—	—	—
Amounts due to customers	—	—	209	305	—	—	—	—
Fee expense	—	—	—	—	—	—	2,348	310
Leonteq Securities (Monaco) SAM								
Amounts due from customers	11	35	—	—	—	—	—	—
Amounts due to customers	—	—	651	870	—	—	—	—
Fee income from other services	—	—	—	—	14	—	—	—
Fee expense	—	—	—	—	—	—	6,005	5,431
Leonteq Securities (Singapore) PTE Ltd.								
Amounts due from customers	65	58	—	—	—	—	—	—
Amounts due to customers	—	—	782	1,036	—	—	—	—
Fee expense	—	—	—	—	—	—	13,610	12,956
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 Company'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[22]	1961	British/Swiss	Chairman	—	2017	2019
Hans Isler[22]	1953	Swiss	Vice-Chairman	AC (Chair), NRC, RC	2012	2019
Jörg Behrens[22]	1964	Swiss	Member	AC, RC (Chair)	2012	2019
Paulo Brügger[23, 24]	1966	Swiss	Member	RC	2017	2019
Vince Chandler[22]	1956	British	Member	NRC (Chair)	2012	2019
Patrick de Figueiredo[25]	1950	Swiss	Member	RC	2010	2019
Richard Laxer[22]	1961	American/British	Member	NRC	2018	2019
Thomas R. Meier[22]	1962	Swiss	Member	AC, RC	2017	2019

[22] Independent directors.

[23] Representative of Raiffeisen.

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

[25] Representative of Founding Partners.

As of 31 December 2018, the Executive Committee of the Company 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. Ruflin	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 Company'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 of Shareholders (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 Company for the year ending 31 December 2018 amounted to:

CHF thousands Name	Director's fee				
	Cash	Share-based payment[26]	Post employment benefits[27]	Total compensation 2018	Total compensation 2017
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. Ruflin (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**

[26] These share-based payment amounts reflect the fair value of the shares at time of grant.

[27] These charges comprise the employer's social security contributions.

CHF thousands	2018	2017
Executive Committee		
Fixed compensation[28]	5,087	5,161
Variable compensation [29]	2,400	2,150
Total compensation	**7,487**	**7,311**

[28] Fixed compensation comprise payments in cash for base salaries, the employer' contributions to social security and pension and other minor fringe benefits.

[29] 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 35 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[30]	1,797	—	—	N/A	N/A	N/A
Thomas R. Meier	2,136	—	—	415	—	—
Lukas T. Ruflin[31, 32, 33]	N/A	N/A	N/A	10,424	—	—
Total[34]	**82,741**	**–**	**–**	**60,708**	**–**	**–**
Executive Committee						
Lukas T. Ruflin[35, 36, 37]	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**

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

31 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. Ruflin.

32 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.

33 Lukas T. Ruflin resigned from the Board of Directors on 28 March 2018.

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

35 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. Ruflin.

36 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.

37 Lukas T. Ruflin 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.

39 Off-balance

CHF thousands	31.12.2018	31.12.2017
Off-balance-sheet transactions		
Contingent liabilities	22,600	14,100
Irrevocable commitments	32	28
Obligations to pay up shares and make further contributions	—	—
Credit commitments	—	—

Contingent liabilities arise from deferred payments in relation to to employee variable compensation plans. For further information refer to Note 13.

Irrevocable commitments relate to Swiss Deposit Insurance.

40 Segment reporting

Leonteq defined four major 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 Company 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 Company 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	198,959	25,773	—	224,732
Net trading income/(loss)	18,169	3,296	—	21,465
Net interest income/(expense)	(22,217)	628	—	(21,589)
Other ordinary income	817	—	2,546	3,363
Total operating income	**195,728**	**29,697**	**2,546**	**227,971**
Personnel expenses	(64,184)	(8,326)	(6,768)	(79,278)
Other operating expenses	(32,305)	(2,621)	(8,037)	(42,963)
Depreciation of long-lived assets	(12,259)	(1,345)	(2,132)	(15,736)
Changes to provisions and other value adjustments, and losses	(1,756)	—	(1,950)	(3,706)
Total operating expenses	**(110,504)**	**(12,292)**	**(18,887)**	**(141,683)**
Result from operating activities	**85,224**	**17,405**	**(16,341)**	**86,288**

CHF thousands	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total 2017
Net fee income	180,003	20,953	—	200,956
Net trading income/(loss)	(26,334)	1,176	—	(25,158)
Net interest income/(expense)	(18,546)	519	—	(18,027)
Other ordinary income	2,611	—	360	2,971
Total operating income	**137,734**	**22,648**	**360**	**160,742**
Personnel expenses	(63,230)	(7,322)	(8,662)	(79,214)
Other operating expenses	(31,303)	(2,319)	(6,706)	(40,328)
Depreciation of long-lived assets	(12,932)	(1,208)	(1,981)	(16,121)
Changes to provisions and other value adjustments, and losses	(1,000)	—	(1,719)	(2,719)
Total operating expenses	**(108,465)**	**(10,849)**	**(19,068)**	**(138,382)**
Result from operating activities	**29,269**	**11,799**	**(18,708)**	**22,360**

The Company 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 (supply side).

Information by geographic location

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 2018
Net fee income	115,274	98,289	11,169	224,732
Net trading income/(loss)	10,167	8,327	2,971	21,465
Net interest income/(expense)	(8,087)	(11,223)	(2,279)	(21,589)
Other ordinary income	3,234	133	(4)	3,363
Total operating income	**120,588**	**95,526**	**11,857**	**227,971**

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2018
Accrued income and prepaid expenses	2,246	12,902	—	15,148
Current tax assets	964	—	—	964
Deferred tax assets	2,690	—	—	2,690
Long-lived assets	52,395	132	—	52,527
Other assets	36,115	459	—	36,574

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 2017
Net fee income	102,316	82,616	16,024	200,956
Net trading income/(loss)	(8,893)	(9,450)	(6,815)	(25,158)
Net interest income/(expense)	(7,102)	(8,387)	(2,538)	(18,027)
Other ordinary income	2,390	581	—	2,971
Total operating income	**88,711**	**65,360**	**6,671**	**160,742**

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2017
Accrued income and prepaid expenses	8,742	8,449	—	17,191
Current tax assets	964	—	—	964
Deferred tax assets	2,118	—	—	2,118
Long-lived assets	50,021	358	—	50,379
Other assets	44,235	897	—	45,132

The Company is a subsidiary wholly owned by Leonteq AG which as a group has offices in various international locations. The Company distributes its own and issuance partners' structured investment products either through its own sales force located in Zurich and Geneva, the distribution network of its related group companies outside Switzerland and through the distribution channels of its issuance partners. The geographical allocation of the Company's revenues is undertaken based on the location of the distributor, servicing primarily banks, insurance companies and asset manager/financial intermediaries. Switzerland consists of the offices in Zurich and Geneva as well as its issuance partners distribution channels. Europe subsumes the Company's or issuance partners' operations in Amsterdam as well as the Group's offices in Frankfurt, Guernsey, London, Monaco and Paris. Asia represents the Group's offices Hong Kong, Singapore and Tokyo.

41 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 Securities AG a long-term issuer default rating (IDR) of "BBB-" with a Positive Outlook and a short-term IDR of "F3".

42 Statutory banking regulations

The Company's 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 Company 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 are not related to operational activities. In 2017, the extraordinary expense only relates to the loss on sale of a company car. In 2018, different items of furniture, IT hardware and further equipment were sold which resulted in a gain.

Costs directly linked to the capital increase

Costs directly linked to a capital increase can be netted against the respective proceeds under IFRS. Since the proceeds from the capital increase on the level of Leonteq AG were to the largest extent used to increase the capital of Leonteq Securities AG, the respective costs (stamp duties) were netted against the injected capital, too. The Swiss accounting regulations do not allow netting of such costs within equity and therefore costs in the total amount of CHF 1,000 thousand are recognised in the income statement.

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. The effect for 2018 was a decrease of personnel expenses of CHF 1,145 thousand (2017: CHF 2,615 thousand). Under Swiss accounting regulations for banks, no actuarial gains or losses are recognised in equity. The balance of other comprehensive income related to defined benefit plans for 2018 was CHF 3,750 thousand (2017: CHF 2,521 thousand).

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. This lead to a reclassification from equity to accrued expenses and deferred income of CHF 6,571 thousand and of CHF 7,075 thousand for 2018 and 2017, respectively. The impact of the exercised share based payments is recognised in personnel expenses instead of equity. The effect was CHF 201 thousand and CHF 743 thousand in 2018 and 2017, respectively.

Amounts due from/to financial market infrastructure entities

The Swiss accounting regulations for banks require the amounts due from and due to financial market infrastructure entities to be disclosed as due from / to customers. The Company aligned the disclosure of these amounts in the IFRS financial statements.

Cryptocurrencies

Since cryptocurrencies do not meet the criteria for a financial instrument under IFRS, the respective balance is presented as Trading Inventories. FINMA clarified in December 2018 that under the Swiss accounting regulations cryptocurrencies held must be presented as Trading Financial Assets.

Hedge Accounting
Under IFRS, the fair value movements of hedging instruments of cash flow hedges are recognised in comprehensive income. Swiss accounting regulations for banks does not allow the recognition of expenses or income in the comprehensive income. The fair value movements of the hedging instruments of cash flow hedges are recognised in the compensation account instead. The effect for 2018 was CHF 0 thousand, for 2017 CHF -130 thousand. Hedge accounting was not applied in 2018 and 2017, respectively.

Refinancing costs for trading financial assets and liabilities as well as other financial assets and liabilities designated at fair value through profit or loss
The Company offsets refinancing costs for trading financial assets and liabilities as well as other financial assets and liabilities designated at fair value through profit or loss with the "result from trading activities and the fair value option". The net position is disclosed as "interest and discount income". Interest and discount income includes the net refinancing result of the trading activities of CHF 9,202 thousand and CHF 4,704 thousand in 2018 and 2017, respectively.

Deferred taxes
The Swiss accounting regulations for banks generally do not recognise deferred tax assets. Deferred tax liabilities are recognised as provisions. The Company 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).

Compensation account
The balance of the compensation account was CHF 0 and CHF 0 as of 31 December 2018 and as of 31 December 2017, respectively.

First time adoption of IFRS 15
In connection with the mandatory first time adoption of IFRS 15, the revenue recognition model for fees generated in the Investment Solutions business line was revised. In accordance with the modified retrospective adoption method, the effect of the first time adoption was accounted for through equity. Since under the Swiss accounting regulations no changes were required but Leonteq chose to keep the revenue recognition model aligned, the respective amount of CHF 20,690 thousand was recognised in the income statement as an expense.

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 Company provides investment advisory or discretionary portfolio management services in respect of those assets. In particular, this includes certain issued certificates where the Company 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 Company's definition of assets under management.

Report of the independent auditor
to the Board of Directors of Leonteq Securities AG, Zurich

Report on the audit of the financial statements

Opinion
On your instructions, we have audited the financial statements of Leonteq Securities AG (the Company), which comprise the statement of financial position statement as at 31 December 2018 and the income statement, statement of other comprehensive income, of changes in equity, statement of cash flow and notes for the year ended 31 December 2018 (pages 1 to 80), including a summary of significant accounting policies.

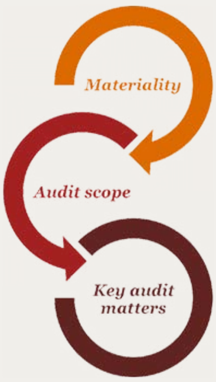
In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISA) 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, 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 materiality: CHF 4.3 million

We conducted full scope audit work at Leonteq Securities AG.

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 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.

Overall materiality	CHF 4.3 million
How we determined it	5% of the profit before tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company 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 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.

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Key audit matters

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 financial instruments held at fair value

Key audit matter	*How our audit addressed the key audit matter*
The Company 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. For the Company, 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 Company's own credit risk, implied volatility or correlations between different risk factors. Given the extent of judgement involved in valuing these financial instruments, we considered this to be a key audit matter. See Note 8 to the financial statements on pages 33 to 40.	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: - 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 Company's independent price verification. 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 Company's own credit spread by comparing the calculated model spread to credit spreads of peers. We assessed the appropriateness of the Company's disclosure in the financial statements.

pwc

Recognition of fee income

Key audit matter	*How our audit addressed the key audit matter*
The Company 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. For the Company, 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. Given the extent of judgement involved in recognising fee income for such services, we considered this to be a key audit matter. See Note 10 to the financial statements on page 41.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the recognition of fee income, including controls over: - 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. For issued structured products and unit linked life insurance policies we reconciled and compared the amounts of fee income in the Company's IT system with the initial margin tool. We further tested the inputs in the fee deferral calculation against assumptions approved by the Board of Directors and we re-performed the deferred revenue calculation. We assessed the appropriateness of the Company's disclosure in the financial statements.

Portfolio and risk management system

Key audit matter	*How our audit addressed the key audit matter*
We focussed on this area because the Company'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 54 to 56.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the Company'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 Company's IT strategy and its implementation status. We further tested logical and physical access restrictions in place.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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.

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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 ISA's 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.

PricewaterhouseCoopers AG

Andrin Bernet	Roman Schnider
Audit expert Auditor in charge	Audit expert

Zurich, 6 February 2019

STATUTORY FINANCIAL STATEMENTS

Leonteq Securities AG

Income statement in accordance with ARB for the years ended 31 December 2018 and 2017

CHF thousands	2018	2017
Result from interest operations		
Interest and discount income	15,092	6,335
Interest expense	(25,841)	(19,783)
Gross result from interest operations	**(10,749)**	**(13,448)**
Changes in value adjustments for default risks and losses from interest operations	**(1,640)**	**125**
Net result from interest operations	**(12,389)**	**(13,323)**
Fee income		
Fee income from securities trading and investment activities	313,539	250,855
Fee income from other services	1,384	1,051
Fee expense	(110,880)	(50,950)
Net fee income	**204,043**	**200,956**
Result from trading activities and the fair value option	**13,603**	**(29,208)**
Income from other ordinary activities	3,363	2,971
Result from other ordinary activities	**3,363**	**2,971**
Operating expenses		
Personnel expenses	(77,932)	(75,856)
Other operating expenses	(43,435)	(39,991)
Operating expenses	**(121,367)**	**(115,847)**
Depreciation of long-lived assets	(15,798)	(16,107)
Changes to provisions and other value adjustments, and losses	(5,046)	(3,373)
Result from operating activities	**66,409**	**26,070**
Extraordinary income	62	—
Extraordinary expenses	—	(15)
Taxes	(1,528)	(336)
Net profit	**64,943**	**25,719**

Interest and discount income includes the net refinancing result of the trading activities of CHF 9.2 million as of 31 December 2018 and CHF 4.7 million as of 31 December 2017.

Appropriation of retained earnings

CHF thousands	31.12.2018	31.12.2017
Net profit	**64,943**	25,719
Profit carried forward from prior years	108,226	82,507
Accumulated profit carried forward	**173,169**	**108,226**
Appropriation of profit		
Allocation to the statutory retained earnings reserves	—	—
Dividend	—	—
Accumulated profit to be carried forward	**173,169**	**108,226**

Leonteq Securities AG

Statement of financial position in accordance with ARB as of 31 December 2018 and 2017

CHF thousands	31.12.2018	31.12.2017
Assets		
Cash in hand	—	—
Amounts due from banks	1,341,405	812,259
Amounts due from securities financing transactions	84,076	13,533
Amounts due from customers	214,784	175,606
Trading financial assets	2,042,802	2,433,372
Positive replacement values of derivative financial instruments	4,948,893	1,629,717
Other financial assets designated at fair value through profit or loss	1,913,507	1,141,602
Accrued income and prepaid expenses	16,112	18,154
Long-lived assets	52,527	50,379
Other assets	36,574	45,132
Total assets	**10,650,680**	**6,319,754**
Total subordinated claims	4,809	7,369
of which subject to mandatory conversion and/or debt waiver	—	—
Liabilities		
Amounts due to banks	924,049	306,048
Liabilities from securities financing transactions	428,901	377,397
Amounts due to customers	1,404,709	408,918
Trading financial liabilities	360,432	101,246
Negative replacement values of derivative financial instruments	3,688,353	1,563,016
Other financial liabilities designated at fair value through profit or loss	3,123,856	3,040,531
Bond issues and central mortgage institution loans	100,000	100,000
Accrued expenses and deferred income	141,461	111,571
Other liabilities	5,414	7,201
Expected credit loss provision	2,950	1,310
Provisions	11,360	8,264
Total liabilities	**10,191,485**	**6,025,502**
Equity		
Share capital	15,000	15,000
Statutory capital reserve	270,307	170,307
of which tax exempt capital contribution reserve	163,525	163,525
Statutory retained earnings reserve	719	719
Profit carried forward	108,226	82,507
Net profit	64,943	25,719
Total shareholders' equity	**459,195**	**294,252**
Total liabilities and shareholders' equity	**10,650,680**	**6,319,754**
Total subordinated liabilities	127,644	109,147
of which subject to mandatory conversion and/or debt waiver	100,000	100,000

Off-balance in accordance with ARB

Please refer to Note 39.

Leonteq Securities AG

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

CHF thousands	Share capital	Statutory capital reserve [1]	Statutory retained earnings reserve	Profit/-loss carried forward	Net profit/ -loss	Total
Balance as of 31 December 2016	**15,000**	**120,307**	**719**	**87,754**	**(5,247)**	**218,533**
Reallocation of retained earnings	—	—	—	(5,247)	5,247	—
Employee participation schemes/ recognition in reserves	—	—	—	—	—	—
Capital increase/decrease	—	50,000	—	—	—	50,000
Acquisition and disposal of own shares	—	—	—	—	—	—
Dividends and other distributions	—	—	—	—	—	—
Other allocations to/(transfers from) the other reserves	—	—	—	—	—	—
Net profit	—	—	—	—	25,719	25,719
Balance as of 31 December 2017	**15,000**	**170,307**	**719**	**82,507**	**25,719**	**294,252**

[1] CHF 163’525 thousand relate to tax exempt capital contribution reserve of which CHF 51’950 thousand have been confirmed by the Swiss Federal Tax Administration (ESTV) on 16.02.2015.

CHF thousands	Share capital	Statutory capital reserve [2]	Statutory retained earnings reserve	Profit/-loss carried forward	Net profit/ -loss	Total
Balance as of 31 December 2017	**15,000**	**170,307**	**719**	**82,507**	**25,719**	**294,252**
Reallocation of retained earnings	—	—	—	25,719	(25,719)	—
Employee participation schemes/ recognition in reserves	—	—	—	—	—	—
Capital increase/decrease	—	100,000	—	—	—	100,000
Acquisition and disposal of own shares	—	—	—	—	—	—
Dividends and other distributions	—	—	—	—	—	—
Other allocations to/(transfers from) the other reserves	—	—	—	—	—	—
Net profit	—	—	—	—	64,943	64,943
Balance as of 31 December 2018	**15,000**	**270,307**	**719**	**108,226**	**64,943**	**459,195**

[2] CHF 163’525 thousand relate to tax exempt capital contribution reserve of which CHF 51’950 thousand have been confirmed by the Swiss Federal Tax Administration (ESTV) on 16.02.2015. The proceeds from the capital increase have been reported to the tax authorities. Leonteq Securities AG is awaiting formal confirmation.

Concordance table regarding disclosure requirements

The following concordance table reconcile the ARB disclosure requirements to the disclosures in the single entity financial statements of Leonteq Securities AG. The company is a fully owned subsidiary of the listed Leonteq AG. that publishes consolidated financial statements in accordance with IFRS. Therefore, Leonteq Securities AG can apply the consolidation relief to selected disclosure requirements. In accordance with margin number 327 of FINMA Circ. 15/1, Leonteq Securities AG does not need to disclose a management report.

Margin number of FINMA Circ. 15/1	Disclosure requirement	Disclosure in single financial statements of Leonteq Securities AG
75 – 124	Balance sheet	Note 42: Statement of financial position for the year ended 31 December 2018 and 2017
125 – 161	Income statement	Note 42: Income statement for the year ended 31 December 2018 and 2017
162 – 169	Appropriation of profit / coverage of losses / other distributions	Note 42: Proposed appropriation of retained earnings as well as proposed distribution from reserves from capital contribution
170	Cash flow statement	In accordance with margin number 327, Leonteq Securities AG does not need to disclose a cash flow statement.
171 – 172	Statement of change in equity	Note 42: Statement of changes in equity form the years ended 31 December 2018 and 2017
182	Business name and its legal form and domicile	Note 1: General information
183 – 190	Accounting and valuation policies	Note 3: Critical accounting estimates and judgements in applying accounting policies; Note 6: Changes to critical accounting estimates and changes to presentation; Note 5: Principal accounting policies; Note 42: Statutory banking regulations (differences between IFRS and ARB)
191	Risk Management	Note 7: Financial risks and financial risk management
195	Material events after balance sheet date	Note 41: Post-balance sheet events
197	Information on the balance sheet	Notes to the (consolidated) financial statements
198	Breakdown of securities financing transactions (assets and liabilities)	Note 18: Securities financing transactions (assets and liabilities)
199	Presentation of collateral for loans / receivables and off-balance-sheet transactions and impaired loans / receivables	Note 42: Collaterised loans / receivables and off-balance-sheet transactions and impaired loans / receivables
200	Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)	Note 19: Trading financial assets Note 22: Other financial assets designated at fair value through profit or loss
201	Presentation of derivative financial instruments (assets and liabilities)	Note 21: Replacement values of derivative instruments
202	Breakdown of financial investments	Leonteq Securities AG does not have any financial investments
203	Presentation of participations	In accordance with margin number 328, Leonteq Securities AG does not need to disclose the participations
204	Disclosure of companies in which the banks holds a permanent direct or indirect significant participation	In accordance with margin number 329, Leonteq Securities AG does not need to disclose the permanent direct or indirect significant participations
205	Presentation of long-lived assets	Note 24: Long-lived assets
206	Presentation of intangible assets	Leonteq Securities does not have any intangible assets
207	Breakdown of other assets and other liabilities	Note 25: Other assets Note 32: Other liabilities

Margin number of FINMA Circ. 15/1	Disclosure requirement	Disclosure in single financial statements of Leonteq Securities AG
208	Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership	Leonteq Securities AG does not have any assets pledged or assigned to secure own commitments and of assets under reservation of ownership
209	Disclosure of liabilities relating to own pension schemes and number and nature of equity instruments of the bank held by own pension schemes	Note 42: Statutory banking regulations – Pension and post-retirement benefits
210	Disclosure of the economic position of own pension schemes	Note 42: Information on Economic Benefit / Liability and the pension expenses
211	Presentation of issued structure products	Note 29: Other financial liabilities designated at fair value through profit or loss
212	Presentation of bonds outstanding and mandatory convertible bonds	Note 30: Bond issued and central mortgage institution loans
213	Presentation of value adjustments and provisions, reserves for general banking risks and changes therein during the current year	Note 34: Provisions
214	Presentation of the bank's capital	Note 35: Shareholder's equity
215	Number and value of equity securities or options on equity securities held by all executives and directors and by employees and disclosure of any employee participation schemes	Note 13: Personnel expenses Note 38: Related-party transactions
216	Disclosures of amounts due from / to related parties	Note 38: Related-party transactions
217	Disclosure of holders of significant participations	Note 36: Significant shareholders
218	Disclosure of own shares and composition of equity capital	Note 35: Shareholder's equity
219	Disclosures in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations and Article 663c para. 3 CO for banks whose equity securities are listed	The equity securities of Leonteq Securities AG are not listed.
220	Presentation of the maturity structure of financial instruments	In accordance with margin number 333, Leonteq Securities AG does not need to disclose the maturity structure of financial instruments
221	Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle	In accordance with margin number 334, Leonteq Securities AG does not need to disclose the presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle maturity structure of financial instruments
222	Breakdown of total assets by country or group of countries (domicile principle)	In accordance with margin number 335, Leonteq Securities AG does not need to disclose the breakdown of total assets by country or group of countries (domicile principle)
223	Breakdown of total assets by credit rating of country groups (risk domicile view)	Note 42: Statutory banking regulations – Breakdown of total assets by credit rating of country groups
224	Breakdown of assets and liabilities broken down by the most significant currencies for the bank or financial group	In accordance with margin number 336, Leonteq Securities AG does not need to disclose the breakdown of assets and liabilities broken down by the most significant currencies for the bank or financial group
225 – 228	Off-balance-sheet transactions	Note 39: Off-balance
229	Assets under management	Note 42: Statutory banking regulations – assets under management
230	Information on the income statement	Notes to the (consolidated) financial statements
231	Breakdown of the result form trading activities and the fair value option	Note 11: Results from trading activities and the fair value option

Margin number of FINMA Circ. 15/1	Disclosure requirement	Disclosure in single financial statements of Leonteq Securities AG
232	Disclosure of material refinancing income	Note 42: Statutory banking regulations – Refinancing costs for trading financial assets and liabilities as well as other financial assets and liabilities designated at fair value through profit or loss
233	Breakdown of personnel expenses	Note 13: Personnel expenses
234	Breakdown of general and administrative expenses	Note 14: Other operation expenses
235	Explanations regarding material losses, extraordinary income and expenses as well as material releases of hidden reserves, reserves for general banking risks and value adjustments and provisions no longer required	Note 42: Statutory banking regulations – Extraordinary profit
236	Disclosure of and reasons for revaluation of participations and long-lived assets up to acquisition cost at maximum	Leonteq Securities AG does not have any participation and long-lived assets with hidden reserves
237	Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment	In accordance with margin number 339, Leonteq Securities AG does not need to disclose the presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment
238	Presentation of current and deferred taxes and disclosure of tax rate	Note 15: Taxes
239	Disclosures and explanations of the earning per equity securities	The equity securities of Leonteq Securities AG are not listed.

Collateralised loans / receivables and off-balance sheet transacitons and impaired loans/receivables

CHF thousands	Type of collateral			Total 31.12.2018
	Secured by mortgage	Other collateral	unsecured	
Loans (before netting with value adjustments)				
Amounts due from customers	—	45,503	169,281	214,784
Other financial assets designated at fair value through profit & loss	—	165,386	1,748,121	1,913,507
Mortgage loans	—	—	—	—
Residential property	—	—	—	—
Office and business premises	—	—	—	—
Commercial and industrial premises	—	—	—	—
Other	—	—	—	—
Total loans (before netting with value adjustments)				
Balance as of 31 December 2018	**—**	**210,889**	**1,917,402**	**2,128,291**
Balance as of 31 December 2017	**—**	**151,383**	**1,104,867**	**1,256,250**
Total loans (after netting with value adjustments)				
Balance as of 31 December 2018	**—**	**210,889**	**1,917,312**	**2,128,201**
Balance as of 31 December 2017	**—**	**151,383**	**1,104,867**	**1,256,250**
Off-balance sheet				
Contingent liabilities	—	—	22,600	22,600
Irrevocable commitments	—	—	32	32
Obligations to pay up shares and make further contributions	—	—	—	—
Credit commitments	—	—	—	—
Total off-balance-sheet as of 31 December 2018	**—**	**—**	**22,632**	**22,632**
Total off-balance-sheet as of 31 December 2017	**—**	**—**	**14,128**	**14,128**

CHF thousands	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Net debt amount
Impaired loans / receivables				
Balance as of 31 December 2018	**—**	**—**	**—**	**—**
Balance as of 31 December 2017	**—**	**—**	**—**	**—**

Information on economic benefit / liability and the pension expenses

CHF thousands	31.12.2018 Surplus	31.12.2018 Economic benefit or liability	31.12.2017 Economic benefit or liability	Change versus previous year	Contributions accrued for the period	31.12.2018 Pension costs included in Personel Expenses	31.12.2017 Pension costs included in Personel Expenses
Patronage funds and pension plans	—	—	—	—	—	—	—
Pension plans without a surplus/shortfall	—	—	—	—	—	—	—
Pension plans with a surplus	—	—	—	—	3,251	3,251	3,503
Pension plans with a shortfall	—	—	—	—	—	—	—
Pension schemes without their own assets	—	—	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**3,251**	**3,251**	**3,503**

Pension fund Leonteq Securities AG

	31.12.2018	31.12.2017
Coverage ratio excluding employer's contribution reserve	103.30%	107.60%
Coverage ratio including employer's contribution reserve	103.30%	107.60%

Total assets by credit rating of country groups

Risk domicile view

Moody's rating categories	Net foreign exposure in CHF thousands	2018 Share as %	Net foreign exposure in CHF thousands	2017 Share as %
Aaa – Aa3	5,561,833	96%	3,664,997	94%
A1 – A3	1,107	0%	2,555	0%
Baa1 – Baa3	129,160	2%	166,944	4%
Ba1 – Ba2	32,918	1%	34,200	1%
Ba3	8,868	0%	15,889	0%
B1 – B3	42,037	1%	15,104	0%
Caa1 – C	918	0%	369	0%
unrated	6,409	0%	13,256	0%
Total assets	**5,783,249**	**100%**	**3,913,315**	**100%**

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 Company is not subject to liquidity requirements, as they apply specifically to banks.

The Company's capital management is closely tied to the Company'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 Company'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 Company.

- 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 and capital ratios calculated in accordance with the ARB (FINMA Circ. 15/1) as of 31 December 2018 and 31 December 2017:

CHF thousands	31.12.2018	31.12.2017
BIS eligible capital		
Total shareholders' equity	459,195	294,252
Capital deductions	(81)	—
Other adjustments	—	—
CET 1 capital	**459,114**	**294,252**
Additional Tier 1	100,000	100,000
Tier 1 capital	**559,114**	**394,252**
Tier 2 capital	28,450	8,310
Total BIS eligible capital	**587,564**	**402,562**

Tier 2 capital takes the subordinated loan as well as the general provision for default risk into account (see Note 33).

CHF thousands	BIS required capital		Risk-weighted assets	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Market risk (incl. derivatives)	137,441	106,957	1,718,011	1,336,967
Interest rates	81,127	52,926	1,014,088	661,583
Equities	38,366	41,409	479,573	517,618
Foreign exchange and gold	9,352	8,814	116,898	110,171
Commodities	8,596	3,808	107,452	47,595
Credit risk	43,801	28,315	547,513	353,933
Operational risk	23,531	23,244	294,137	290,550
Non-counterparty related risk	4,202	4,030	52,527	50,380
Amounts below threshold for deductions[3]	—	—	—	—
Cryptocurrencies[4]	50	—	629	—
Total	**209,025**	**162,546**	**2,612,817**	**2,031,830**

[3] With 250% to be risk-weighted positions.
[4] 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%[5])	17.6%	14.5%
Tier 1 capital ratio (required: 8.5%[5])	21.4%	19.4%
Total capital ratio (required: 10.5%[5])	**22.5%**	**19.8%**

[5] 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 Company'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 on the Investor Relations section of the Company's website at: www.leonteq.com. The report will be available at the end of April 2019.

Leverage ratio

CHF thousands	31.12.2018 Exposure	31.12.2017 Exposure
Tier 1 capital	559,114	394,251
Total consolidated assets as per published financial statements	10,650,680	6,319,754
Adjustments	(3,271,295)	(331,738)
Leverage ratio exposure	7,379,386	5,988,016
Leverage ratio	**7.6%**	**6.6%**

The leverage ratio improved by 1.0 percentage points in 2018 due to a 42% increase in the Tier 1 capital compared to a 23% increase in the leverage ratio exposure. The total assets grew by 69% 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).

Report of the statutory auditor

to the General Meeting of Leonteq Securities AG, Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Leonteq Securities AG (the Company), which comprise the income statement, statement of financial position, statement of changes in equity and notes, for the year ended 31 December 2018.

In our opinion, the financial statements (pages 1 to 97) for the year ended 31 December 2018 give a true and fair view of the financial position and the results of operations in accordance with accounting rules for banks and comply with Swiss law and the Company`s articles of incorporation.

Basis for opinion

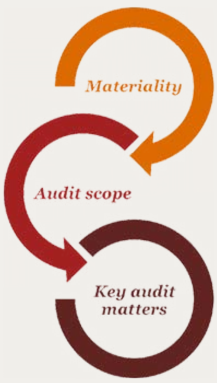
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, 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 materiality: CHF 4.3 million

We conducted full scope audit work at Leonteq Securities AG.

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 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.

Overall materiality	CHF 4.3 million
How we determined it	5% of the profit before tax, adjusted for the non-reoccurring impact of the new revenue recognition model adopted on 1 January 2018
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company 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 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of 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 financial instruments held at fair value

Key audit matter	*How our audit addressed the key audit matter*
The Company 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. For the Company, these financial instruments consist of issued structured products and	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: - approval of new instruments, - approval and validation of models adopted, - daily analysis of profit and loss, and

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derivative instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs such as the Company's own credit risk, implied volatility or correlations between different risk factors. Given the extent of judgement involved in valuing these financial instruments, we considered this to be a key audit matter. See Note 8 to the financial statements on pages 33 to 40.	- accuracy of data feeds, inputs to models and the Company's independent price verification. 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 Company's own credit spread by comparing the calculated model spread to credit spreads of peers. We assessed the appropriateness of the Company's disclosure in the financial statements.

Recognition of fee income

Key audit matter	*How our audit addressed the key audit matter*
The Company 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. For the Company, 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. Given the extent of judgement involved in recognising fee income for such services, we considered this to be a key audit matter. See Note 10 to the financial statements on page 41.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the recognition of fee income, including controls over: - completeness of fee income received, - accuracy of data and input for portfolio calculation to derive the average effective lifetime of structured investment products, - the Company's review and governance over its new revenue recognition accounting policy. For issued structured products and unit linked life insurance policies we reconciled and compared the amounts of fee income in the Company's IT system with the initial margin tool. We further tested the inputs in the fee deferral calculation against assumptions approved by the Board of Directors and we re-performed the deferred revenue calculation. We assessed the appropriateness of the Company's disclosure in the financial statements.

Portfolio and risk management system

Key audit matter	*How our audit addressed the key audit matter*
We focussed on this area because the Company'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 54 to 56.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the Company'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 Company's IT strategy and its implementation status. We further tested logical and physical access restrictions in place.

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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 accounting rules for banks, the requirements of Swiss law and the Company`s articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company'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 Company 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 statutory requirements

In accordance with art. 728a para. 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

Andrin Bernet	Roman Schnider
Audit expert Auditor in charge	Audit expert

Zurich, 6 February 2019

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This annual report may contain specific forward-looking statements, e.g. statements including terms like 'believe', 'assume', 'expect', 'forecast', 'project', 'may', 'could', 'might', 'will' or similar expressions. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may result in a substantial divergence between the actual results, financial situation, development or performance of the Company or any of its affiliates or subsidiaries and those explicitly or implicitly presumed in these statements. These factors include, but are not limited to: (1) general market, macroeconomic, governmental and regulatory trends, (2) movements in securities markets, exchange rates and interest rates and (3) other risks and uncertainties inherent in our business. Against the background of these uncertainties, you should not rely on forward-looking statements.

Neither the Company nor any of its affiliates or subsidiaries or their respective bodies, executives, employees and advisers assume any responsibility to prepare or disseminate any supplement, amendment, update or revision to any of the information, opinions or forward-looking statements contained in this annual report or to adapt them to any change in events, conditions or circumstances, except as required by applicable law or regulation.

The COSI® asset-backed products (hereinafter 'COSI® products') are collateralised in accordance with the terms of the SIX Swiss Exchange 'Framework Agreement for Collateral Secured Instruments' ('Framework Agreement'). COSI® Collateral Secured Instruments – Investor Protection engineered by SIX. COSI® secures structured products with a pledge, thus offering investors a high level of protection from issuer defaults.

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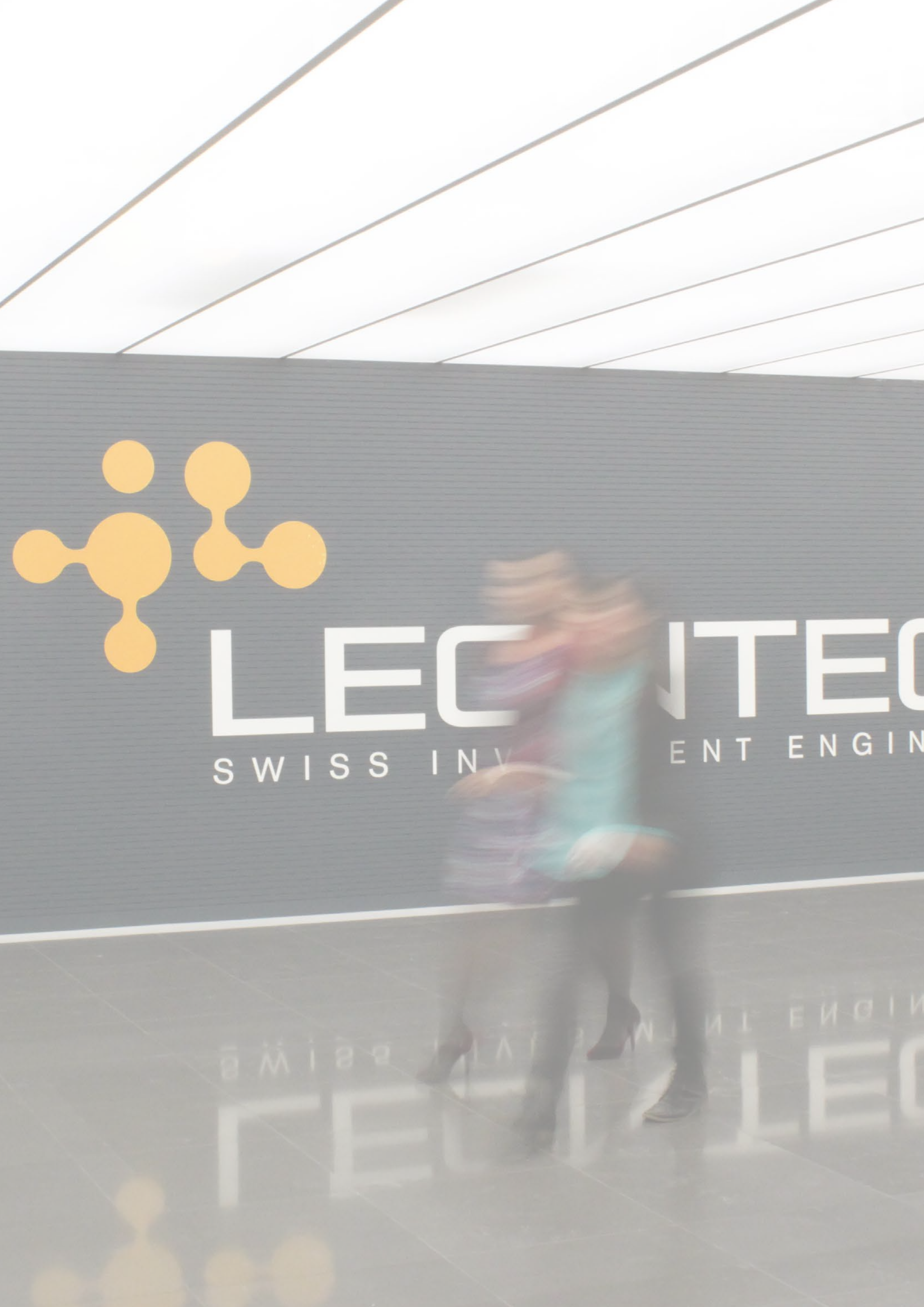
In the spirit of sustainability, this publication was printed using a carbon-neutral process on FSC certified paper and guarantees a sustainable management of the world's forests. Only green electricity was used for the manufacture of this publication and it was delivered with a hybrid car.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