LEONTEQ
SWISS INVESTMENT ENGINE

HALF YEAR REPORT 2018


SWISS INV

CONTENT

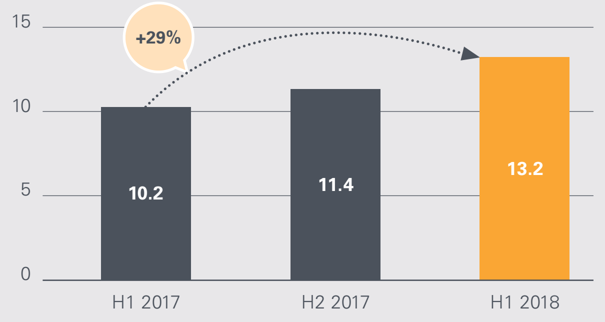
FINANCIAL HIGHLIGHTS

Leonteq delivered solid results in the first half of 2018.

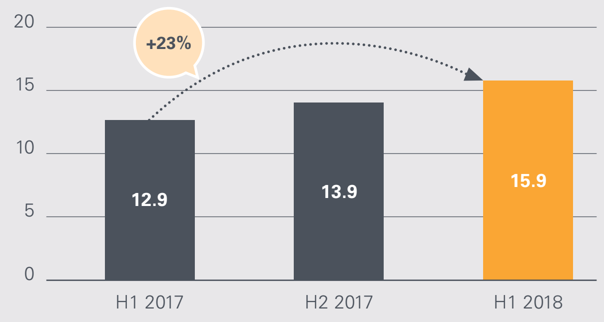
FINANCIAL

Highlights in the first half of 2018

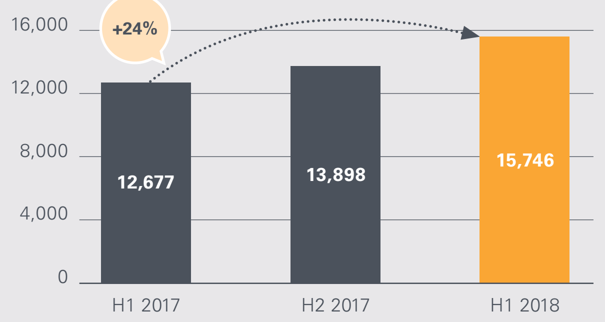
Platform assets Leonteq (CHFbn)



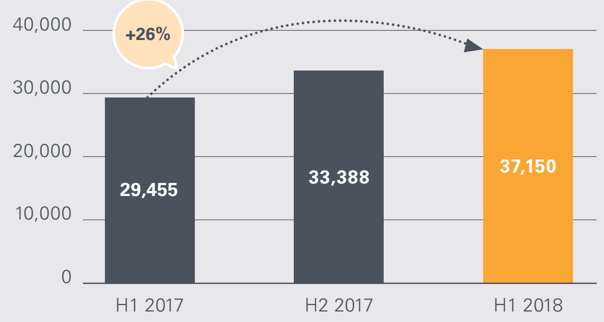
Turnover (CHFbn)



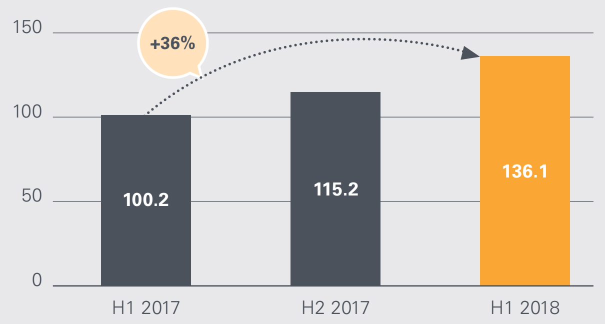
Structured products issued



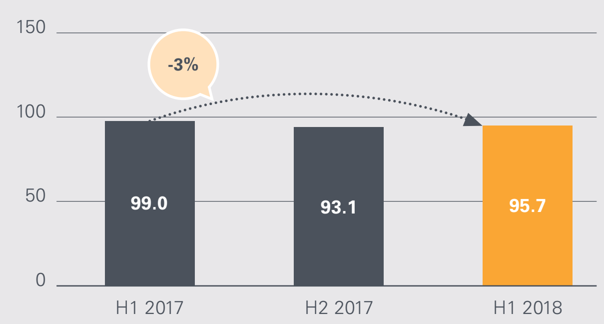
Unit-linked life insurance policies



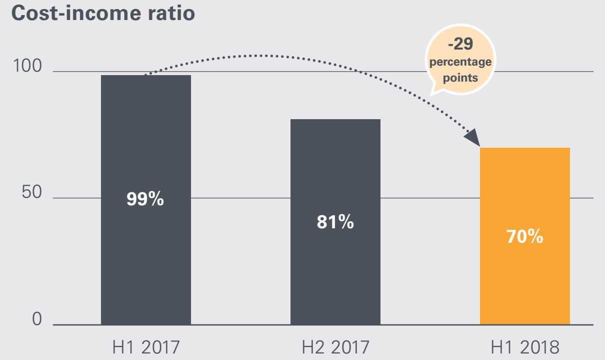
Total operating income (CHFm)



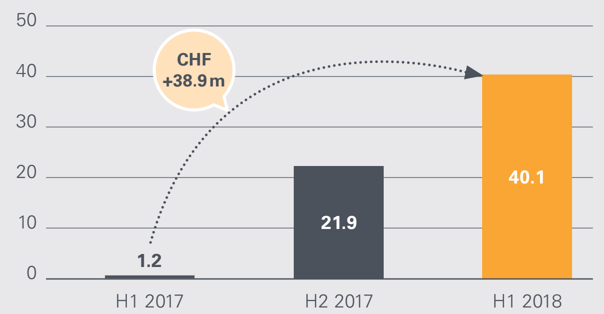
Total operating expenses (CHFm)



Cost-income ratio



Net profit (CHFm)



DEAR SHAREHOLDERS AND CLIENTS

We delivered a solid performance in the first half of 2018, confirming the successful turnaround of our business. We now focus our full attention on the future and have defined clear strategic priorities for the short- and mid-term, to position our company for further sustainable growth and we have announced a new set of financial targets for 2020.

Review of business performance

In the first half of 2018, we generated total operating income of CHF 136.1 million, an increase of 36% year on year driven primarily by higher net fee income and an improved net trading result. Net fee income rose by 22% to CHF 145.7 million, mainly reflecting sustained client demand for structured investment products. Net trading results improved to CHF -3.7 million in the first half of 2018 from CHF -16.4 million in the prior-year period, primarily due to a CHF 10.7 million increase in the contribution from hedging activities.

Driven by sustained demand for structured products, we issued 15,746 structured products in the first half of 2018, an increase of 24% year on year, and we grew our total turnover by 23% to CHF 15.9 billion. Our platform assets (volume outstanding) reached a record CHF 13.2 billion as at 30 June 2018, up from CHF 11.4 billion at end-2017. This increase mainly reflects the good progress we achieved with our newly onboarded issuance partners Crédit Agricole CIB and Standard Chartered Bank, as well as a 17% rise in the volume of our own products outstanding to CHF 3.5 billion as at 30 June 2018.

We recorded a 3% reduction in total operating expenses to CHF 95.7 million in the first half of 2018, including one-off costs of CHF 2.5 million. Personnel expenses increased by 7% to CHF 60.7 million due to higher variable compensation accruals on the back of improved performance. Headcount remained relatively stable at 445 full-time equivalents (FTEs) as at 30 June 2018. Other operating expenses declined by 6% to CHF 24.4 million, reflecting our continued cost discipline.

Underscoring the rebound of our business, net profit improved to CHF 40.1 million in the first half of 2018 compared to CHF 1.2 million in the first six months of 2017.

Total eligible capital amounted to CHF 437.5 million as at 30 June 2018, compared to CHF 419.7 million as at 31 December 2017. Risk weighted assets increased by 11% to CHF 2,381 million as a result of business growth, an increase in platform assets, and higher market and credit risk exposures. The BIS total capital ratio was 18.4% as at 30 June 2018, compared to 19.6% at end-2017.

Strategic priorities and outlook

The past 12 months were a period of considerable progress for Leonteq. We not only achieved the planned turnaround of the business but also delivered a solid net profit for the second half of 2017 and the first half of 2018. In addition, we further enhanced our collaboration with issuance partners and grew our business volumes while conducting a rightsizing programme. Importantly, we also worked hard to improve our corporate governance processes and disclosures, including further strengthening the independence and skills of the Board of Directors.

Despite this progress, we are still faced with margin pressure on the back of an increasingly competitive environment, regulatory developments and changes relating to our issuance partners. In response to these and other challenges, we have defined a set of strategic priorities that are designed to enhance the scalability of our business and facilitate growth while, at the same time, optimizing our capital usage:

- To increase the efficiency of our organisation and reduce functional overlaps, we plan to merge our Banking Solutions business line with our Investment Solutions business line so that, subject to FINMA approval, Leonteq will operate with only two business lines in future: Investment Solutions and Insurance & Wealth Planning Solutions.
- We have initiated our SHIP (Smart Hedging and Issuance Platform) project to reduce our hedging exposure by offering our issuance partners the opportunity to enter into hedging transactions for their issued products with external parties. The initiative is expected to be fully operational within 18 to 24 months.

Christopher M. Chambers
Chairman of the Board of Directors

Lukas Ruflin
Chief Executive Officer

- We will continue to improve and strengthen cooperation with our existing platform partners and we are taking targeted steps to grow our business through additional investments in innovation and technology. Our aim is to further improve the client experience and enhance efficiency and cost effectiveness.
- To facilitate and support continued growth in business volumes, we will launch a capital increase by way of a fully underwritten rights offering relating to 2,989,593 new registered shares with a nominal value of CHF 1.00 each to be issued from existing authorised capital. As a further step to strengthen our capital position, we do not plan to pay a dividend or make other distributions for the 2018 financial year or the foreseeable future.

To provide greater transparency for the capital market, we define a new set of financial targets. We aim to grow total operating income to approximately CHF 300 million while maintaining disciplined cost management and target a cost-income ratio of less than 70% by 2020.

These measures are designed to reinforce our capital position, allowing us to continue growing our business volumes while implementing key projects and initiatives with a view to taking our business model to the next level.

On behalf of the Board of Directors and the Executive Committee, we would like to express our gratitude to our employees for their hard work and commitment over the last 12 months. Their efforts were crucial to the success of the turnaround and our solid financial performance and we therefore owe them considerable thanks. We also wish to thank our shareholders and clients for their loyalty and valuable support.

Christopher M. Chambers
Chairman of the Board of Directors

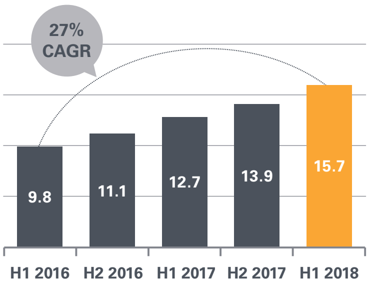
L. Ruflin
Lukas Ruflin
Chief Executive Officer

BUSINESS AND FINANCIAL REVIEW

REVIEW

Leonteq confirms the successful turn-around of its business and delivered a solid performance in the first half of 2018.

Number of products issued (in thousands)



Group results

Leonteq reported a solid set of financial results for the first half of 2018. Total operating income increased by 36% to CHF 136.1 million in the first half of 2018, compared to CHF 100.2 million for the same period in 2017. This increase was driven primarily by a solid growth in net fee income reflecting sustained client demand for structured products, an increase in the contribution from large ticket transactions (defined as transactions where Leonteq earns a fee of CHF 0.5 million or more) and an improved net trading result on the back of positive contribution from hedging activities.

Driven by solid demand for structured products, Leonteq issued 15,746 structured products (+24%) in the first half of 2018 and grew total turnover by 23% to CHF 15.9 billion. Total platform assets grew to CHF 13.2 billion as at 30 June 2018 from CHF 11.4 billion at end-2017 primarily driven by good progress with its newly onboarded issuance partners Crédit Agricole CIB and Standard Chartered Bank and an increase in the volume of Leonteq's own products outstanding by 17% to CHF 3.5 billion as at 30 June 2018.

Total operating expenses decreased by 3% to CHF 95.7 million in the first half of 2018, including one-off costs of CHF 2.5 million. Leonteq posted a group net profit of CHF 40.1 million in the first half of 2018 compared to a net profit of CHF 1.2 million in the prior-year period, underscoring the rebound of the business.

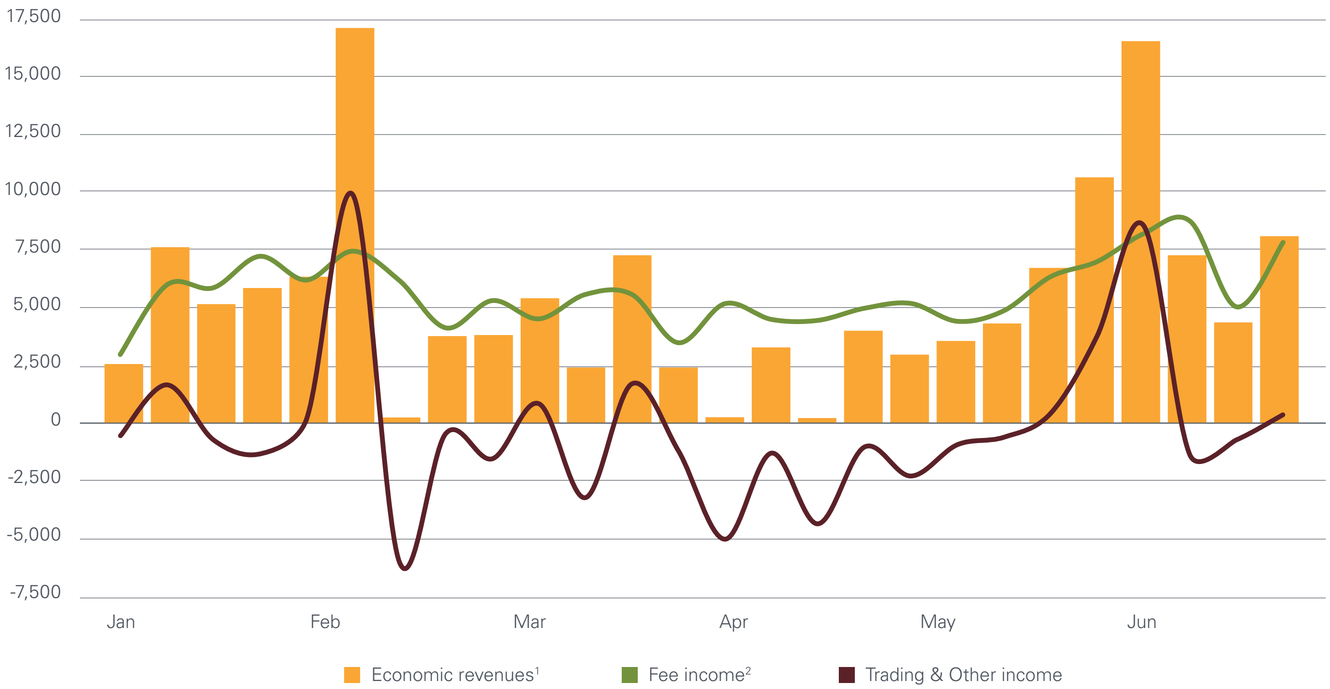
Income statement

CHF million	H1 2018	H2 2017	H1 2017	Change from H2 2017	Change from H1 2017
Net fee income	145.7	127.6	119.4	14%	22%
Net trading income/(loss)	(3.7)	(9.4)	(16.4)	(61%)	(77%)
Net interest income/(expense)	(7.5)	(3.9)	(4.9)	92%	53%
Other ordinary income	1.6	0.9	2.1	78%	(24%)
Total operating income	**136.1**	**115.2**	**100.2**	**18%**	**36%**
Personnel expenses	(60.7)	(57.0)	(56.6)	6%	7%
Other operating expenses	(24.4)	(24.1)	(25.9)	1%	(6%)
Depreciation	(8.1)	(9.9)	(9.3)	(18%)	(13%)
Changes to provisions	(2.5)	(2.1)	(7.2)	19%	(65%)
Total operating expenses	**(95.7)**	**(93.1)**	**(99.0)**	**3%**	**(3%)**
Profit/(loss) before taxes	**40.4**	**22.1**	**1.2**	**83%**	**N/A**
Taxes	(0.3)	(0.2)	(0.0)	50%	N/A
Group net profit/(loss)	**40.1**	**21.9**	**1.2**	**83%**	**N/A**

Total operating income

Leonteq recorded solid client activity with stable fee income over the first half year 2018. Geopolitical uncertainties and a significant drop in the stock prices of technology companies led to an increase in volatility at the beginning of the year 2018 compared to 2017. This resulted in positive hedging contributions in February 2018. Subdued client demand and fewer business days negatively affected the start of the second quarter resulting in the only negative week with negative economic revenues during the first half year 2018. Towards the end of the second quarter fee income as well as trading income increased throughout most of June. The average fee income production per week amounted to CHF 5.6 million for the first half of 2018.

Weekly economic revenues (CHF thousands)

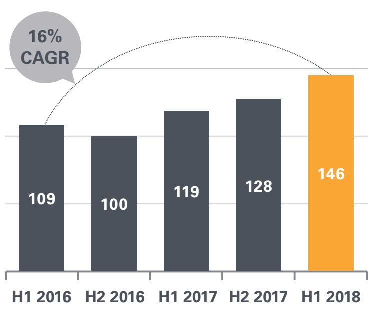


[1] Economic revenues are defined as sales and trading income earned and are considered as recognised at trade date without applying IFRS revenue recognition rules; economic revenues do not include certain other income components like partner project cost reimbursements.

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

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

Fee income (in CHFm)



In its home market of Switzerland, Leonteq grew its revenues by 27% to CHF 63.3 million in the first half of 2018, reflecting growth in long-term savings solutions with Swiss Insurance partners and higher demand for Leonteq issued products. Swiss clients continued to demand yield enhancement products such as barrier reverse convertibles and express certificates. At the same time, leverage products such as mini futures became more relevant during the first half of 2018. The business in Europe grew by 29% to CHF 64.3 million in the period under review. Clients covered by the European offices predominantly demanded express certificates, barrier reverse convertibles and credit linked notes. Leonteq expanded its presence in Asia with the opening of an office in Tokyo and it commenced onshore operations in Japan through its newly established subsidiary, Leonteq Securities (Japan) Limited on 1 May 2018. Net fee income in Asia decreased by CHF (1.6) million, or (8)%, to CHF 18.1 million for the six months ended 30 June 2018 from CHF 19.7 million for the same period in 2017. This was largely due to an increase in volumes with lower margin OTC products and a change in issuance partner pricing.

Large ticket transactions accounted for 7.2% of net fee income in the first half of 2018, up from 4.7% in the first half of 2017.

Net fee income split by regions

CHF million	HY 2018	H2 2017	H1 2017	Change from H2 2017	Change from H1 2017
Switzerland	63.3	52.6	49.7	20%	27%
EMEA	64.3	58.5	50.0	10%	29%
APAC	18.1	16.5	19.7	10%	(8%)
Total net fee income	**145.7**	**127.6**	**119.4**	**14%**	**22%**

Net trading income is generated on the basis of existing client flow and hedging activities. It represents the unrealised and realised change in fair values of financial assets and liabilities as well as directly trade related expenses such as brokerage fees. It is generally influenced by contribution from hedging activities which can have positive and negative fluctuations depending on market factors. In the long-run, the hedging strategy is expected to have a neutral impact on the financials. The negative treasury carry results from funding costs arising from Leonteq's own issued products.

In the first half of 2018, contributions from hedging activities totalled CHF 1.3 million, an increase of CHF 10.7 million, compared to CHF -9.4 million in the same period in 2017. Negative treasury carry improved by CHF 2.0 million, to CHF -5.0 million in the six months ended 30 June 2018 from CHF -7.0 million in the same period in 2017.

Net Interest income primarily results from interest earned on cash and cash equivalents, and interest expense relates mainly to interest paid on short-term credit and credit facility fees. Net interest income decreased by CHF 2.6 million, or 53%, to CHF -7.5 million for the six months ended 30 June 2018 from CHF -4.9 million in the same period in 2017 due to increased credit facilities and secured financing costs consistent with increased business volumes.

Other ordinary income represents income charged to issuance partners for services such as on-boarding and project related costs. Furthermore, it contains rental income for subleases. Other ordinary income amounted to CHF 1.6 million in the first half year 2018 compared to CHF 2.1 million in the first half year 2017.

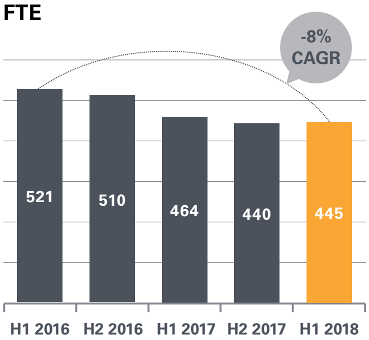
Total operating expenses

Total operating expenses decreased by 3% to CHF 95.7 million for the first half of 2018, including one-off costs of CHF 2.5 million.

Personnel expenses are the largest part of the total operating expenses and primarily represent fixed and variable compensation for the Group's employees. It increased by 7% to CHF 60.7 million due to higher variable compensation accruals on the back of improved performance.

Compared to the year-end 2017, headcount remained stable at 445 FTEs at 30 June 2018 compared to 440 FTEs as at 31 December 2017.

FTE



FTEs split by regions

CHF million	30.06.2018	31.12.2017	30.06.2017	Change from YE 2017	Change from H1 2017
Switzerland	309	305	317	1%	(3%)
EMEA	71	70	80	1%	(11%)
APAC	65	65	67	0%	(3%)
Total FTEs	**445**	**440**	**464**	**1%**	**(4%)**

FTEs split by function

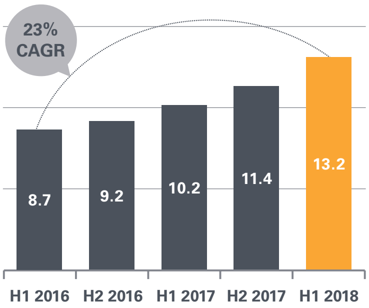
CHF million	30.06.2018	31.12.2017	30.06.2017	Change from YE 2017	Change from H1 2017
Shared services	**264**	**262**	**271**	**1%**	(3%)
whereof IT	108	99	101	9%	7%
Business units	**181**	**178**	**193**	**2%**	(6%)
whereof sales	85	88	99	(3%)	(14%)
Total FTEs	**445**	**440**	**464**	**1%**	**(4%)**

Other operating expenses expenses mainly consist of professional services, expenses related to marketing, travel and presentation, rent and other office expenses, IT-related expenses, banking fees and other administrative expenses. Other operating expenses declined by 6% to CHF 24.4 million in the first half of 2018 from CHF 25.9 million in the same period in 2017 reflecting the continued cost discipline. The decrease in the first half of 2018 is due in large part to professional services reported as one-off costs in the amount of CHF 1.1 million incurred during the first half of 2017.

Long-lived assets (furniture, equipment, leasehold improvements, internally developed and purchased software as well as IT equipment) are depreciated over their useful lives using the straight-line method. Depreciation decreased by 13% to CHF 8.1 million for the six months ended 30 June 2018 from CHF 9.3 million in the same period in 2017, mainly driven by CHF 0.9 million depreciation in connection with the rightsizing efforts of our London and Zurich offices incurred during the first half of 2017.

Changes to provisions decreased by -65% to CHF 2.5 million compared to the prior-period, which included one-off costs in connection with right-sizing efforts.

Platform assets (in CHFbn)



Capital and balance sheet

Total platform assets reached a record CHF 13.2 billion as at 30 June 2018 from CHF 11.4 billion at end-2017 reflecting mainly the good progress achieved with its newly onboarded issuance partners Crédit Agricole CIB and Standard Chartered Bank as well as an increase in the volume of Leonteq's own products outstanding to CHF 3.5 billion as at 30 June 2018. Platform assets recognised on the balance sheet of Leonteq's platform partners amounted to CHF 9.7 billion compared to CHF 8.4 billion as at 31 December 2017.

Total assets on Leonteq's balance sheet increased by 35% to CHF 8.5 billion as at 30 June 2018 compared to CHF 6.3 billion as at 31 December 2017. The growth in total assets reflects an increase in cash and receivables due to higher outstanding settlements with issuance partners and a rise in financial assets driven by a larger trading book. Total liabilities increased by 37% to CHF 8.1 billion as at 30 June 2018 primarily driven by an increase short term credits as well as an increase in financial liabilities as a result of a larger demand for own issued products and higher business volumes. Shareholders' equity amounted to CHF 435.1 million as of 30 June 2018.

Selected capital items

CHF million	30.06.2018	31.12.2017	30.06.2017	Change from YE 2017	Change from H1 2017
Total assets	8,511.7	6,347.9	5,823.9	34%	46%
Shareholders' equity	435.1	418.4	388.1	4%	12%

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

Due to the increase in retained earnings, which was partially offset by the implementation of IFRS 15, Leonteq's total eligible capital totalled CHF 437.5 million as at 30 June 2018, compared to CHF 419.7 million as at 31 December 2017. Risk weighted assets increased by 11% to CHF 2,381 million as a result of business growth, an increase in platform assets and higher market and credit risk exposures. The BIS total capital ratio and the common equity tier 1 ratio were 18.4% and 18.3%, respectively, as at 30 June 2018, compared to 19.6% at end-2017.

Selected regulatory capital items

CHF million	30.06.2018	31.12.2017	30.06.2017	Change from YE 2017	Change from H1 2017
Risk-weighted assets	2,380.9	2,137.6	1,918.8	11%	24%
Eligible capital	437.5	419.7	389.7	4%	12%
CET1 ratio	18.3%	19.6%	20.2%	(1.3PP)	(1.9PP)
Total capital ratio	18.4%	19.6%	20.3%	(1.2PP)	(0.9PP)

Investment Solutions

The business line Investment Solutions manufactures and distributes structured investment products with an agile, fully automated and industry leading platform. Thanks to the global network of issuance partners, the highly experienced sales force of Leonteq can not only distribute products issued on its own balance sheet but also have access to third party balance sheets, using Leonteq's unique platform and onboarding capabilities. The business line offers a wide universe of investment solutions and local, high quality services to financial intermediaries in its focus markets in Europe, Switzerland and Asia. The distribution power is complemented through a dedicated in-house ideation, structuring and trading team and includes a digital and highly automated pricing engine.

Investment Solutions comprises revenues from Leonteq distributing its own products as well as products issued by or guaranteed by Aargauische Kantonalbank, Bank of Montreal, Cornèr Bank, Crédit Agricole CIB, Deutsche Bank, EFG International, J.P. Morgan, PostFinance, Raiffeisen Group and Standard Chartered Bank.

Investment Solutions encompassed 78% of Leonteq's half year 2018 net fee income and reflects Leonteq's core business. In the six months ended 30 June 2018, net fee income of the Investment Solutions business line increased by CHF 19.9 million, or 21%, to CHF 114.2 million from CHF 94.3 million in the first half of 2017. The increase was primarily a result of growth in turnover form issuance partners by 21% to CHF 8.1 billion as well as growth in turnover from Leonteq's own issuances of 29% to CHF 4.9 billion. At the same time, issuance partner margins decreased by 19 bps to 74 bps, compared to 93 bps for the same period in 2017 due to pricing changes from issuance partners. Leonteq margin increased by 26 bps to 110 bps, compared to 84 bps for the same period in 2017 due to a change in product mix. The number of clients decreased to 800, compared to 834 clients for the same period in 2017.

Net trading result improved by CHF 12.6 million to CHF -4.6 million in the six months ended 30 June 2018 from CHF -17.2 million in the same period in 2017 primarily due to an increase in the contribution from hedging activities. As a result, total operating income in the Investment Solutions business line increased by CHF 30.8 million, or 42%, to CHF 103.6 million in the six months ended 30 June 2018 from CHF 72.8 million in the six months ended 30 June 2017. Total operating expenses increased by CHF 5.3 million, or 8%, to CHF 69.1 million for the six months ended 30 June 2018, compared to CHF 63.8 million for the same period in 2017. The increase was largely the result of an increase in personnel expenses on the back of strong top-line performance in the first half of 2018. For the six months ended 30 June 2018, the Investment Solutions business line reported an increase in profit before taxes of CHF 25.5 million to CHF 34.5 million compared to CHF 9.0 million for the same period in 2017.

Investment Solutions

CHF million	H1 2018	H2 2017	H1 2017	Change from H2 2017	Change from H1 2017
Net fee income	114.2	101.1	94.3	13%	21%
Net trading income/(loss)	(4.6)	(9.8)	(17.2)	(53%)	(73%)
Net interest income/(expense)	(6.0)	(3.4)	(4.3)	76%	40%
Other ordinary income	—	—	—	N/A	N/A
Total operating income	**103.6**	**87.9**	**72.8**	**18%**	**42%**
Personnel expenses	(44.6)	(41.5)	(38.5)	7%	16%
Other operating expenses	(16.9)	(15.1)	(18.6)	12%	(9%)
Depreciation	(6.0)	(5.8)	(6.7)	3%	(10%)
Changes to provisions	(1.6)	(0.9)	—	78%	N/A
Total operating expenses	**(69.1)**	**(63.3)**	**(63.8)**	**9%**	**8%**
Results from operating activities	**34.5**	**24.6**	**9.0**	**40%**	**283%**

In the first half of 2018, efforts were concentrated on improving the partnerships with Standard Chartered Bank and Crédit Agricole CIB resulting in solid platform asset contribution.

As announced in February 2018, Leonteq has initiated its SHIP (Smart Hedging and Issuance Platform) project that is designed to reduce its hedging exposure by offering Leonteq's issuance partners the opportunity to enter into hedging transactions for their issued products with external hedging partners. The first test trades were executed with two investment banks in the first half of 2018, laying the foundations for the implementation of this initiative, which is expected to be fully operational within 18 to 24 months.

Banking Solutions

Banking Solutions allows the Group's network partners a flexible, fast, state-of-the-art and cost efficient manufacturing and distribution of structured investment products. It provides modular IT solutions to fully enable or enhance its partners' structured investment product capabilities. Depending on the level of integration and individual needs of the issuance partners, the services may include product design and launch; issuance, settlement and order management; risk management; life-cycle management; product documentation and reporting; risk, regulatory and financial reporting as well as other supporting services.

Banking Solutions comprises revenues generated through its partners own network, including Aargauische Kantonalbank, Crédit Agricole CIB, Cornèr Bank, EFG International, PostFinance and Raiffeisen Switzerland.

In the first half of 2018, net fee income of the Banking Solutions business line rose by CHF 3.9 million, or 27%, to CHF 18.4 million from CHF 14.5 million in the six months ended 30 June 2017. The increase was primarily a result of a 21% growth in turnover to CHF 13.0 billion combined with a relatively stable fee income margin of 63 bps in the first half of 2018, compared to 60 bps for the same period in 2017. Total operating expenses decreased by 15%, to CHF 10.6 million for the six months ended 30 June 2018, compared to CHF 12.5 million for the same period in 2017. The decrease is predominately related to a reduction in on-boarding and project related costs. The Banking Solutions business line reported an increase in profit before taxes of CHF 3.1 million, or 94%, to CHF 6.4 million compared to CHF 3.3 million for the same period in 2017.

Banking Solutions

CHF million	H1 2018	H2 2017	H1 2017	Change from H2 2017	Change from H1 2017
Net fee income	18.4	16.1	14.5	14%	27%
Net trading income/(loss)	—	—	—	N/A	N/A
Net interest income/(expense)	(1.8)	(0.8)	(0.8)	125%	125%
Other ordinary income	0.4	0.5	2.1	(20%)	(81%)
Total operating income	**17.0**	**15.8**	**15.8**	**8%**	**8%**
Personnel expenses	(7.0)	(6.8)	(8.6)	3%	(19%)
Other operating expenses	(2.6)	(2.5)	(2.8)	4%	(7%)
Depreciation	(0.9)	(0.9)	(1.1)	0%	(18%)
Changes to provisions	(0.1)	(0.1)	-	0%	N/A
Total operating expenses	**(10.6)**	**(10.3)**	**(12.5)**	**3%**	**(15%)**
Results from operating activities	**6.4**	**5.5**	**3.3**	**16%**	**94%**

Insurance & Wealth Planning Solutions

Insurance & Wealth Planning Solutions 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 get 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 life-cycle 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.

In the first six months of 2018, net fee income of the Insurance & Wealth Planning Solutions business line increased by CHF 2.5 million, or 24%, to CHF 13.1 million from CHF 10.6 million in the six months ended 30 June 2017. The increase was primarily a result of a continued growth of net new policies, which totalled 3,762 net new policies, compared to 2,674 net new policies in the first half of 2017. Net trading income remained relatively stable at CHF 0.9 million compared to CHF 0.8 million in the first half of 2017. Total operating expenses increased by CHF 1.3 million, or 28%, to CHF 5.9 million for the six months ended 30 June 2018, compared to CHF 4.6 million for the same period in 2017. The increase was largely the result of an increase in personnel expenses by 42% on the back of strong top-line performance in the first half of 2018. The Insurance & Wealth Planning Solutions business line reported an increase in profit before taxes of CHF 1.4 million, or 20%, to CHF 8.4 million compared to CHF 7.0 million for the same period in 2017.

Insurance & Wealth Planning Solutions

CHF million	H1 2018	H2 2017	H1 2017	Change from H2 2017	Change from H1 2017
Net fee income	13.1	10.4	10.6	26%	24%
Net trading income/(loss)	0.9	0.4	0.8	125%	13%
Net interest income/(expense)	0.3	0.3	0.2	0%	50%
Other ordinary income	—	—	—	N/A	N/A
Total operating income	**14.3**	**11.1**	**11.6**	**29%**	**23%**
Personnel expenses	(4.4)	(4.2)	(3.1)	5%	42%
Other operating expenses	(1.0)	(1.3)	(1.0)	(23%)	0%
Depreciation	(0.5)	(0.7)	(0.5)	(29%)	0%
Changes to provisions	—	—	—	N/A	N/A
Total operating expenses	**(5.9)**	**(6.2)**	**(4.6)**	**(5%)**	**28%**
Results from operating activities	**8.4**	**4.9**	**7.0**	**(71%)**	**20%**

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Total operating income rose by 36% to CHF 136.1 million in the first half of 2018 compared to the first six months of 2017, driven primarily by a solid increase in net fee income and an improved net trading result.

Net fee income rose by 22% to CHF 145.7 million, mainly reflecting sustained client demand for structured investment products.

CONTENT

Leonteq AG
Interim consolidated income statement for the six months ended 30 June 2018

CHF thousands	Note	30.06.2018	30.06.2017
Fee income from securities trading and investment activities		147,371	121,549
Fee expense		(1,611)	(2,216)
Net fee income	8	**145,760**	**119,333**
Result from trading activities and the fair value option		**(3,743)**	**(16,447)**
Interest and discount income		1,572	711
Interest expense		(7,944)	(5,423)
Changes in value adjustments for default risks and losses from interest operations	10	(1,092)	(160)
Net result from interest operations		**(7,464)**	**(4,872)**
Other ordinary income	9	1,582	2,113
Total operating income		**136,135**	**100,127**
Personnel expenses		(60,657)	(56,555)
Other operating expenses		(24,419)	(25,902)
Depreciation of long-lived assets		(8,067)	(9,314)
Changes to provisions and other value adjustments, and losses	11	(2,541)	(7,198)
Total operating expenses		**(95,684)**	**(98,969)**
Result from operating activities		**40,451**	**1,158**
Taxes		(338)	(4)
Group net profit		**40,113**	**1,154**
of which allocated to shareholders of Leonteq AG		40,113	1,154
Share information			
Basic earnings per share (CHF)	15	2.55	0.07
Diluted earnings per share (CHF)	15	2.52	0.07

Leonteq AG
Interim consolidated statement of other comprehensive income for the six months ended 30 June 2018

CHF thousands	30.06.2018	30.06.2017
Group net profit	**40,113**	**1,154**
Other comprehensive (loss)/income that will not be reclassified to the income statement		
Remeasurement of the defined benefit plan	(2,741)	4,468
Change in own credit	—	—
Income tax on items that will not be reclassified	580	(945)
Total other comprehensive (loss)/income that will not be reclassified to the income statement	**(2,161)**	**3,523**
Other comprehensive (loss)/income that may be reclassified to the income statement		
Currency translation adjustments	(83)	(34)
Hedge accounting reserves	—	—
Total other comprehensive (loss)/income that may be reclassified to the income statement	**(83)**	**(34)**
Total other comprehensive (loss)/income	**(2,244)**	**3,489**
Total comprehensive income	**37,869**	**4,643**
of which allocated to shareholders of Leonteq AG	37,869	4,643

The notes on pages 24 to 58 are an integral part of these interim consolidated financial statements.

Leonteq AG
Interim consolidated statement of financial position as of 30 June 2018

CHF thousands	Note	30.06.2018	31.12.2017
Assets			
Cash in hand		—	—
Amounts due from banks		1,518,884	900,931
Amounts due from securities financing transactions		24,000	13,533
Amounts due from customers		176,997	108,048
Trading financial assets	7	2,290,720	2,344,410
Trading inventories	7	42,289	88,962
Positive replacement values of derivative financial instruments	7	2,723,560	1,629,717
Other financial assets designated at fair value through profit or loss	7	1,602,151	1,141,602
Accrued income and prepaid expenses		22,376	18,005
Current tax assets		964	1,003
Deferred tax assets		3,081	2,362
Long-lived assets		51,345	52,451
Other assets		55,338	46,921
Total assets		**8,511,705**	**6,347,945**
Total subordinated claims		5,404	6,666
of which subject to mandatory conversion and/or debt waiver		—	—
Liabilities			
Amounts due to banks		715,045	534,460
Liabilities from securities financing transactions		445,084	377,397
Amounts due to customers		668,742	168,109
Trading financial liabilities	7	199,349	101,246
Negative replacement values of derivative financial instruments	7	2,357,975	1,563,016
Other financial liabilities designated at fair value through profit or loss	7	3,515,368	3,040,531
Accrued expenses and deferred income		140,160	115,854
Current tax liabilities		781	1,167
Deferred tax liabilities		184	234
Other liabilities		20,209	17,345
Expected credit loss provision	10	2,402	1,310
Provisions	11	11,344	8,890
Total liabilities		**8,076,643**	**5,929,559**
Equity			
Share capital	12	15,945	15,945
Share premium		172,532	172,532
Retained earnings		224,998	224,787
Accumulated other comprehensive income/(loss)		(4,858)	(2,614)
Own shares	12	(13,668)	(15,335)
Group net profit		40,113	23,071
Total shareholders' equity		**435,062**	**418,386**
Total liabilities and equity		**8,511,705**	**6,347,945**
Total subordinated liabilities		—	—
of which subject to mandatory conversion and/or debt waiver		—	—

The notes on pages 24 to 58 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of changes in equity for the six months ended 30 June 2018

CHF thousands	Note	Share capital	Share premium	Retained earnings reserves
Balance as of 31 December 2017		**15,945**	**172,532**	**224,787**
Impact of change in accounting principle	5	—	—	(20,690)
Balance as of 1 January 2018		**15,945**	**172,532**	**204,097**
Reallocation of retained earnings		—	—	23,071
Employee participation schemes		—	—	(2,170)
Capital increase / decrease		—	—	—
Acquisition / Disposal of own shares	12	—	—	—
Dividends and other distributions [1, 2]		—	—	—
Other allocations to / (transfers from) other comprehensive income		—	—	—
Group net profit / (loss)		—	—	—
Balance as of 30 June 2018		**15,945**	**172,532**	**224,998**

CHF thousands	Note	Share capital	Share premium	Retained earnings reserves
Balance as of 31 December 2016		**15,945**	**172,532**	**205,121**
Reallocation of retained earnings		—	—	17,197
Employee participation schemes		—	—	77
Capital increase / decrease		—	—	—
Acquisition / Disposal of own shares	12	—	—	—
Dividends and other distributions [1, 2]		—	—	—
Other allocations to / (transfers from) other comprehensive income		—	—	—
Group net profit / (loss)		—	—	—
Balance as of 30 June 2017		**15,945**	**172,532**	**222,395**

[1] Dividends and other distributions are distributions of capital contribution reserves.
[2] From the total distribution of capital contribution the distribution on own shares has been deducted.

OCI				Own shares	Group net profit/(loss)	Total shareholders' equity
Defined benefit plans	Change in own credit	Hedge accounting reserve	Currency translation adjustments			
(2,521)	**—**	**—**	**(93)**	**(15,335)**	**23,071**	**418,386**
—	—	—	—	—	—	(20,690)
(2,521)	**—**	**—**	**(93)**	**(15,335)**	**23,071**	**397,696**
—	—	—	—	—	(23,071)	—
—	—	—	—	—	—	(2,170)
—	—	—	—	—	—	—
—	—	—	—	1,667	—	1,667
—	—	—	—	—	—	—
(2,161)	—	—	(83)	—	—	(2,244)
—	—	—	—	—	40,113	40,113
(4,682)	**—**	**—**	**(176)**	**(13,668)**	**40,113**	**435,062**

OCI				Own shares	Group net profit/(loss)	Total shareholders' equity
Defined benefit plans	Change in own credit	Hedge accounting reserve	Currency translation adjustments			
(10,549)	**—**	**(130)**	**(553)**	**(14,280)**	**17,197**	**385,283**
—	—	—	—	—	(17,197)	**—**
—	—	—	—	—	—	**77**
—	—	—	—	—	—	**—**
—	—	—	—	(1,919)	—	**(1,919)**
—	—	—	—	—	—	**—**
3,523	—	—	(34)	—	—	**3,489**
—	—	—	—	—	1,154	**1,154**
(7,026)	**—**	**(130)**	**(587)**	**(16,199)**	**1,154**	**388,084**

The notes on pages 24 to 58 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of cash flows for the six months ended 30 June 2018

CHF thousands	30.06.2018	30.06.2017
Cash flow from operating activities		
Group net profit	40,113	1,154
Reconciliation to net cash flows from operating activities		
Non-cash positions in Group net profit		
Depreciation	8,111	8,370
Impairment of long-lived assets	—	944
Deferred tax expense / (benefit)	(769)	620
Change in expected credit loss provision	1,092	160
Change in general provision	2,541	7,186
Share-based benefit programs	(2,170)	77
Other non-cash income and expenses	(2,244)	3,523
Net (increase)/decrease in assets related to operating activities		
Amounts due from banks	(646,539)	(441,884)
Amounts due from securities financing transactions	(10,467)	37,406
Amounts due from customers	(68,949)	(3,573)
Trading financial assets	53,690	306,537
Trading inventories	46,673	—
Positive replacement values of derivative financial instruments	(1,093,843)	392,466
Other financial assets designated at fair value through profit or loss	(460,549)	(174,381)
Accrued income and prepaid expenses	(4,371)	(1,238)
Other assets	(8,417)	(8,563)
Net increase/(decrease) in liabilities related to operating activities		
Amounts due to banks	149,580	181,274
Liabilities from securities financing transactions	67,687	(33,845)
Amounts due to customers	500,633	(101,067)
Trading financial liabilities	98,103	(3,355)
Negative replacement values of derivative financial instruments	794,959	(114,612)
Other financial liabilities designated at fair value through profit or loss	474,837	319,517
Accrued expenses and deferred income	24,306	(5,315)
Other liabilities	2,864	(2,099)
Utilisation of general provision	(64)	(1,062)
Current taxes, non-cash adjustment	629	263
Current taxes paid	(976)	(239)
Impact of change in accounting principles	(20,690)	—
Cash flow from operating activities	**(54,230)**	**368,264**
Cash flow from investing activities		
Purchases of long-lived assets	(7,051)	(5,642)
Proceeds from long-lived assets	44	—
Cash flow from investing activities	**(7,007)**	**(5,642)**
Cash flow from financing activities		
Purchases of own shares	(2,550)	(5,636)
Transfer out of own shares	4,217	3,717
Cash flow from financing activities	**1,667**	**(1,919)**
Exchange rate differences	(21)	(34)

CHF thousands	30.06.2018	30.06.2017
Net (decrease) / increase in cash and cash equivalents	**(59,591)**	**360,669**
Cash and cash equivalents, beginning of the year	253,980	85,477
Cash and cash equivalents at the balance sheet date	**194,389**	**446,146**
Cash and cash equivalents		
Due from banks on demand[3]	327,508	597,910
Due to banks on demand	(133,119)	(151,764)
Net cash and cash equivalents at the balance sheet date	**194,389**	**446,146**
Further information:		
Dividends received	—	—
Interest received	1,572	712
Interest paid	7,319	4,927

Fund of cash

CHF thousands	30.06.2018	30.06.2017
Due from banks on demand[3]	327,508	597,910
Cash overdrafts	(133,119)	(151,764)
Total fund of cash	**194,389**	**446,146**

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

The notes on pages 24 to 58 are an integral part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Leonteq AG (Leonteq or 'the Company') and its subsidiaries (hereafter referred to as 'the Group') are a leading independent provider of structured investment products and related services.

The Group's business divisions, Investment Solutions, Banking Solutions and Insurance & Wealth Planning Solutions, draw on the Group's IT infrastructure and engineering capabilities to offer a wide range of solutions and services to its respective customer base. These solutions and services include development, structuring, distribution, hedging and settlement, life-cycle management, market making of structured products as well as design and management of structured certificates and variable annuity products.

The Group provides certain of these core services to platform partners pursuant to cooperation agreements. The Group also distributes its financial products directly to institutional investors and indirectly to retail investors through third-party financial intermediaries.

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

These interim consolidated financial statements were approved for issue by the Board of Directors on 17 July 2018.

2 Basis of presentation

These interim consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34, 'Interim financial reporting'. These interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with the International Financial Reporting Standards (IFRS).

The preparation of interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of effects of estimation uncertainty were the same as those that were applied to the consolidated financial statements for the year ended 31 December 2017, unless disclosed in one of the following notes.

The interim financial statements are unaudited.

3 Critical accounting estimates and judgments in applying accounting policies

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

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

The most relevant areas of judgment for the Group include the application of the Group's assumptions with respect to the revenue recognition as well as the deferral period applied to fee income (Note 5), fair value of financial instruments and trading inventory especially level 2 and 3 including own credit (Note 7), depreciation period and testing for impairments of long-lived assets, expected credit loss provision (Note 10), provisions (Note 11), share-based payments and retirement benefit obligations.

4 Changes to critical accounting estimates and changes to presentation

With regard to the first time adoption of IFRS 15 we refer to Note 5 Changes in accounting policies and presentation. No further changes in critical accounting estimates were applied compared to 31 December 2017.

5 Changes in accounting policies and presentation

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
- IFRS 9, Financial Instruments – effective, 1 January 2018
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) – effective, 1 January 2018
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) – effective 1 January 2018
- IFRS 15, Revenue from Contracts with Customers – effective, 1 January 2018
- Revenue from Contracts with Customers Clarification to IFRS 15 – effective, 1 January 2018
- IFRIC 22, Foreign Currency Transactions and Advance Consideration – effective, 1 January 2018

First time adoption of IFRS 9 Financial Instruments

The Group early adopted IFRS 9 Financial Instruments on 1 January 2016. For further information, please refer to the 2016 Half Year report.

First time adoption of IFRS 15 Contracts with Customers

The Group adopted IFRS 15 on its mandatory effective date of 1 January 2018. Leonteq chose to apply the modified retrospective adoption method which allows to leave the comparative period unchanged and account for the difference between the previously applicable and new accounting framework through equity. Therefore the comparative period is presented in line with the requirements of IAS 18 while the financial statements for the period ended on 30 June 2018 are presented in accordance with IFRS 15.

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 and Banking Solutions divisions these include product design & launch; issuance, settlement & order management; risk management; life-cycle management; product documentation & reporting; risk, regulatory & 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. Therefore a 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 product by product 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 for products issued in the Investment and Banking Solutions divisions. Generally fees generated in the Investment and Banking Solutions divisions are collected when the product is issued, maintained or bought back. The allocation of the total fee to the individual service obligation as well as the determination when these service obligations are satisfied involves judgement. The average effective lifetime of products issued in the Investment and Banking 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 which show a unique revenue recognition profile which significantly differ from the majority of the issued products. As of 30 June 2018, the average effective lifetime is estimated to be 12 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. In the Insurance & Wealth Planning Solutions division the satisfaction of previously unsatisfied service obligations can be determined product by product and therefore less judgement is involved in the timing of the revenue recognition of deferred fees.

Similarly the fee is generally only collected once the performance obligation is satisfied. 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 other services rendered to platform partners (i.e. set-up, onboarding). These are non-recurring fees collected based on customised contracts and therefore the revenue recognition is defined individually for each material contract. The amount of deferred fee income is included in "accrued expenses and deferred income". 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.

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	115,854	20,690	136,544
Equity			
Retained earnings	224,787	(20,690)	204,097

The adjustment was mainly driven by the alignment of the extent and time of revenue recognition for the issuance of new products as well as transactions with existing products in the Investment and Banking Solutions divisions and the extension of the deferral period from 6 to 12 months.

The adoption of IFRS 15 impacted the consolidated financial statements during the six months ended on 30 June 2018 as follows:

Income statement CHF thousands	**Balance for the period ended on 30.06.2018**		
	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	147,869	(498)	147,371

Balance sheet CHF thousands	**Balance as of 30.06.2018**		
	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	118,972	21,188	140,160
Equity			
Retained earnings	245,688	(20,690)	224,998

All other standards and interpretations did not have a significant impact on the Group or were not relevant to the Group when applied 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 July 2018 or a later date:

- Prepayment Features with Negative Compensation – Amendments to IFRS 9 – effective, 1 January 2019
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 – effective, 1 January 2019
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 – 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 2021

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

IFRS 16, Leases

In January 2016, the IASB issued the new standard on lease accounting. Under IFRS 16 financing and operating leases are no longer treated differently. Instead, for virtually all lease contracts the lessee recognises a lease liability reflecting future lease payments and a right-of-use asset. The Group is currently assessing the impact of the new requirements on the Group's financial statements and expects a substantial gross up of the consolidated statement of financial positions (in the range of CHF 75 to 100 million) but no material impact on the net result reported in the consolidated income statement.

The mandatory effective date is 1 January 2019.

6 Financial risks and financial risk management

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

6.1 Risk management organisation and governance

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

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

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

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

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

The Risk Control department is responsible for ensuring that risk exposure remains within the appetite established 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 over Treasury activities in managing structural risks and liquidity risk;
- escalation of limit breaches to the authority holder;
- 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 is driven by the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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

6.2 Guiding principles

The Group has a client-driven and fee-based business model which requires focus on risk management. The activities of Investment Solutions, Banking Solutions and Insurance & Wealth Planning Solutions which offer services around the structuring and issuance of structured investment products, are client-driven and not driven by proprietary risk-taking activities.

This translates into the following guiding principles in order to maintain and further develop our client-focused business approach:

- the Group's reputation is its most valuable asset and needs to be protected by the implemented risk framework and risk culture;
- compliance with all regulatory requirements has to be guaranteed at all times;
- the capital base and risk exposures have to be continuously managed to achieve capital ratios higher than regulatory minimum requirements;
- risk concentrations and exposure to stress scenarios are closely monitored and managed within approved limits;
- independent risk control functions monitor adherence to the established risk appetite;
- accurate, timely and detailed risk disclosure is provided to Management and the Board of Directors, as well as to regulators and auditors.

6.3 Risk categories and risk framework

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

6.3.1 Reputational Risk

Reputational risk is the potential loss in reputation due to a financial loss or due to any other real or perceived event with a negative impact on reputation. This includes, in particular, the risk arising from deviations from good ethical behaviour.

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, which is also supported by the shareholder structure and by a stringent and transparent communication policy towards all stakeholders.

6.3.2 Operational risk

Operational risk is the risk of 'losses' resulting from inadequate or failed internal processes, people and systems or due to external causes. 'Losses' can be direct financial losses or in the form of regulatory sanctions or foregone revenues, for example due to the failure of a service or system. Such events may also lead to reputational damage which could result in longer term financial consequences.

Operational risk is limited by means, of inter alia, organisational measures, automations, internal control and security systems, written procedures, legal documentation, loss mitigation techniques and a business continuity plan under the responsibility of Management. Special attention is paid to the key performance indicators of the Group's core risk management system. All securities purchases are executed through central trading desks and the size and quality 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 as one of its major risks and therefore a broad Operational Risk Framework to manage and control operational risk has been established. In the framework, any operational risk is owned by Management as the first line of defence and Operational Risk Control independently monitors the effectiveness of operational risk management and oversees operational risk taking activities. The Board of Directors establishes the risk appetite for significant sources of operational risk. Management performs periodic self-assessments of the operational risk profile within their areas of responsibility and unmitigated risks together with mitigation actions are logged in a firm-wide inventory. Operational Risk Control independently assesses these self-assessments and collates the firm'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 the root causes and adequate and sustainable mitigation actions are defined.

6.3.3 Market risk

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

- 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 negatively impacts 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.

The details of Leonteq's risk framework to measure and control market risks are outlined in section 6.5 "Risk Measurement". Liquidity risk is described in section 6.3.6 "Liquidity Risk".

6.3.4 Credit, counterparty, issuer and country risk

Credit 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, and 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.

Exposure to counterparties resulting from the Group's OTC derivatives and securities lending and borrowing activities is typically mitigated through the use of mark-to-market collateral and close-out netting arrangements.

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

6.3.5 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 a wrong valuation leading to incorrect risk measurement and wrong hedging positions, both of which could lead to 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 is concluded by a formal approval. Further validation arises through continuous monitoring of model performance in daily market operations.

6.3.6 Liquidity risk

Leonteq differentiates between Market Liquidity Risk and Funding Liquidity Risk.

6.3.6.1 Market liquidity risk

Since the Group hedges its liabilities under 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 asset unwind price, the 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 sufficient 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 of the issuance of structured products into a 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 is presently only government, supranationals and agency credits with a minimum credit rating
- single asset duration of 5 years or less
- overall portfolio duration of 1 year or less
- diversification with respect to country and issuer
- minimum issue size
- maximum concentration per single issue

6.3.6.2 Funding liquidity risk

Funding liquidity risk represents the risk that Leonteq will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without impacting either daily operations or the financial condition of the Group. Funding consumption occurs mainly within Leonteq Securities AG Zurich and Leonteq Securities AG Amsterdam Branch. For further information please see section 6.6.4 "Funding Liquidity Risk".

6.3.7 Compliance and legal risk

Compliance risk and legal risk are the risks arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices or internal policies and procedures, or the non-enforceability of legal, 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 diminished reputation, limited business opportunities, reduced expansion potential and an inability to enforce contracts. The Group's Compliance department is responsible for ensuring compliance with applicable rules and regulations. Changes in the regulatory environment are monitored, and directives and procedures are adapted as required.

6.3.8 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 and making them unattractive for investors. Leonteq manages and controls these risks in a proactive way. Therefore, it usually asks the relevant tax authorities for a written confirmation of how it interprets relevant regulations (tax rulings) or seeks appropriate advice from professional local tax consultants. The tax risk is centrally monitored by the Tax Department in Zurich that takes an integrated view of the tax risks for the whole Group.

6.4 Risk appetite framework

The risk appetite defines the overall risk that the Group is willing to accept. The Board of Directors approves Leonteq's Risk Appetite Framework and sets risk appetite objectives to ensure sustainable profitability and preservation of shareholder value. Examples of objectives are protection of capital, liquidity and earnings, also under plausible but severe stress conditions. They are translated into risk limits of individual financial risks inherent in the Company's activities and qualitative statements for risks which do not lead to quantification, e.g. operational risk.

6.5 Risk measurement

The Group measures risk on a single position and portfolio level. Exposure and position-level risk measures are:

- market risk sensitivities;
- credit exposure measured on a country, counterparty or issuer level.

Portfolio-level risk measures for market risks are based on the following approaches:

- sensitivity measures specifically address single risk factors, such as correlations or dividends. This approach is used to calculate risk sensitivities to risk factors and model parameters where sensitivities are not readily available.
- stress loss measures on a portfolio level are based on historical or hypothetical stress scenarios.
- statistical loss measures such as the Value at Risk (VaR) or the Expected Shortfall are dependent on market behaviour during a specific historical time window and are complementary approaches to 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 window of 300 business days.

Sensitivity, stress and statistical loss measures are calculated and stored on a position level, which facilitates analysis of the results in multiple dimensions, such as entities, trading portfolios or single asset classes.

Leonteq does not use any approximation techniques to calculate risk sensitivities or the results of sensitivity and stress scenarios. 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 on all established risk limits is reported to senior management on a daily basis. Risk limits are applied to credit exposure and market risk sensitivities. All exposures were within the Board limits as of 30 June 2018.

6.6 Risk disclosure

6.6.1 Market risk

Sensitivity analysis

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

- Delta risk sensitivity measures the impact of a 1% price change of the underlying on the value of the derivative and is expressed in terms of a corresponding direct investment in the underlying.
- Vega risk is the sensitivity of the derivative value with respect to changes in the implied volatility of an underlying and is measured based on a change in the implied volatility of +1% in absolute terms.
- Correlation sensitivity is a measure of the impact of changes in implied correlation between underlyings on the derivative value and is measured based on a change in implied correlation of +1% in absolute terms.
- Dividend sensitivity is a measure of the impact of expected dividend changes on the derivative value and is measured based on a change in dividend of +10% in relative terms.
- Foreign exchange sensitivities are further classified into G10 currencies (FX G10, IR G10) and non G10 currencies (FX EM, IR EM).

Interest rate risks are monitored and controlled through the daily calculation of the following exposures:

- Interest rate risks are monitored and controlled based on a +1% parallel shift in the yield curve and by sensitivities to changes in individual pillars in the yield curve.
- IR Vega is the sensitivity of the derivative value with respect to changes in the implied volatility of interest rates and is measured based on a change in the normal implied volatility of +1 bp.

Exposure to derivatives on interest rates arises mainly from Pension products, whereas all other activities are exposed to changes in interest rates.

On 30 June 2018 the Group carried the following exposures, which include the interest rate exposure from the investment portfolio.

Structured Products

CHF thousands	30.06.2018 Exposure	31.12.2017 Exposure
Risk Factor		
Equity Delta	45,660	17,509
Equity Vega	2,762	5,061
Equity correlation	(5,863)	(4,583)
Equity dividend	3,884	7,398
FX G10 Delta	(6,631)	(6,158)
FX EM Delta	6,820	7,266
IR G10 DV100	1,732	3,107
IR EM DV100	141	319

Pension Products

CHF thousands	30.06.2018 Exposure	31.12.2017 Exposure
Risk Factor		
IR DV100	(31)	(402)
IR Vega	(63)	(23)

Scenario analysis

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

- **9/11** is a 1-day crash scenario that happened on 11 September 2001 after the terrorist attack on the Twin Towers in NYC. Equity prices decreased significantly and equity volatilities increased.
- **Rally** is a 1-day rally scenario that happened two weeks after 11 September 2001, i.e. on 24 September 2001. Equity prices increased and equity volatilities decreased.
- **SNB-day** is a 1-day scenario reproducing the SNB decision to remove the EUR/CHF 1.20 cap on 15 January 2015. It is characterised by the SMI Index crash following the CHF appreciation against all main currencies and by a general market rally. This scenario was introduced in 2015.
- **China black Monday** is a 1-day crash scenario that happened on 24 August 2015 when a sell off on Chinese stocks propagated its effects at global level. Equity prices decreased significantly and equity volatilities increased.

A dedicated risk framework for Pension Solutions is in place.

The following tables give an indication of the overall risk exposure as of 30 June 2018:

Structured Products

CHF thousands	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	-83,111	-39,202	-16,241	1,760	19,765	31,502
Spot -5%	-47,377	-19,573	-4,333	7,885	20,948	31,353
Spot -2%	-31,847	-11,736	-1,275	7,295	16,993	25,615
Spot 0%	-23,415	-7,726	—	6,346	14,474	22,683
Spot +2%	-14,866	-4,459	718	5,516	12,517	18,978
Spot +5%	-2,028	-63	2,183	4,949	8,832	13,971
Spot +10%	20,531	11,654	8,539	7,857	9,176	15,521

Pension Products

CHF thousands	Vol. –20bps	Vol. –10bps	Vol. 0bps	Vol. +10bps	Vol. +20bps
Spot -50bps	317	-918	-1,178	-796	29
Spot -25bps	2,329	484	-298	-368	57
Spot 0bps	3,104	1,052	—	-349	-196
Spot +25bps	3,302	1,118	-126	-684	-742
Spot +50bps	3,415	1,054	-411	-1,191	-1,460

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

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

6.6.2 Credit risk

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

The largest exposures for OTC trading activities were:

Counterparty	Credit Rating	30.06.2018 Exposure (CHF million)	Counterparty	Credit Rating	31.12.2017 Exposure (CHF million)
OTC Counterparty 1	A1	34.7	OTC Counterparty 1	A3	25.0
OTC Counterparty 2	A3	32.0	OTC Counterparty 2	A1	23.0
OTC Counterparty 3[4]	A	25.3	OTC Counterparty 3	not rated	21.2

[4] Please note that for the OTC Counterparty 3 the S & P rating is used due to no Moody's rating.

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

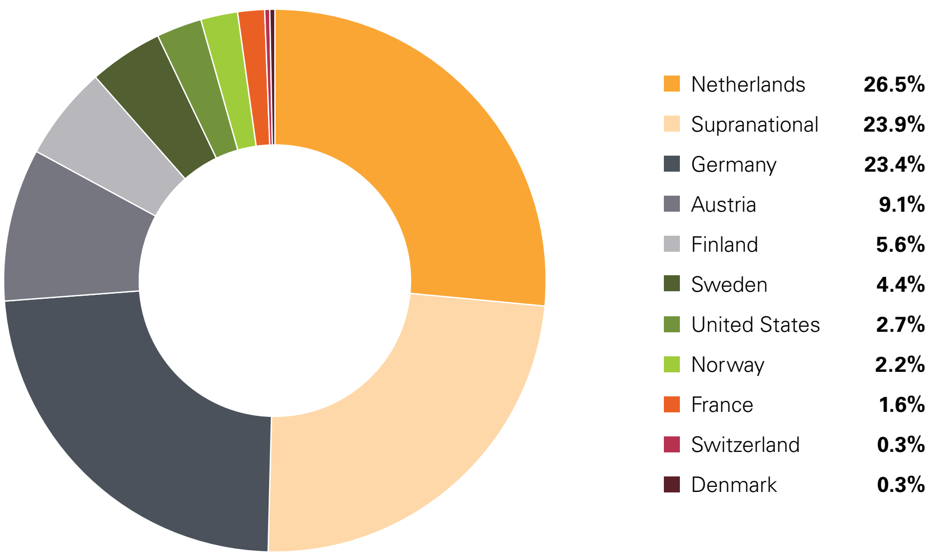
Counterparty	Credit Rating	30.06.2018 Exposure (CHF million)	Counterparty	Credit Rating	31.12.2017 Exposure (CHF million)
SLB Counterparty 1	Aa3	54.0	SLB Counterparty 1	A1	44.9
SLB Counterparty 2	Aa3	29.5	SLB Counterparty 2	Aa3	14.2
SLB Counterparty 3	not rated	17.5	SLB Counterparty 3	A3	4.5

6.6.3 Investment portfolio

The Group has primarily invested proceeds from own product issuance into short-term to mid-term, high-quality bonds issued by core governments and supranational organisations and cash.

The chart shows the country split of the investment portfolio.

Country allocation as of 30 June 2018



A comprehensive overview of the bond positions is given in the following table.

CHF million	Moody's LT rating	Maturity 0–6 months	Maturity 6–12 months	Maturity 12–18 months	Maturity > 18 months	Total 30.06.2018	Total 30.06.2018 in %	Total 31.12.2017	Total 31.12.2017 in %
Netherlands	Aaa	182.6	170.7	29.2	2.9	385.4	26.5%	277.8	27.2%
Supranational[5]	Aaa-Aa1	192.4	126.7	9.5	19.8	348.4	23.9%	257.3	25.2%
Germany	Aaa	250.6	90.4	0.0	0.0	341.0	23.4%	265.2	26.0%
Austria	Aa1	107.9	24.2	0.0	0.0	132.1	9.1%	71.2	7.0%
Finland	Aa1	80.9	0.0	0.0	0.0	80.9	5.6%	48.9	4.8%
Sweden	Aaa	0.0	42.5	0.0	22.2	64.7	4.4%	28.1	2.8%
United States	Aaa	39.2	0.0	0.0	0.0	39.2	2.7%	—	—
Norway	Aaa	0.0	14.9	6.9	9.9	31.7	2.2%	49.2	4.8%
France	Aa2	0.0	0.0	23.8	0.0	23.8	1.6%	—	—
Switzerland	Aaa	5.0	0.0	0.0	0.0	5.0	0.3%	17.4	1.7%
Denmark	Aaa	3.9	0.0	0.0	0.0	3.9	0.3%	4.0	0.4%
United Kingdom	Aa2	—	—	—	—	—	—	1.0	0.1%
Total		**862.5**	**469.4**	**69.4**	**54.8**	**1,456.1**	**100.0%**	**1,020.1**	**100.0%**

[5] All Supranationals have Moody's ratings between Aaa and Aa1.

All issuers have a Moody's rating of at least Aa2. The total investment amounted to CHF 1,456.1 million as of 30 June 2018, including accrued interest, compared to 1,020.1 million as of 31 December 2017.

6.6.4. Funding liquidity risk

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

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

The table on the next page shows the maturity analysis of the Group's financial assets and liabilities. Financial assets are presented based on either the first time period in which they can be contractually redeemed, or in the case of trading financial assets (principally equity instruments with no contractual maturity) in the up to 1 month category reflecting management's view on the liquidity characteristics of these instruments. Financial liabilities are presented based on the first time period in which they are contractually redeemable. As the undiscounted cash flows are not significantly different from the 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 significantly higher level of financial assets redeemable at an earlier stage relative to financial liabilities, Leonteq has a surplus in short term liquidity. This gives the Group the flexibility to repay its liabilities in the event of early redemptions of structured products due to unforeseen market movements. Assets with shorter term durations are periodically renewed or rolled over and ensure a constant funding match, and to facilitate the adequate liquidity management of assets and liabilities.

CHF thousands	Due				Total 30.06.2018
	Up to 1 month	1–3 months	3–12 months	Over 12 months	
Assets					
Amounts due from banks	1,518,884	—	—	—	1,518,884
Amounts due from securities financing transactions	24,000	—	—	—	24,000
Amounts due from customers	176,997	—	—	—	176,997
Trading financial assets	2,197,056	12,902	12,216	70,210	2,292,384
Positive replacement values of derivative financial instruments	30,484	963,877	1,020,019	709,180	2,723,560
Other financial assets designated at fair value through profit or loss	188,861	199,142	945,898	261,779	1,595,680
Accrued income	9,098	4,549	—	—	13,647
Total financial assets	**4,145,380**	**1,180,470**	**1,978,133**	**1,041,169**	**8,345,152**
Liabilities					
Amounts due to banks	715,045	—	—	—	715,045
Liabilities from securities financing transactions	445,084	—	—	—	445,084
Amounts due to customers	668,742	—	—	—	668,742
Trading financial liabilities	197,631	47	495	894	199,067
Negative replacement values of derivative financial instruments	35,874	482,634	726,034	1,113,433	2,357,975
Other financial liabilities designated at fair value through profit or loss	1,018,464	775,528	548,387	1,239,458	3,581,837
Accrued expenses	25,673	24,362	1,283	—	51,318
Total financial liabilities	**3,106,513**	**1,282,571**	**1,276,199**	**2,353,785**	**8,019,068**

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

6.7 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	1,518,884	—	1,518,884	—	(432,977)	1,085,907
Amounts due from securities financing transactions	24,000	—	24,000	—	(24,000)	—
Amounts due from customers	176,997	—	176,997	(20,940)	—	156,057
Positive replacement values of derivative instruments	2,723,560	—	2,723,560	(1,731,131)	(620,187)	372,242
Other financial assets designated at fair value through profit or loss	1,602,151	—	1,602,151	(158,660)	—	1,443,491
Total as of 30 June 2018	**6,045,592**	**—**	**6,045,592**	**(1,910,731)**	**(1,077,164)**	**3,057,697**

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

In addition to the above amounts, the exposure to credit risk from trading financial assets is reduced via credit protection through structured products issued. The effect of the credit protection is a reduction to the trading assets presented on the statement of financial position of CHF 64,830 thousand for the period ended 30 June 2018 (as of 31 December 2017: CHF 62,881 thousand).

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

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	715,045	—	715,045	—	(147,638)	567,407
Liabilities from securities financing transactions	445,084	—	445,084	—	(445,084)	—
Amounts due to customers	668,742	—	668,742	(20,940)	(589,758)	58,044
Negative replacement values of derivative financial instruments	2,357,975	—	2,357,975	(1,801,650)	(413,243)	143,082
Other financial liabilities designated at fair value through profit or loss	3,515,368	—	3,515,368	(88,141)	(672,627)	2,754,600
Total as of 30 June 2018	**7,702,214**	**—**	**7,702,214**	**(1,910,731)**	**(2,268,350)**	**3,523,133**

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

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

6.8 Capital risk management

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

The Group's capital management is closely tied to the Group's overall income targets and budgeting process, which also provides a reliable forecast of available capital on the basis of future profits, dividend policy and corporate actions. Capital planning is based on realistic assumptions with regards 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 planning 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 current and future capital situation and provides management and the Board of Directors with the necessary information for their decision making.

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 been in compliance with these rules and the minimum total capital ratio of 10.5% of risk-weighted assets as of 30 June 2018 and at all times in 2018 before 30 June 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 in determining the regulatory capital requirements of the Group.

Market risk: Standardised approach

They were CHF 119.3 million and CHF 106.4 million as of 30 June 2018 and 31 December 2017, respectively. Due to the Group's hedging strategy, the market risks are primarily related to interest rates and equities. Interest rates contributed CHF 68.2 million and CHF 52.9 million as of 30 June 2018 and 31 December 2017, respectively. General interest rate risk added up to CHF 37.9 million and CHF 27.3 million as of 30 June 2018 and 31 December 2017, respectively, and specific interest rate capital charges were CHF 25.7 million and CHF 22.1 million. Interest derivative related capital charges equalled CHF 4.6 million and CHF 3.5 million as of 30 June 2018 and 31 December 2017, respectively. Equities contributed CHF 37.4 million and CHF 41.4 million as of 30 June 2018 and 31 December 2017, respectively. Equity derivative related capital charges were CHF 23.3 million and CHF 31.0 million as of 30 June 2018 and 31 December 2017, respectively. Specific equity capital charges added up to CHF 10.2 million and CHF 8.1 million as of 30 June 2018 and 31 December 2017, and general equity risk equalled CHF 3.8 million and CHF 2.3 million respectively.

Credit risk: International standardised approach

Capital requirements for credit risks also increased in the first half 2018 driven by the higher issuance volume. They added up to CHF 35.0 million and CHF 28.5 million as of 30 June 2018 and 31 December 2017, respectively. Large credit risks are primarily with banks and insurance companies as a result of the Company's cash holdings, securities transactions, derivative exposures arising from positions in OTC and listed derivatives, as well as securities lending and borrowing activities.

Operational risk: Basic indicator approach

The capital requirement for operational risk is based on the average earnings of a three year time window.

The scope of consolidation used for the calculation of capital was the same as for the preparation of these financial statements. The Group is subject to consolidated FINMA supervision since 31 December 2012.

The tables below summarise the eligible capital, required capital and the capital ratios computed as of 30 June 2018 and 31 December 2017:

CHF thousands	30.06.2018	31.12.2017
BIS eligible capital		
Total shareholders' equity	435,062	418,386
Capital deductions	—	—
Other adjustments	—	—
Tier 1 capital	**435,062**	**418,386**
Tier 2 capital	2,402	1,310
Total BIS eligible capital	**437,464**	**419,696**

CHF thousands	30.06.2018	31.12.2017
BIS required capital		
Market risk (incl. derivatives)	119,282	106,379
Interest rates	68,200	52,927
Equities	37,350	41,409
Foreign exchange and gold	9,024	8,235
Commodities	4,708	3,808
Credit risk	34,980	28,501
Operational risk	32,105	31,928
Non-counterparty-related risk	4,108	4,196
Total BIS required capital	**190,475**	**171,004**
BIS risk-weighted assets	**2,380,940**	**2,137,551**
BIS capital ratios (%)		
Tier 1 ratio	18.3%	19.6%
Total capital ratio	**18.4%**	**19.6%**

6.9 Leverage ratio

CHF thousands	30.06.2018	31.12.2017
Tier 1 capital	435,062	418,386
Total consolidated assets as per published financial statements	8,511,705	6,347,945
Adjustments	(1,199,860)	(331,737)
Leverage ratio exposure	7,311,845	6,016,208
Leverage ratio	**6.0%**	**7.0%**

Adjustments are made mainly for derivative exposures that can be netted due to the netting agreements that are in place with all trading counterparties.

6.10 Risk concentrations

Management considers that a risk concentration exists when an individual or group of financial instruments is exposed to changes in the same risk factor, and that exposure could result in a significant loss based on plausible adverse future market developments. Management reviews risk concentrations, including residual risks such as vega, correlation, dividend and gap risk, on a regular basis and takes corrective action to ensure exposures are limited 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 30 June 2018, the Group identified five large exposures (as of 31 December 2017, three large exposures).

Credit risk concentrations are reflected in section 6.6.2 "Credit risk".

7 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 recorded at fair value in the statement of financial position. Changes in the fair values of these instruments are recorded as a result from trading activities and the fair value option in the income statement.

Fair values are 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 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 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 a wrong valuation leading to an incorrect risk assessment and a wrong 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 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 appropriate, and the Group considers additional factors to ensure that the valuations are appropriate. The factors considered include uncertainties in relation to models used, parameters used, liquidity risks and in the case of structured products the risk of early redemption. The adjustments reflect the inherent uncertainty in model assumptions and input parameters in relation to the valuation method used. The adjustments relating to the liquidity risk consider the expected cost of hedging open net risk positions. The Group believes that it is necessary and appropriate to take these factors into account to determine the fair value of these instruments.

There were no changes in the valuation models used with a significant impact on the financial statements for the period ending 30 June 2018.

All financial instruments and trading inventories carried at fair value are categorised into one of three fair value hierarchy levels at the balance sheet date 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 market-observable, either directly or indirectly
- level 3 – valuation techniques which include significant inputs that are not based on observable market data

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

Fair value of financial instruments
The fair value of financial instruments contained in the financial position of the Group based on valuation methods and assumptions explained below is the same as the booking 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 as well as 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 based on a model using observable (market) inputs such as market capitalisation, debt as well as product type specific adjustments. The management compared the determined credit spread with observable and paid credit spreads for public distributed products of Leonteq to ensure that all available market information is reflected in the determined credit spread. Leonteq's management determines the own credit spread on a regular basis. For the six months ended 30 June 2018, no own credit spread adjustment was required.

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

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

Level 1 instruments

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

Level 2 instruments

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

Level 3 instruments

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

No day 1 gains or losses were recognised resulting from transactions involving level 3 instruments during the first half of 2018. Unrealised losses of CHF 837 thousand for fair value movements have been recognised as result from trading activities and the fair value option for the six months ended 30 June 2018. The ending balance of level 3 financial liabilities for the six months ended 30 June 2018 totaled CHF 15,881 thousand (as of 31 December 2017 totaled 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, the significant inputs used in the valuation technique that are considered unobservable and a range of values for those unobservable inputs. The range of values represents the highest and lowest level input used in the valuation techniques. Therefore, 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 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.

CHF thousands	30.06.2018	31.12.2017	Valuation technique	Significant unobservable input[6]	Range of unobservable inputs 30.06.2018 low	high	31.12.2017 low	high	Unit[6]
Negative replacement values of derivative financial instruments	**15,881**	14,975	Generic Replication Model[7]	Volatility of interest rates	**62**	**72**	63	72	basis points

[6] The ranges of significant unobservable inputs are represented in basis points.
[7] A Generic Replication Model is used to price interest rate derivatives, in the prior year a SABR model was applied. The change of the valuation technique had no material impact on the financial statements.

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 a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown. Relationships between observable and unobservable inputs have not been included in the summary below.

Volatility of interest rates

Volatility measures the variability of interest rates and is generally expressed as an absolute number in bps. The minimum level of volatility is 0 bps and there is no theoretical maximum. Volatility is a key input into 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 driven primarily by 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 by a decrease in volatility. Generally, volatility used in the measurement of fair value is derived from active market option prices (referred to as implied volatility). A key feature of implied volatility is the volatility "smile" or "skew", which represents the effect of pricing options of different option strikes at different implied volatility levels.

Sensitivity of level 3 fair values

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

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

CHF thousands	30.06.2018	31.12.2017
Impact of shifts of unobservable input parameters on fair values		
Increase of volatility of interest rates (+5 bps)	(201)	(115)
Decrease of volatility of interest rates (-5 bps)	201	115

Day 1 result

According to IFRS 13, the transaction price represents the best indication for the fair value of financial instrument unless the fair value for this instrument can be better determined by comparison 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, the day 1 profit is deferred and is recognised as deferred income. The day 1 is only recorded 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 the previous reporting period, the Group had no positions with deferred day 1 profit.

CHF thousands	Level 1	Level 2	Level 3	Total 30.06.2018
Financial assets				
Trading financial assets				
Debt securities (listed)	48,095	24,916	—	73,011
Equity securities	1,799,217	478	—	1,799,695
Funds	182,728	208,990	—	391,718
Other securities	—	26,296	—	26,296
- of which hybrid financial instruments	—	26,296	—	26,296
Total trading financial assets	2,030,040	260,680	—	2,290,720
Positive replacement values of derivative instruments	1,770,784	952,776	—	2,723,560
Other financial assets designated at fair value through profit or loss	1,443,492	158,659	—	1,602,151
Total financial assets	**5,244,316**	**1,372,115**	**—**	**6,616,431**
Trading inventories	42,289	—	—	42,289
Total trading inventories	**42,289**	**—**	**—**	**42,289**
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	1,227	—	—	1,227
Equity securities	193,172	—	—	193,172
Funds	4,458	—	—	4,458
Other securities	—	492	—	492
- of which hybrid financial instruments	—	492	—	492
Total trading financial liabilities	198,857	492	—	199,349
Negative replacement values of derivative instruments	1,362,491	979,603	15,881	2,357,975
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	492,077	—	492,077
Equities	—	2,941,142	—	2,941,142
Foreign currency	—	7,202	—	7,202
Commodities (incl. precious metals)	—	74,947	—	74,947
Total other financial liabilities designated at fair value through profit or loss	—	3,515,368	—	3,515,368
Total financial liabilities	**1,561,348**	**4,495,463**	**15,881**	**6,072,692**

During the first half of 2018, there have not been any 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**

During 2017, there have not been any significant reclassifications of positions between level 1 and level 2 and vice versa.

Level 3 financial instruments

CHF thousands	30.06.2018	31.12.2017
Statement of financial position		
Balance at the beginning of the year	14,975	2,178
Additions	5,183	3,214
Disposals	(932)	(495)
Result recognised as trading income	(1,769)	154
Result recognised as other comprehensive income	—	—
Reclassifications to level 3	—	11,045
Reclassifications from level 3	(1,576)	(1,121)
Translation differences	—	—
Total balance at the end of the reporting period	**15,881**	**14,975**
Income in the financial year on holdings on balance sheet date		
Unrealised income/(loss) recognised in the trading income	(837)	650
Unrealised income/(loss) recognised in other income	—	—
Unrealised income/(loss) recognised in other comprehensive income	—	—

The reclassification of financial instruments into / out of level 2 and 3 is made based on the change 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, in relation to the first half of 2018, a reclassification of certain financial instruments out of level 2 into level 3 and vice versa was required as of 30 June 2018:

- CHF 0 thousand level 2 financial instruments have been reclassified to level 3 (CHF 11,045 thousand in 2017)
- CHF 1,576 thousand level 3 financial instruments have been reclassified to level 2 (CHF 1,121 thousand in 2017)

8 Net fee income

CHF thousands	30.06.2018	30.06.2017
Leonteq Sales fee income	113,471	93,412
Platform Partner Sales fee income	31,058	24,406
Other fee income	2,842	3,731
Total fee income from securities trading and investment activities[8]	**147,371**	**121,549**
Fee expense	(1,611)	(2,216)
Total fee expense	**(1,611)**	**(2,216)**
Net fee income	**145,760**	**119,333**

[8] Please refer to Note 5 "Changes in accounting policies and presentation".

Net fee income increased by 22% compared to the first half of 2017. Contributors were both, Leonteq sales and Platform Partner sales fee income. The relative larger growth relates to Platform Partner sales fees being up 27% compared to the first half of 2017. The growth in Partner sales fees is predominantly driven by Insurance & Wealth Planning Solutions. Large ticket transactions (defined as transactions where Leonteq earns a fee of CHF 0.5 million or more) accounted for 7.2% of the net fee income in the first half of 2018, up from 4.7% in the first half of 2017.

For the presentation of the disaggregated revenues into main operating segments and geographical locations, please refer to Note 17.

9 Other ordinary income

CHF thousands	30.06.2018	30.06.2017
Rental income	1,195	27
Other fee income from Platform Partner	355	2,086
Other	32	—
Total other ordinary income	**1,582**	**2,113**

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

10 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 contain 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 which are liquidity stock or cash collateral in connection with Leonteq's business operations. Leonteq holds cash collateral in connection with its tracking activities in derivative instruments and/or securities financing transactions.

The credit quality of Leonteq's counterparties is continuously monitored: The Risk Committee of the Executive Committee approves the counterparties and allocates individual counterparty limits to them. Risk Control supervises the adherence to these limits on an ongoing basis. If an indication of a counterparty credit risk deterioration is identified, business activities are reduced.

Usually, Leonteq products have a short duration. Therefore, all credit exposures are short-term or could be reduced with risk mitigating actions such as the unwinding of trades and removal of access cash.

Expected credit loss calculation

The Expected Credit Loss (ECL) considers Exposure at Default (EAD), Probability of Default (PD) as well as Loss Given Default (LGD). The starting point of the ECL calculation is the determination of the input factors which are based on market observable inputs whenever possible: The EAD is based on the exposures to different counterparties considering 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 as well as extrapolation of observable market inputs. The calculation of ECL provision is performed on a portfolio basis.

Development of expected credit loss allowance

CHF thousands	30.06.2018	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	1,092	(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	**2,402**	**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.

11 Provisions

CHF thousands	30.06.2018 Total provisions	31.12.2017 Total provisions
Balance at the beginning of the reporting period	8,890	6,674
Utilisation in conformity with designated purpose	(64)	(7,329)
Increase in provisions recognised in the income statement	2,586	10,293
Release of provisions recognised in the income statement	(45)	(1,033)
Translation differences	(23)	285
Balance at the end of the reporting period	**11,344**	**8,890**
Short-term provisions	3,200	1,299
Long-term provisions	8,144	7,591
Total	**11,344**	**8,890**

The Group is from time to time involved in certain legal proceedings and litigations which arise in the normal course of doing 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 such matters 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 could be released through the income statement which is partially due to the successful sublease of the office space in Zurich. Additionally related long-lived assets have been impaired by CHF 1,864 thousand accounted for in the line item "depreciation of long-lived assets". As of 31 December 2017 no provisions for onerous lease contracts were required anymore.

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.

The provision related to the pending Swiss VAT litigation totaling CHF 6,500 thousand is unchanged compared to 31 December 2017.

For potential disputes and litigations related to the main business activities of Leonteq, CHF 3,340 thousand (31 December 2017: CHF 1,091 thousand) are provisioned. Provisions in the amount of CHF 1,187 thousand (31 December 2017: CHF 1,299) were recognised due to employment law related matters. In addition a provision in the amount of CHF 317 thousand for legal fees was recognised as of 30 June 2018.

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. To date, neither the claim form nor any particulars of claim have been served on Leonteq. However, 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 the coming weeks.

Based on information that Leonteq received from OMI's representatives, OMI states that between 2012 and 2016 OMI invested approximately GBP 94 million in approximately 658 structured products. OMI alleges that it suffered losses of approximately GBP 20 million (as of 28 February 2018) and that it expects those losses to increase significantly in the period following 28 February 2018. However, the legal grounds on which the claim is being advanced or the remedies sought, including any amount of damages claimed by OMI, are of a general nature. 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 competent 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, the tax authority considered a transfer price adjustment for interest payments made by Leonteq Securities AG to Leonteq AG. 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) with the competent tax authority in Zurich against its 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. To the extent the decision of the tax authority will result in additional tax liabilities, Leonteq intend to file appeals.

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, including potentially the financial year ending 31 December 2018.

12 Shareholders' equity

Share capital

			30.06.2018			31.12.2017
	Total par value (CHF)	Number of shares	Capital eligible for dividends	Total par value (CHF)	Number of shares	Capital eligible for dividends
Share capital	15,944,504	15,944,504	15,944,504	15,944,504	15,944,504	15,944,504
whereof fully paid in	15,944,504	15,944,504	—	15,944,504	15,944,504	—
Total share capital	**15,944,504**	**15,944,504**	**15,944,504**	**15,944,504**	**15,944,504**	**15,944,504**
Authorised capital	3,000,000	3,000,000	—	3,000,000	3,000,000	—
whereof capital increase completed	—	—	—	—	—	—
Conditional share capital	100,000	100,000	—	100,000	100,000	—
whereof capital increase completed	18,584	18,584	—	18,584	18,584	—

Authorised capital

On 23 March 2017 the Board of Directors decided to renew the authorisation for increasing the share capital, at any time until 22 March 2019, up to a maximum amount of CHF 3 million, by issuing up to 3 million fully paid in registered shares with a nominal value for CHF 1.00 each.

Conditional share capital

The share capital may be increased by a maximum of CHF 81,416 by issuing 81,416 fully paid in registered shares with a nominal value of CHF 1.00 each to cover potential exposures arising from Restricted Stock Units (RSUs) granted to certain employees of the Group.

Own shares

	30.06.2018			31.12.2017		
	Number of shares	Total purchase value CHF thousands	Average Price CHF	Number of shares	Total purchase value CHF thousands	Average Price CHF
Balance at the beginning of the period	250,231	15,335	61	152,959	14,279	93
Purchases	43,652	2,550	58	156,184	4,667	30
Disposal	(69,462)	(4,217)	61	(58,912)	(3,611)	61
Balance at the end of the period	**224,421**	**13,668**	**61**	**250,231**	**15,335**	**61**

Own shares are kept in relation to the Group's share-based payment programs.

Capital distribution

On 28 March 2018 the shareholders decided to not pay a dividend or a capital distribution.

13 Significant shareholders

	30.06.2018		31.12.2017	
	Current Number of share holding	Current Number of voting rights in %	Current Number of share holding	Current Number of voting rights in %
Raiffeisen Switzerland Cooperative [9]	4,627,503	29.02%	4,626,397	29.02%
Lukas Ruflin family interests [10, 11]	1,300,000	8.15%	1,283,762	8.05%
Sandro Dorigo [11]	390,162	2.45%	390,082	2.45%
Subtotal shareholders' agreement	**6,317,665**	**39.62%**	**6,300,241**	**39.51%**
Rainer-Marc Frey [12, 13]	1,015,000	6.37%	1,015,000	6.37%
Credit Suisse Funds AG [14]	478,750	3.00%	478,750	3.00%
Other shareholders including own shares	8,133,089	51.01%	8,150,513	51.12%
Total	**15,944,504**	**100.00%**	**15,944,504**	**100.00%**

[9] 31 December 2017: 158,879 shares are directly held by Notenstein La Roche Private Bank Ltd, St. Gallen as a wholly owned subsidiary of Raiffeisen Switzerland Cooperative, St. Gallen. 30 June 2018: As per 23 May 2018 Raiffeisen Switzerland Cooperative signed a share purchase agreement with Vontobel Holding AG. In context of the closing of this agreement, all Leonteq shares held by Notenstein La Roche Privatbank Ltd have been transferred to Raiffeisen Switzerland Cooperative.

[10] Lukas Ruflin family interests represents all holdings by Lukas Ruflin (founding partner), Clairmont Trust Company Limited and Thabatseka LP; Clairmont Trust Company Limited acts as trustee of a trust which 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 Ruflin. In addition he holds 462,325 call options, written by Raiffeisen, with the following conditions: strike CHF 210 (adjusted by cumulative dividends per share from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style.

[11] Founding partner.

[12] H21 Macro Limited, Cayman Islands is the direct shareholder of the shares. Horizon21 AG, Pfäffikon SZ, Switzerland acts as fund management company.

[13] Creation of obligation to notify: 13 March 2017.

[14] Creation of obligation to notify: 25 October 2017.

14 Related-party transactions

The Group entered into various transactions and agreements with its related parties. The significant transactions and agreements can be categorised into financial and platform partner agreements with Raiffeisen. Notenstein La Roche Private Bank Ltd. as well as Notenstein Finance (Guernsey) Ltd. are no longer part of the Raiffeisen Group and as such not considered a related party to Leonteq anymore.

CHF thousands	Amount due from 30.06.2018	Amount due from 31.12.2017	Amount due to 30.06.2018	Amount due to 31.12.2017	Income from 30.06.2018	Income from 30.06.2017	Expense to 30.06.2018	Expense to 30.06.2017
Significant shareholders								
Raiffeisen Switzerland Cooperative								
Amounts due from banks	63,175	50,204	—	—	—	—	—	—
Positive replacement values of derivative instruments	79,661	43,800	—	—	—	—	—	—
Amounts due to banks	—	—	165,622	98,942	—	—	—	—
thereof credit facility[15]	—	—	123,792	97,435	—	—	—	—
Negative replacement values of derivatives	—	—	61,132	61,217	—	—	—	—
Accrued expenses and deferred income	—	—	214	—	—	—	—	—
Platform partner service fee income	—	—	—	—	6,206	9,629	—	—
Interest expense	—	—	—	—	—	—	2,547	1,877
Affiliated companies								
Raiffeisen Switzerland B.V. Amsterdam								
Amounts due from customers	42,194	78,240	—	—	—	—	—	—
Positive replacement values of derivative instruments	151,755	74,615	—	—	—	—	—	—
Accrued income and prepaid expenses	539	—	—	—	—	—	—	—
Amounts due to customers	—	—	124,610	24,080	—	—	—	—
Negative replacement values of derivatives	—	—	35,123	43,730	—	—	—	—
Platform partner service fee income	—	—	—	—	14,815	15,773	—	—
Notenstein La Roche Private Bank Ltd.								
Amounts due from banks	N/A	120	—	—	—	—	—	—
Positive replacement values	N/A	102	—	—	—	—	—	—
Amounts due to banks	—	—	N/A	3,139	—	—	—	—
Platform partner service fee income	—	—	—	—	—	1,308	—	—
Notenstein Finance (Guernsey) Ltd								
Platform partner service fee income	—	—	—	—	—	2,135	—	—
Transactions with members of governing bodies	—	—	—	—	—	—	—	—

[15] The credit facility with Raiffeisen allows for unsecured borrowing of up to CHF 350 million. Previously it allowed for unsecured borrowing of CHF 400 million and secured borrowing of CHF 200 million.

On 7 March 2016, Leonteq entered into a term sheet with Raiffeisen which was replaced on 6 April 2018 by a cooperation agreement (as replaced, the "Raiffeisen Agreement"). Pursuant to the Raiffeisen Agreement, Leonteq and Raiffeisen agreed to cooperate in the structuring, issuance, hedging, distribution, market making and life-cycle management of structured products and the provision of related services. The Raiffeisen Agreement ends on, 31 March 2026, unless the parties thereto otherwise agree to renew or amend it.

15 Earnings per share

	30.06.2018	30.06.2017
Group net profit (CHF thousands)	40,113	1,154
Weighted average number of shares outstanding (undiluted)	15,708,760	15,700,193
Dilution effect (number of shares)	218,138	217,307
Weighted average number of shares outstanding (diluted)	15,926,898	15,917,500
Basic earnings per share	**2.55**	**0.07**
Diluted earnings per share	**2.52**	**0.07**

The dilution effect number of shares include effects of employee share-based benefit plans.

16 Off-balance

CHF thousands	30.06.2018	31.12.2017
Off-balance-sheet transactions		
Contingent liabilities	28,262	35,669
Irrevocable commitments	32	28
Obligations to pay up shares and make further contributions	—	—
Credit commitments	—	—

Irrevocable commitments relate to the Swiss Deposit Insurance.

Contingent liabilities of CHF 13.5 million (as of 31 December 2017 of CHF 19.5 million) arise from deferred payments in relation with long-term incentive plans.

On 10 April 2015 Leonteq AG signed a letter of undertaking with SFM HK Management Limited relating to the lease of the office premises of Leonteq Securities (Hong Kong) Ltd. The rental contract has expired on 14 June 2018. The letter of undertaking will expire on 14 August 2018. As of 30 June 2018 no claim has been received in this matter. The outstanding commitment as of 31 December 2017 relating to future rental payments amounted to HKD 2.8 million (CHF 0.3 million), respectively, excluding taxes.

On 10 August 2015 Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017 the lease has been assigned to a third party. In connection with the transfer it was agreed that this deed of guarantee will remain with Leonteq AG. As of 30 June 2018 the total commitment relating to future rental payments under the original lease contract amounted to GBP 10.7 million (CHF 14.0 million) and as of 31 December 2017 GBP 11.4 million (CHF 15.0 million), respectively, excluding taxes.

On 11 December 2017 Leonteq AG committed a guarantee relating to the lease of the office premises of its subsidiary Leonteq Securities (Japan) Ltd. As of 30 June 2018 the total commitment relating to future rental payments under this lease amounted to JPY 77.0 million (CHF 0.7 million), as of 31 December 2017 JPY 85.5 million (CHF 0.7 million), excluding taxes.

17 Segment reporting

The Group is managed in three distinct business lines organised by the scale of distribution and type of partner and proposition respectively. Leonteq's Executive Committee, the chief operating decision maker, manages and assesses the performance of the Group and its businesses through the following operating segments:

- Investment Solutions
- Banking Solutions
- Insurance & Wealth Planning Solutions
- Corporate Center

As an integral part of these operating segments, Leonteq empowers its clients and partners with an unparalleled manufacturing and distribution platform for structured investment products and unit-linked life insurance policies. It offers fully integrated services from front-to-back to more than 1,000 clients (financial intermediaries and institutions) and renowned network partners such as banks and insurance companies across EMEA and APAC.

Investment Solutions
The business line Investment Solutions manufactures and distributes structured investment products with an agile, fully automated and industry leading platform. Thanks to the global network of issuance partners, the highly experienced sales force of Leonteq can, not only distribute products issued on its own balance sheet, but also have access to third party balance sheets, using Leonteq's unique platform and onboarding capabilities. The business line offers a wide universe of investment solutions and local, high quality services to financial intermediaries in its focus markets in Europe, Switzerland and Asia. The distribution power is complemented through a dedicated in-house ideation, structuring and trading team and includes a digital and highly automated pricing engine.

Investment Solutions comprises revenues from Leonteq distributing its own products as well as products issued or guaranteed by Aargauische Kantonalbank, Bank of Montreal, Cornèr Bank, Crédit Agricole Corporate and Investment Bank, Deutsche Bank, EFG International, J.P. Morgan, PostFinance, Raiffeisen Group and Standard Chartered Bank.

Banking Solutions
Banking Solutions allows the Group's network partners a flexible, fast, state-of-the-art and cost efficient manufacturing and distribution of structured investment products. It provides modular IT solutions to fully enable or enhance its partners' structured investment product capabilities. Depending on the level of integration and individual needs of the issuance partners, the services may include product design and launch; issuance, settlement and order management; risk management; life-cycle management; product documentation and reporting; risk, regulatory and financial reporting as well as other supporting services.

Banking Solutions comprises revenues generated through its partners' own network, including Aargauische Kantonalbank, Cornèr Bank, Crédit Agricole Corporate and Investment Bank, EFG International, Raiffeisen Group and PostFinance.

Insurance & Wealth Planning Solutions
Insurance & Wealth Planning Solutions 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 get 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 life-cycle 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 Center
Costs related to functions such as Operational Services, Finance, Legal & Compliance, Risk Control, Human Resources, Investor Relations & Communications, Marketing and Information Technology are allocated to a large extent to the business lines based on cost allocation keys. The unallocated support functions are presented within Corporate Center.

CHF thousands	Investment Solutions	Banking Solutions	Insurance & Wealth Planning Solutions	Corporate Center	Total 30.06.2018
Net fee income	114,254	18,398	13,108	—	145,760
Net trading income/(loss)	(4,655)	—	912	—	(3,743)
Net interest income/(expense)	(5,996)	(1,775)	307	—	(7,464)
Other ordinary income	—	355	—	1,227	1,582
Total operating income	**103,603**	**16,978**	**14,327**	**1,227**	**136,135**
Personnel expenses	(44,556)	(7,044)	(4,408)	(4,649)	(60,657)
Other operating expenses	(16,901)	(2,648)	(966)	(3,904)	(24,419)
Depreciation of long-lived assets	(5,914)	(887)	(534)	(732)	(8,067)
Changes to provisions and other value adjustments, and losses	(1,693)	(62)	—	(786)	(2,541)
Total operating expenses	**(69,064)**	**(10,641)**	**(5,908)**	**(10,071)**	**(95,684)**
Result from operating activities	**34,539**	**6,337**	**8,419**	**(8,844)**	**40,451**

CHF thousands	Investment Solutions	Banking Solutions	Insurance & Wealth Planning Solutions	Corporate Center	Total 30.06.2017
Net fee income	94,211	14,489	10,633	—	119,333
Net trading income/(loss)	(17,215)	—	768	—	(16,447)
Net interest income/(expense)	(4,281)	(794)	203	—	(4,872)
Other ordinary income	—	2,086	—	27	2,113
Total operating income	**72,715**	**15,781**	**11,604**	**27**	**100,127**
Personnel expenses	(38,436)	(8,625)	(3,122)	(6,372)	(56,555)
Other operating expenses	(18,633)	(2,822)	(988)	(3,459)	(25,902)
Depreciation of long-lived assets	(6,713)	(1,125)	(488)	(988)	(9,314)
Changes to provisions and other value adjustments, and losses	—	—	—	(7,198)	(7,198)
Total operating expenses	**(63,782)**	**(12,572)**	**(4,598)**	**(18,017)**	**(98,969)**
Result from operating activities	**8,933**	**3,209**	**7,006**	**(17,990)**	**1,158**

The Group applies a distribution view to allocate its revenues to the different business lines. The allocation of the expenses is based on different activities performed by the segments to provide their services. Leonteq does not have reportable major customer concentrations in the distribution of structured investment products; however, Leonteq does have concentrations with issuance partners providing their balance sheets (supply side).

Increased client demand for structured investment products continued during the first half of 2018 and contributed to double-digit growth rates in net fee income in both segments, Investment Solutions and Banking Solutions. Compared to the first half of 2017, the net fee income in the segment Insurance & Wealth Planning Solutions increased by 23% in line with the development of unit linked life insurance policies. The net trading loss in Investment Solutions reduced to CHF -4.7 million mainly due to a more beneficial market environment in the first half 2018. The net interest expenses in both Investment Solutions and Banking Solutions increased due to higher financing costs and increased credit line charges. The Corporate Center's other ordinary income is mainly generated through rent income on subleased office space whereas other ordinary income in the Banking Solutions segment comprises project cost reimbursements from platform partners.

Personnel expenses in the segments Investment Solutions and Insurance & Wealth Planning Solutions increased compared to the first half of 2017 driven by the underlying business growth. Banking Solutions' decrease in personnel expenses, on the other hand, is consistent with the reduction in other ordinary income driven by lower costs for onboarding and other project related efforts which have been recharged to a large extent to its partners. Corporate Center's personnel expenses are mainly impacted by a lower average number of FTEs compared to the previous year's period.

Information by geographic location

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 30.06.2018
Net fee income	63,288	64,395	18,077	145,760
Net trading income/(loss)	(983)	(1,712)	(1,048)	(3,743)
Net interest income/(expense)	(2,971)	(3,524)	(969)	(7,464)
Other ordinary income	1,227	355	—	1,582
Total operating income	**60,561**	**59,514**	**16,060**	**136,135**

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 30.06.2018
Accrued income and prepaid expenses	8,365	13,423	588	22,376
Current tax assets	964	—	—	964
Deferred tax assets	2,829	224	28	3,081
Long-lived assets	48,740	637	1,968	51,345
Other assets	53,902	1,254	182	55,338

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 30.06.2017
Net fee income	49,690	49,912	19,731	119,333
Net trading income/(loss)	(5,622)	(5,556)	(5,269)	(16,447)
Net interest income/(expense)	(1,900)	(2,184)	(788)	(4,872)
Other ordinary income	1,970	143	—	2,113
Total operating income	**44,138**	**42,315**	**13,674**	**100,127**

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2017
Accrued income and prepaid expenses	8,980	8,591	434	18,005
Current tax assets	964	39	—	1,003
Deferred tax assets	2,119	243	—	2,362
Long-lived assets	50,021	436	1,994	52,451
Other assets	44,235	2,604	82	46,921

The Group has offices in various locations to diversify its revenue generation. Switzerland consists of the headquarters in Zurich and of its office in Geneva. Europe subsumes the Group's operations in its offices located in Amsterdam, Frankfurt, Guernsey, London, Monaco and Paris. Asia represents the locations Hong Kong, Singapore and Tokyo.

Compared to the first half of 2017, net fee income grew significantly in Switzerland and Europe due to higher demand for structured investment products. In Switzerland, the growth in unit-linked life insurance policies also substantially contributed to the net fee income increase. Current year's net trading loss is shared between the regions whereas Switzerland's net trading income is positively influenced by Insurance & Wealth Planning Solutions' net trading income.

18 Post-balance sheet events

On 19 July 2018 Leonteq AG announced a fully underwritten rights offering of 2,989,593 new registered shares with a nominal value of CHF 1.00 each to be issued from existing authorised capital. The listing and first trading day of the newly registered shares on SIX is scheduled for 3 August 2018.

Report on the Review

of Interim consolidated financial statements to the Board of Directors of Leonteq AG

Zurich

Introduction

We have reviewed the interim consolidated financial statements (balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes) (pages 18 to 58) of Leonteq AG for the period ended 30 June 2018. The Board of Directors is responsible for the preparation and presentation of this interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Swiss Auditing Standard 910 and International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Swiss Auditing Standards and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers AG

Andrin Bernet   Roman Schnider

Zurich, 17 July 2018

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