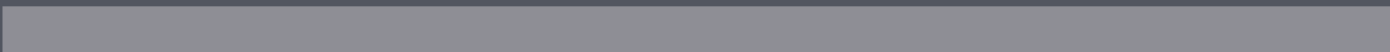
HALF YEAR REPORT 2019



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FINANCIAL HIGHLIGHTS

Leonteq's half-year 2019 results are evidence that the company can deliver a solid performance in a difficult market environment.

At a glance

For the six months ended 30 June 2019, unless otherwise stated

	2019	2018	Change %
Group results (CHF million)			
Total operating income	124.6	136.1	(8%)
Profit before taxes	30.5	40.4	(25%)
Group net profit	30.2	40.1	(25%)
Key ratios (%)			
Cost/income ratio[1]	76%	70%	6 pp
Return on equity[1]	10%	19%	(9 pp)
Investment Solutions			
Platform assets (CHF billion)[1, 2]	13.8	11.9	16%
Turnover (CHF billion)[1]	15.0	15.9	(6%)
Fee income margin (bps)[1]	71	83	(12 bps)
Number of clients	841	821	20
Insurance & Wealth Planning Solutions			
Number of outstanding policies[2]	44,287	41,195	8%
Net new policies	3,092	3,762	(18%)
Balance sheet (CHF million)[2]			
Total assets	9,586.7	10,690.2	(10%)
Total shareholders' equity	631.2	607.7	4%
Regulatory capital[2]			
Risk-weighted assets (CHF million)	2,981.1	2,780.6	7%
Common equity tier 1 capital (CHF million)	631.0	607.7	4%
Total BIS eligible capital (CHF million)	633.5	610.6	4%
Common equity tier 1 ratio (%)	21.2%	21.9%	(0.7pp)
BIS total capital ratio (%)	21.3%	22.0%	(0.7pp)
Share information			
Market capitalisation at end of period (CHF million)	657	909	(28%)
Number of shares outstanding at end of period	18,934,097	15,944,504	19%
Share price at end of period (CHF)	34.70	57.00	(39%)
Basic earnings per share (CHF)	1.61	2.55	(37%)
Diluted earnings per share (CHF)	1.59	2.52	(37%)
Employees			
Number of full-time equivalent employees at end of period	495	445	11%
Credit rating			
Long-term issuer default rating (Fitch)	BBB-/positive[3]	N/A	N/A
Long-term issuer rating (JCR)	BBB+/stable[4]	N/A	N/A

[1] For an overview and definition of alternative performance measures used in this report in accordance with the 'Directive of Alternative Performance Measures' issued by SIX Exchange Regulations, please refer to page 15.
[2] As of 30 June 2019, and 31 December 2018, respectively.
[3] Rating assigned on 14 January 2019.
[4] Rating assigned on 13 May 2019.

SHAREHOLDERS' LETTER

Leonteq made good progress with its key strategic initiatives and is well on track towards becoming a globally renowned platform for structured investment solutions.

SHAREHOLDERS'

DEAR SHAREHOLDERS

We delivered a solid performance in the first half of 2019, demonstrating Leonteq's resilience in a difficult market environment. At the same time, we maintained a controlled cost base while continuing to invest in our people and made significant progress with key strategic initiatives that will transform the way we do business. Our new approach to hedging derivatives through SHIP, which is due to become fully operational by mid 2020, will provide us with a scalable and less capital-intensive platform. With our new digital marketplace that is beginning to take shape, we are also creating a new investment experience that will give our clients digital access to one of the largest universes of structured products. We further strengthened our capital position during the first half of 2019 and capitalised on the investment grade ratings obtained during that period.

Solid performance in difficult market environment

Leonteq had a subdued start to 2019. January, in particular, was characterised by high levels of market, economic and political uncertainty that led to a reduction in client activity. As a result, economic revenues[1] declined sharply to CHF 8.1 million compared CHF 26.1 million in January 2018. Net fee income decreased by 17% to CHF 120.9 million in the first half of 2019. However, net trading income rose to CHF 7.5 million in the first half of 2019 from CHF -3.7 million in the prior-year period due to positive hedging contributions[1] and an improved treasury result[1]. As a result, total operating income declined by CHF -11.5 million to CHF 124.6 million in the first half of 2019 compared to the same period of 2018, which represented the best first half-year result in Leonteq's history. Total operating expenses remained relatively stable at CHF 94.1 million in the first half of 2019 and in line with our announced hiring plan, headcount increased to 495 FTEs at end-June 2019. Group net profit totaled CHF 30.2 million in the first half of 2019. Shareholders' equity increased to CHF 631.2 million as at 30 June 2019. Leonteq maintained its strong capital position with total BIS eligible capital of CHF 633.5 million and a total capital ratio of 21.2% as at 30 June 2019.

Capitalisation on new opportunities

Leonteq's total platform assets reached a record CHF 13.8 billion as at 30 June 2019, up from CHF 11.9 billion at end-2018. We reached a major strategic milestone in the first half of 2019 when Leonteq was assigned investment grade ratings by Fitch Ratings (BBB-/positive) and Japan Credit Rating Agency (BBB+/stable). In relation to this, our outstanding volume of own issued products increased by 29% to CHF 4.0 billion and the turnover[1] of Leonteq products grew by 16% to CHF 5.7 billion compared to CHF 4.9 billion in the first half of 2018. Leonteq also implemented several initiatives that are designed to further improve operational efficiency and enhance the level of automation for our issuance partners, whose platform assets[1] increased by 11% to CHF 9.8 billion as at 30 June 2019 compared to end 2018. The turnover generated with issuance partners decreased by 15% to CHF 9.3 billion compared to the first half of 2018 (up 6% compared to the second half of 2018).

[1] For an overview and definition of alternative performance measures used in this report in accordance with the 'Directive of Alternative Performance Measures' issued by SIX Exchange Regulations, please refer to page 17.

Resilient offering of insurance products in challenging interest rate environment

The Insurance & Wealth Planning Solutions business line defined and implemented measures to improve the attractiveness of its savings and drawdown solutions for policyholders in response to the challenging interest rate environment, thus expanding the company's product shelf. Furthermore, it started to invest into a new cloud-based environment, helping to increase the development and testing velocity of its platform. Despite the headwind of a strong decline in long-term interest rates, Leonteq's Insurance & Wealth Planning Solutions business line saw net fee income grow by 6% to CHF 13.9 million and total operating income increase by 13% to CHF 16.1 million in the first half of 2019. The number of outstanding policies serviced on the platform increased by 8% to 44,287 policies as at 30 June 2019.

Business transformation

In mid-2018, Leonteq defined a number of key strategic initiatives to transform our business model with a focus on delivering enhanced scalability and further growth, achieving optimised capital usage, and completely renewing the investment experience for clients and partners based on a fully digitalised approach. In the first half of 2019, we made further progress with these initiatives.

Our Smart Hedging Issuance Platform (SHIP) project is well on track with three hedging counterparties providing external quotes for around 20% of all transactions in products such as autocallables and barrier convertibles. Leonteq is currently onboarding up to four additional hedging counterparties and expects to connect them to the platform in the second half of 2019. The initiative is expected to be implemented in stages and to be fully operational by mid-2020.

Using the latest advances in technology, our new digital marketplace initiative launched in 2018 aims to provide clients with a completely new investment experience by giving them external access to applications, services and market and product data that were previously only available internally. The new marketplace will provide digital access to one of the largest structured product universes and issuance partners will be able to white-label all tools and services. New modules and features will be added to the digital marketplace in stages.

As part of the digital marketplace initiative, we also redesigned our platform for Actively Managed Certificates (AMC) in the first half of 2019. This innovative solution for asset managers is designed to customise and implement an investment strategy offering greater flexibility, cost efficiency and transparency.

New Board nomination and Raiffeisen as anchor shareholder

We also announced the nomination of Dominik Schärer for election to our Board of Directors at an Extraordinary General Meeting to be held by the end of September 2019. In addition, we were informed that Raiffeisen intends to fully retain its 29% stake in Leonteq as anchor shareholder.

We are pleased to propose Dominik Schärer, a financial industry expert with a strong background in equities and derivatives and a proven track record of leadership, for election as a member of our Board of Directors. Raiffeisen's decision to retain its current shareholding in Leonteq confirms its commitment to and the strategic importance of the cooperation between our two companies, and we look forward to further building on this relationship in the years to come.

Christopher M. Chambers
Chairman of the Board of Directors

Lukas T. Ruflin
Chief Executive Officer

In view of the progress achieved to date, we are confident that we are on track towards delivering on our 2020 financial targets and becoming a globally renowned platform for structured investment products.

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

Christopher M. Chambers
Chairman of the Board of Directors

Lukas T. Ruflin
Chief Executive Officer

BUSINESS AND FINANCIAL REVIEW

Leonteq delivered a solid performance in the first half of 2019, further strengthened its capital position, capitalised on the investment grade ratings obtained and created a further basis for the achievement of its 2020 financial targets.

Group results

The first half of 2019 was characterised by high levels of market, economic and political uncertainty that led to a reduction in client activity – especially during the first month of the year. This was followed by a recovery in equity markets as concerns about trade tensions between the US and China eased and the US Federal Reserve signalled a shift away from monetary tightening. Against this backdrop, Leonteq experienced a subdued start to the year but delivered a solid performance for the first six months of 2019. Total operating income of CHF 124.6 million was down by 8% compared to the first half of 2018 while total operating expenses remained relatively stable at CHF 94.1 million. Net profit totalled CHF 30.2 million for the first half of 2019 and shareholders' equity increased to CHF 631.2 million. Leonteq maintained its strong capital position with total BIS eligible capital of CHF 633.5 million and a BIS total capital ratio of 21.3 % as at 30 June 2019.

Income statement

CHF million	H1 2019	H2 2018	H1 2018	Change from H1 2018	Change from H2 2018
Net fee income	120.9	126.8	145.7	(17%)	(5%)
Net trading income/(loss)	7.5	25.1	(3.7)	N/A	(70%)
Net interest income/(expense)	(5.2)	(7.4)	(7.5)	(31%)	(30%)
Other ordinary income	1.4	1.8	1.6	(13%)	(22%)
Total operating income	**124.6**	**146.3**	**136.1**	**(8%)**	**(15%)**
Personnel expenses	(58.8)	(55.0)	(60.7)	(3%)	7%
Other operating expenses	(19.3)	(28.8)	(24.4)	(21%)	(33%)
Depreciation	(14.3)	(8.6)	(8.1)	77%	66%
Changes to provisions	(1.7)	(1.0)	(2.5)	(32%)	70%
Total operating expenses	**(94.1)**	**(93.4)**	**(95.7)**	**(2%)**	**1%**
Profit/(loss) before taxes	**30.5**	**52.9**	**40.4**	**(25%)**	**(42%)**
Taxes	(0.3)	(1.5)	(0.3)	0%	(80%)
Group net profit/(loss)	**30.2**	**51.4**	**40.1**	**(25%)**	**(41%)**

Total operating income

As communicated with its full-year 2018 results, Leonteq recorded a subdued start to the year, as particularly January was characterised by market, economic and political uncertainty with reduced levels of client activity, resulting in a sharp decline of economic revenues[1] to CHF 8.1 million compared to CHF 26.1 million in January 2018. In the first half of 2019 net fee income decreased by 17% to CHF 120.9 million, reflecting the subdued start to the year and reduced contributions from large ticket transactions[1]. Net trading income rose to CHF 7.5 million in the first half of 2019 from CHF -3.7 million in the prior-year period driven by positive hedging contributions[1] and and improved treasury result[1]. As a result, total operating income decreased by CHF -11.5 million to CHF 124.6 million in the first half of 2019 compared to the prior year period.

Leonteq generates its net fee income primarily by manufacturing and distributing its own products, as well as products issued by its banking partners, Aargauische Kantonalbank, Cornèr Bank, Crédit Agricole CIB, Deutsche Bank, EFG International, J.P. Morgan, PostFinance (pilot project), Raiffeisen Switzerland and Standard Chartered Bank. Furthermore, Leonteq generates fee income by giving its insurance partners Helvetia and Swiss Mobiliar access to a digital platform, that supports unit-linked retail products with financial guarantees.

Fee income in Leonteq's Swiss home market decreased by 17% in the first half of 2019, reflecting stable demand for its long-term savings solutions with Swiss insurance partners and reduced client activity for structured products. Yield enhancement continued to represent the most important product category in the first half of 2019. Compared to the first half of 2018, there was increased demand for leverage products and actively managed certificates. Issuance partners such as Raiffeisen, Leonteq, Cornèr Bank and Standard Chartered Bank recorded growth in demand from Swiss investors. In Europe, the business generated net fee income of CHF 55.2 million, down 14% from CHF 64.3 million in the prior-year period. European clients predominantly sought products issued by EFG International, Leonteq, Raiffeisen and increasingly also by Standard Chartered Bank with express certificates, barrier reverse convertibles and leverage products being the most popular product types. Net fee income in Asia decreased by CHF 4.8 million year-on-year to CHF 13.3 million from CHF 18.1 million. The most traded product types were OTC products guaranteed by Raiffeisen and barrier reverse convertibles.

Large ticket transactions accounted for 4%, or CHF 5.1 million of net fee income in the first half of 2019, down from 7%, or CHF 10.5 million in the prior-year period.

[1] For an overview and definition of alternative performance measures used in this report in accordance with the 'Directive of Alternative Performance Measures' issued by SIX Exchange Regulations, please refer to page 17.

Net fee income split by regions

CHF million	H1 2019	H2 2018	H1 2018	Change from H1 2018	Change from H2 2018
Switzerland	52.4	52.0	63.3	(17%)	1%
Europe	55.2	61.0	64.3	(14%)	(10%)
Asia	13.3	13.8	18.1	(27%)	(4%)
Total net fee income	**120.9**	**126.8**	**145.7**	**(17%)**	**(5%)**

Net trading income is generated on the basis of existing client flow and hedging activities. It represents both 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 influenced by hedging activities, which can fluctuate positively or negatively depending on market factors. Over the long term, the hedging strategy is expected to have a neutral impact on Leonteq’s financials. The treasury result is defined as the net funding costs related to Leonteq's own issued products.

Net trading result improved to CHF 7.5 million from CHF -3.7 million in the prior-year period driven by improved hedging contributions and a higher treasury result. Contributions from hedging activities totalled CHF 9.8 million, compared to CHF 1.3 million in the prior-year period. The treasury result totalled CHF -2.3 million in the first half of 2019, an improvement of CHF 2.7 million year on year driven by higher returns on the investment portfolio.

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 improved by CHF 2.3 million to CHF -5.2 million for the period under review from CHF -7.5 million in the same period in 2018 due to higher income received on own collateral posted with counterparties. At the same time, the use of credit facilities remained stable.

Other ordinary income represents income charged to issuance partners for services not related to fee income such as onboarding and project related costs. It also contains rental income for subleases. Other ordinary income amounted to CHF 1.4 million in the first half of 2019 compared to CHF 1.6 million in the prior-year period.

Total operating expenses

Total operating expenses remained relatively stable at CHF 94.1 million in the first half of 2019 compared to CHF 95.7 million in the prior-year period.

Personnel expenses are the largest component of total operating expenses and primarily represent fixed and variable compensation for the Group's employees. Personnel expenses decreased by 3% to CHF 58.8 million in the first half of 2019 despite an increase in fixed compensation in line with the announced hiring plan, including mainly IT specialists. Growth in IT personnel is reflected in the increase in the number of full-time equivalents (FTEs) in Switzerland, while headcount in Asia remained unchanged. Compared to end-2018, headcount increased by 9 FTEs to a total of 495 FTEs.

FTEs split by region

	30.06.2019	31.12.2018	30.06.2018	Change from H1 2018	Change from YE 2018
Switzerland	342	335	309	11%	2%
Europe	79	77	71	11%	3%
Asia	74	74	65	14%	0%
Total FTEs	**495**	**486**	**445**	**11%**	**2%**

FTEs split by function

	30.06.2019	31.12.2018	30.06.2018	Change from H1 2018	Change from YE 2018
Shared services	**301**	**296**	**264**	**14%**	**2%**
whereof IT	128	117	108	19%	9%
Business units	**194**	**190**	**181**	**7%**	**2%**
whereof sales	87	90	85	2%	(3%)
Total FTEs	**495**	**486**	**445**	**11%**	**2%**

Other operating expenses mainly consist of professional services, expenses related to marketing, travel and presentation, IT-related expenses, banking fees and other administrative expenses. With the introduction of IFRS 16, rent costs are no longer recognised as other operating expenses. Instead, a right-of-use asset is depreciated on a straight-line basis over the lease term and the regular lease payments are deducted from the lease liability after applying the interest rate determined at the commencement or transition of the lease. Primarily as a result of the introduction of IFRS 16, other operating expenses decreased significantly by 21%, or CHF 5.1 million, to CHF 19.3 million.

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. The above-mentioned introduction of IFRS 16 resulted in additional depreciation expenses, leading to an increase in depreciation of 77%, or CHF 6.2 million, to CHF 14.3 million in the first half of 2019 compared to CHF 8.1 million in the prior-year period.

Changes to provisions decreased by 32% to CHF 1.7 million compared to CHF 2.5 million in the first half of 2018.

Capital and balance sheet

Total platform assets[1] reached a record CHF 13.8 billion as of 30 June 2019. This 16% increase compared to CHF 11.9 billion at end-2018 was achieved on the back of new products issued and strong equity market performance. Leonteq's own issued products, which are recognised on its balance sheet, rose by 29% to CHF 4.0 billion as of 30 June 2019, from CHF 3.1 billion as of 31 December 2018. Platform assets recognised on the balance sheet of Leonteq's platform partners amounted to CHF 9.8 billion, compared to CHF 8.8 billion as of 31 December 2018.

Total balance sheet assets declined by 10% to CHF 9.6 billion as of 30 June 2019 compared to CHF 10.7 billion as of 31 December 2018. Total liabilities decreased by 11% to CHF 9.0 billion. The reduction in both assets and liabilities was primarily due to the decrease in positive and negative replacement values of derivative financial instruments. To ensure the hedging of the outstanding volumes of Leonteq and its partners, the company enters into derivative contracts, most of which are options. As a result of the decrease in volatility during the first half of 2019, the value of those options has also decreased.

The proceeds from the Group's product issuance were used for hedging activities and invested in short- to mid-term high-quality bonds issued by core governments and supranational organisations. In addition, Leonteq invests a certain portion in mid-term high-quality bonds issued by corporates and financials. In line with the growth in own issued products, the investment portfolio increased by 22% to CHF 2.1 billion as of 30 June 2019.

Leonteq further strengthened its capital position, with shareholders' equity totalling CHF 631.2 million as of 30 June 2019, up 4% from end-2018.

Selected capital items

CHF million	30.06.2019	31.12.2018	30.06.2018	Change from YE 2018
Total assets	9,586.7	10,690.2	8,511.7	(10%)
Shareholders' equity	631.2	607.7	435.1	4%

Leonteq qualifies as a category 5 financial institution pursuant to FINMA Circular 2011/2. Such category 5 financial institutions are required to maintain a BIS total capital ratio of at least 10.5% of risk weighted assets, a common equity tier 1 (CET1) ratio of at least 7%, and a tier 1 capital ratio of at least 8.5% of risk-weighted assets. The Group and its subsidiary, Leonteq Securities AG, both complied with these minimum capital requirements throughout the first half of 2019 and 2018, without exception.

As of 30 June 2019, Leonteq's BIS total eligible capital totalled CHF 633.5 million, compared to CHF 610.6 million as of 31 December 2018. Risk-weighted assets increased by 7% to CHF 2,981.1 million as a result of an increase in platform assets and higher market risk exposures. The BIS total capital ratio and the common equity tier 1 ratio were 21.3% and 21.2%, respectively, as of 30 June 2019, compared to 22.0% and 21.9%, respectively, at end-2018.

Selected regulatory capital items

CHF million	30.06.2019	31.12.2018	30.06.2018	Change from YE 2018
Risk-weighted assets (CHF million)	2,981.1	2,780.6	2,380.9	7%
BIS total eligible capital (CHF million)	633.5	610.6	437.5	4%
CET1 ratio	21.2%	21.9%	18.3%	(0.7pp)
BIS total capital ratio	21.3%	22.0%	18.4%	(0.7pp)

Investment Solutions

The Investment Solutions business line reported profit before taxes of CHF 32.9 million in the first half of 2019, down 20% compared to the prior-year period. Net fee income decreased by 19% to CHF 107.0 million compared to CHF 132.6 million in the prior-year period. The subdued start to the year due to macroeconomic uncertainty and reduced contributions from large ticket transactions weighted on income and profit. The assignment of investment grade ratings to Leonteq by Fitch Ratings and Japan Credit Rating Agency drove new demand for Leonteq's own issued products, resulting in a 16% increase in turnover[1] to CHF 5.7 billion in the first half of 2019 compared to CHF 4.9 billion in the prior-year period. At the same time, the margin[1] declined to 83 basis points from 110 basis points due to increased competition, change in product mix and reduced number of large ticket transactions. Turnover with issuance partner products decreased to CHF 9.3 billion from CHF 11.0 billion in the first half of 2018. Margins generated with issuance partner products decreased to 64 basis points from 71 basis points. In line with management guidance, the trend of declining margins has continued on the back of a more intense competitive environment, regulatory developments and changes in mix of issuance partners.

Despite the challenging market environment, Leonteq was able to attract additional clients during the first half of 2019. The number of clients that made at least one primary or secondary market transaction grew from 821 to 841. Total operating expenses decreased by CHF 5.3 million, or 7%, to CHF 74.4 million, compared to CHF 79.7 million in the first half of 2018. The decline was largely attributable to lower personnel expenses, which decreased by 8% compared to the prior-year period.

In the first half of 2019, Leonteq carried out several initiatives that are designed to further improve operational efficiency and enhance the level of automation for Leonteq's issuance partners. The company added new functionalities and features to the white-labelling platforms of Raiffeisen, Cornèr Bank and Credit Agricole CIB. It also launched an upgraded white-labelling platform for EFG International that enables automated pricing, trading and execution processes.

Furthermore, Leonteq continued to advance its Smart Hedging Issuance Platform (SHIP) project, which is designed to reduce hedging exposures by offering Leonteq's issuance partners the opportunity to enter into hedging transactions for their issued products with external hedging partners. SHIP made good progress in the first half 2019 with a total of three hedging counterparties providing external quotes for around 20% of all transactions in products such as autocallables and barrier convertibles (representing approximately 40% of Leonteq's total automated product offering). In the second quarter of 2019, more than 600 trades ran through SHIP with a notional of approximately CHF 350 million, the majority of which is currently still hedged by Leonteq.

Leonteq launched a new initiative in 2018 to fully transform the company's structured products offering. Using the latest advances in technology, Leonteq aims to provide its clients with a completely new investment experience by giving them external access to applications, services and market and product data that were previously only available internally. The new marketplace will provide digital access to one of the largest structured product universes and issuance partners will be able to white-label all tools and services.

In addition, Leonteq redesigned its platform for Actively Managed Certificates (AMC) in the first half of 2019. This innovative solution for asset managers is designed to customise and implement an investment strategy offering greater flexibility, cost efficiency and transparency. The benefits of the AMC offering include excellent time-to-market in the issuing process, high flexibility in terms of product design, execution across most asset classes and instruments, and detailed daily reporting on a single AMC basis. In the first half of 2019, revenues generated with AMCs contributed 8% to the company's fee income.

CHF million	H1 2019	H2 2018	H1 2018	Change from H1 2018	Change from H2 2018
Net fee income	107.0	114.1	132.6	(19%)	(6%)
Net trading income/(loss)	5.6	22.7	(4.6)	N/A	(75%)
Net interest income/(expense)	(5.5)	(7.7)	(7.8)	(29%)	(29%)
Other ordinary income	0.2	0.5	0.4	(50%)	(60%)
Total operating income	**107.3**	**129.6**	**120.6**	**(11%)**	**(17%)**
Personnel expenses	(47.7)	(45.8)	(51.6)	(8%)	4%
Other operating expenses	(16.1)	(21.7)	(19.5)	(17%)	(26%)
Depreciation	(10.6)	(7.0)	(6.9)	54%	51%
Changes to provisions	—	(0.1)	(1.7)	N/A	N/A
Total operating expenses	**(74.4)**	**(74.6)**	**(79.7)**	**(7%)**	**0%**
Results from operating activities	**32.9**	**55.0**	**40.9**	**(20%)**	**(40%)**

Insurance & Wealth Planning Solutions

Despite the headwind of a strong decline in long-term interest rates since November 2018, the number of outstanding policies serviced on the platform increased by 3,092, or 8%, to 44,287 policies as of 30 June 2019. The Insurance & Wealth Planning Solutions business line saw net fee income grow by 6% to CHF 13.9 million compared to CHF 13.1 million in the first half of 2018. As a result, total operating income increased by 13% to CHF 16.1 million in the first half of 2019. Total operating expense grew by CHF 1.5 million, or 25%, to CHF 7.4 million in the first half of 2019 as a result of higher depreciation (up CHF 1.2 million) due to increased platform investments and higher personnel expenses, which rose by CHF 0.5 million. The Insurance & Wealth Planning Solutions business line reported a 4% increase in profit before taxes to CHF 8.7 million compared to CHF 8.4 million in the prior-year period.

The Insurance & Wealth Planning Solutions business line defined and implemented measures to improve the attractiveness of its savings and drawdown solutions for policyholders in response to the challenging interest rate environment, thus expanding the company's product shelf which offers solutions with downside protection and upside potential. Furthermore, it started to invest into a new cloud-based environment, helping to increase the development and testing velocity of its platform.

CHF million	H1 2019	H2 2018	H1 2018	Change from H1 2018	Change from H2 2018
Net fee income	13.9	12.7	13.1	6%	9%
Net trading income/(loss)	1.9	2.4	0.9	111%	(21%)
Net interest income/(expense)	0.3	0.3	0.3	0%	0%
Other ordinary income	—	—	—	N/A	N/A
Total operating income	**16.1**	**15.4**	**14.3**	**13%**	**5%**
Personnel expenses	(4.9)	(3.9)	(4.4)	11%	26%
Other operating expenses	(0.8)	(1.4)	(1.0)	(20%)	(43%)
Depreciation	(1.7)	(0.5)	(0.5)	240%	240%
Changes to provisions	—	—	—	N/A	N/A
Total operating expenses	**(7.4)**	**(5.8)**	**(5.9)**	**25%**	**28%**
Results from operating activities	**8.7**	**9.6**	**8.4**	**4%**	**(9%)**

Alternative performance measures

On 20 March 2018, SIX Exchange Regulation issued the 'Directive of Alternative Performance Measures' ("DAPM") which entered into force on 1 January 2019. In the application of the DAPM definition, any ratio and/or key performance indicator derived from IFRS income statement or balance sheet line items are considered as APMs.

The below list provides definitions of APMs used by Leonteq in this report.

APM	Definition
Cost-income ratio	Total operating expenses as a percentage of total operating income
Economic revenues	Sales and trading income earned and considered to be recognised at trade date without applying IFRS revenue recognition rules; economic revenues do not include certain other income components such as rental income or project cost reimbursements by third parties
Fee income margin	Net fee income relative to turnover in basis points
Hedging contributions	Net result of hedging activities
Large ticket transactions	Single primary or secondary transaction on a single product with a single client where Leonteq earns a fee of CHF 0.5 million or more
Treasury result	Net funding costs related to Leonteq's own issued products
Platform assets	The outstanding volume of products issued and traded through Leonteq's platform
Return on equity	Group net profit as a percentage of average shareholders' equity at the beginning and at end of the respective period
Turnover	Aggregate notional amount of structured products issued (by Leonteq and its issuance partners) through Leonteq's platform plus the aggregated notional amount of structured products (issued by Leonteq and its issuance partners) traded through Leonteq's platform

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Group net profit totalled CHF 30.2 million in the first half of 2019, a decrease of 25% compared to the prior-year period. Leonteq maintained its strong capital position, with total BIS eligible capital of CHF 633.5 million and a total capital ratio of 21.3 % as at 30 June 2019.

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Leonteq AG
Interim consolidated income statement for the six months ended 30 June 2019

CHF thousands	Note	H1 2019	H1 2018
Fee income from securities trading and investment activities		123,385	147,371
Fee expense		(2,527)	(1,611)
Net fee income	8	**120,858**	**145,760**
Result from trading activities and the fair value option	9	**7,525**	**(3,743)**
Interest and discount income		4,963	1,572
Interest expense		(10,394)	(7,944)
Changes in value adjustments for default risks and losses from interest operations	11	165	(1,092)
Net result from interest operations	10	**(5,266)**	**(7,464)**
Other ordinary income		1,445	1,582
Total operating income		**124,562**	**136,135**
Personnel expenses		(58,807)	(60,657)
Other operating expenses	5	(19,261)	(24,419)
Depreciation of long-lived assets	5	(14,334)	(8,067)
Changes to provisions and other value adjustments, and losses	12	(1,657)	(2,541)
Total operating expenses		**(94,059)**	**(95,684)**
Result from operating activities		**30,503**	**40,451**
Taxes		(268)	(338)
Group net profit		**30,235**	**40,113**
of which allocated to shareholders of Leonteq AG		30,235	40,113
Share information			
Basic earnings per share (CHF)	17	1.61	2.55
Diluted earnings per share (CHF)	17	1.59	2.52

Leonteq AG
Interim consolidated statement of other comprehensive income for the six months ended 30 June 2019

CHF thousands	Note	H1 2019	H1 2018
Group net profit		**30,235**	**40,113**
Other comprehensive income/(loss) that will not be reclassified to the income statement			
Remeasurement of the defined benefit plan		(3,663)	(2,741)
Change in own credit		—	—
Income tax on items that will not be reclassified		775	580
Total other comprehensive income/(loss) that will not be reclassified to the income statement		**(2,888)**	**(2,161)**
Other comprehensive income/(loss) that may be reclassified to the income statement			
Net unrealised gains/(losses) on debt instruments measured at fair value through other comprehensive income		112	—
Net realised gains/(losses) on debt instruments measured at fair value through other comprehensive income reclassified to the income statement		—	—
Net impairment losses on debt instruments measured at fair value through other comprehensive income		—	—
Expected credit loss changes on debt instruments measured at fair value through other comprehensive income		301	—
Currency translation adjustments		(7,394)	(83)
Total other comprehensive income/(loss) that may be reclassified to the income statement		**(6,981)**	**(83)**
Total other comprehensive income/(loss)	**14**	**(9,869)**	**(2,244)**
Total comprehensive income		**20,366**	**37,869**
of which allocated to shareholders of Leonteq AG		20,366	37,869

The notes on pages 26 to 63 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of financial position as of 30 June 2019

CHF thousands	Note	30.06.2019	31.12.2018
Assets			
Cash in hand		—	—
Amounts due from banks		1,537,079	1,375,066
Amounts due from securities financing transactions		24,978	84,076
Amounts due from customers		89,103	214,291
Trading financial assets	7	2,010,747	2,026,581
Trading inventories	7	51,759	16,221
Positive replacement values of derivative financial instruments	7	3,366,289	4,948,893
Other financial assets designated at fair value through profit or loss	7	1,755,375	1,913,507
Financial investments measured at fair value through other comprehensive income	5	558,185	—
Accrued income and prepaid expenses		23,557	15,849
Current tax assets		964	964
Deferred tax assets		3,992	3,252
Long-lived assets	5	118,125	54,497
Other assets		46,522	37,027
Total assets		**9,586,675**	**10,690,224**
Total subordinated claims		9,146	4,809
of which subject to mandatory conversion and/or debt waiver		—	—
Liabilities			
Amounts due to banks		626,715	924,049
Liabilities from securities financing transactions		301,955	428,901
Amounts due to customers		801,259	1,375,104
Trading financial liabilities	7	211,745	360,432
Negative replacement values of derivative financial instruments	7	2,779,489	3,688,353
Other financial liabilities designated at fair value through profit or loss	7	4,000,985	3,123,856
Accrued expenses and deferred income	8	127,178	146,573
Current tax liabilities		1,531	2,292
Deferred tax liabilities		146	179
Other liabilities	5	86,210	18,294
Expected credit loss provision	11	2,483	2,950
Provisions	12	15,818	11,585
Total liabilities		**8,955,514**	**10,082,568**
Equity			
Share capital	13	18,934	18,934
Share premium		288,532	288,532
Retained earnings[1]		344,977	317,720
Accumulated other comprehensive income/(loss)	14	(14,258)	(4,389)
Own shares	13	(7,024)	(13,141)
Total shareholders' equity		**631,161**	**607,656**
Total liabilities and equity		**9,586,675**	**10,690,224**
Total subordinated liabilities		—	—
of which subject to mandatory conversion and/or debt waiver		—	—

[1] Retained earnings comprise cumulated earnings, including Group net profit for the year ended 31 December 2018 and the period ended 30 June 2019, respectively.

The notes on pages 26 to 63 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of changes in equity as of 30 June 2019

CHF thousands	Note	Share capital	Share premium	Retained earnings[2]
Balance as of 31 December 2017		**15,945**	**172,532**	**247,858**
Impact of change in accounting principle		—	—	(20,690)
Balance as of 1 January 2018		**15,945**	**172,532**	**227,168**
Employee participation schemes		—	—	(2,170)
Capital increase/(decrease)		—	—	—
Disposal of own shares		—	—	—
Dividends and other distributions		—	—	—
Other allocations to/(transfers from) other comprehensive income	14	—	—	—
Group net profit		—	—	40,113
Balance as of 30 June 2018		**15,945**	**172,532**	**265,111**

CHF thousands	Note	Share capital	Share premium	Retained earnings[2]
Balance as of 31 December 2018		**18,934**	**288,532**	**317,720**
Impact of change in accounting principle	5	—	—	479
Balance as of 1 January 2019		**18,934**	**288,532**	**318,199**
Employee participation schemes		—	—	(2,933)
Capital increase/(decrease)		—	—	—
Disposal of own shares		—	—	(524)
Dividends and other distributions		—	—	—
Other allocations to/(transfers from) other comprehensive income	14	—	—	—
Group net profit		—	—	30,235
Balance as of 30 June 2019		**18,934**	**288,532**	**344,977**

[2] Retained earnings comprise cumulated earnings, including Group net profit for the year ended 31 December 2018 and the period ended 30 June 2019, respectively.

OCI					Own shares	Total shareholders' equity
Defined benefit plans	Change in own credit	Unrealised income related to debt instruments at fair value through OCI	Changes in expected credit loss on debt instruments at fair value through OCI	Currency translation adjustments		
(2,521)	**—**	**—**	**—**	**(93)**	**(15,335)**	**418,386**
—	—	—	—	—	—	(20,690)
(2,521)	**—**	**—**	**—**	**(93)**	**(15,335)**	**397,696**
—	—	—	—	—	—	(2,170)
—	—	—	—	—	—	—
—	—	—	—	—	1,667	1,667
—	—	—	—	—	—	—
(2,161)	—	—	—	(83)	—	(2,244)
—	—	—	—	—	—	40,113
(4,682)	**—**	**—**	**—**	**(176)**	**(13,668)**	**435,062**

OCI					Own shares	Total shareholders' equity
Defined benefit plans	Change in own credit	Unrealised income related to debt instruments at fair value through OCI	Changes in expected credit loss on debt instruments at fair value through OCI	Currency translation adjustments		
(3,750)	**—**	**—**	**—**	**(639)**	**(13,141)**	**607,656**
—	—	—	—	—	—	479
(3,750)	—	—	—	(639)	(13,141)	**608,135**
—	—	—	—	—	—	(2,933)
—	—	—	—	—	—	—
—	—	—	—	—	6,117	5,593
—	—	—	—	—	—	—
(2,888)		112	301	(7,394)	—	(9,869)
—	—	—	—	—	—	30,235
(6,638)	**—**	**112**	**301**	**(8,033)**	**(7,024)**	**631,161**

The notes on pages 26 to 63 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 2019

CHF thousands	H1 2019	H1 2018
Cash flow from operating activities		
Group net profit	30,235	40,113
Reconciliation to net cash flows from operating activities		
Non-cash positions in Group net profit		
Depreciation	14,334	8,111
Deferred tax expense/(benefit)	(915)	(769)
Change in expected credit loss provision	(165)	1,092
Change in general provision	1,657	2,541
Share-based benefit programs	(2,933)	(2,170)
Other non-cash income and expenses	(10,274)	(2,244)
Net (increase)/decrease in assets related to operating activities		
Amounts due from banks	(76,730)	(646,539)
Amounts due from securities financing transactions	59,098	(10,467)
Amounts due from customers	125,188	(68,949)
Trading financial assets	15,834	53,690
Trading inventories	(35,538)	46,673
Positive replacement values of derivative financial instruments	1,582,604	(1,093,843)
Other financial assets designated at fair value through profit or loss	158,132	(460,549)
Net (investment)/disposal of financial investments measured at fair value through other comprehensive income	(558,185)	—
Accrued income and prepaid expenses	(7,708)	(4,371)
Other assets	(9,495)	(8,417)
Net increase/(decrease) in liabilities related to operating activities		
Amounts due to banks	(136,395)	149,580
Liabilities from securities financing transactions	(126,946)	67,687
Amounts due to customers	(573,845)	500,633
Trading financial liabilities	(148,687)	98,103
Negative replacement values of derivative financial instruments	(908,864)	794,959
Other financial liabilities designated at fair value through profit or loss	877,129	474,837
Accrued expenses and deferred income	(15,189)	3,616
Other liabilities	6,953	2,864
Utilisation of general provision	(1,010)	(64)
Current taxes, non-cash adjustments	21	629
Current taxes paid	(782)	(976)
Cash flow from operating activities	**257,524**	**(54,230)**
Cash flow from investing activities		
Purchases of long-lived assets	(11,126)	(7,051)
Proceeds from long-lived assets	90	44
Cash flow from investing activities	**(11,036)**	**(7,007)**

CHF thousands	H1 2019	H1 2018
Cash flow from financing activities		
Lease payments (excl. short term/low-value leases)	(5,585)	—
Purchases of own shares	—	(2,550)
Transfer out of own shares	5,593	4,217
Cash flow from financing activities	**8**	**1,667**
Exchange rate differences	(274)	(21)
Net (decrease)/increase in cash and cash equivalents	**246,222**	**(59,591)**
Cash and cash equivalents, beginning of the year	131,665	253,980
Cash and cash equivalents at the balance sheet date	**377,887**	**194,389**
Cash and cash equivalents		
Due from banks on demand[3]	385,813	327,508
Due to banks on demand	(7,926)	(133,119)
Net cash and cash equivalents at the balance sheet date	**377,887**	**194,389**
Further information:		
Dividends received	47,312	43,755
Interest received	4,580	1,572
Interest paid	7,626	7,319

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

The notes on pages 26 to 63 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 (referred to hereinafter as "the Group") are independent experts in structured investment products and long-term savings and retirement solutions.

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

The Group provides some of these core services to platform partners under the terms of 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 founded in November 2007 and is a public limited company incorporated in Zurich, Switzerland. Its registered office is at Europaallee 39, 8004 Zurich, Switzerland. The Company's shares have been listed on the SIX Swiss Exchange (SIX) since 19 October 2012.

These interim consolidated financial statements were approved for publication by the Board of Directors on 23 July 2019.

2 Basis of presentation

The Group prepares its interim consolidated financial statements in accordance with IAS 34, "Interim financial reporting". These interim consolidated financial statements for the six months ended 30 June 2019 should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, which were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

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, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management when applying the Group's accounting policies and the key sources of estimation uncertainty were the same as for the consolidated financial statements for the year ended 31 December 2018, unless otherwise disclosed in the following notes.

The interim consolidated financial statements are unaudited.

3 Critical accounting estimates and judgements when applying accounting policies

The application of certain accounting principles requires considerable judgement to be exercised based on estimates and assumptions that involve significant uncertainty at the time they are made. Changes in assumptions may have a significant impact on financial statements in the corresponding period. Accounting treatments where significant assumptions and estimates are used, are discussed in this section to provide guidance on how their application affects 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 are therefore a fair representation of its financial position and results of operations in all material respects.

The most relevant areas in which the Group exercises judgement include the application of the Group's assumptions with respect to: Revenue recognition as well as the deferral period applied to fee income (Note 8); fair value of financial instruments and trading inventory – especially levels 2 and 3, including own credit (Note 7); depreciation period and impairment testing for long-lived assets; extension and termination options of lease contracts (Note 5), expected credit loss provisions (Notes 11); provisions (Note 12); share-based payments and retirement benefit obligations.

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

4 Changes to critical accounting estimates

No changes were made to critical accounting estimates compared to 31 December 2018. For newly applicable estimates in relation to the adoption of IFRS 16, see Note 5.

5 Changes in accounting policies and presentation

Segment reporting

On 19 July 2018, Leonteq defined four major strategic priorities with the aim of enhancing the scalability of its business and driving further growth. In this context, the Banking Solutions business line was merged with the Investment Solutions business line to increase the efficiency of the organisation, reduce functional overlaps, and clarify roles and responsibilities. As a result, the Group reorganised its segments into Investment Solutions, Insurance & Wealth Planning Solutions and the Corporate Centre. They represent the operating and reporting segments defined by the Group's Executive Committee to manage and assess the performance of the Group. In the previous reporting period, the segments presented were: Investment Solutions, Banking Solutions, Insurance & Wealth Planning Solutions and the Corporate Centre.

For further information, refer to Note 19.

New or revised standards and interpretations adopted

The following new or revised standards and interpretations became effective for the first time on 1 January 2019:

- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- IFRIC 23, Uncertainty over Income Tax Treatments
- IFRS 16, Leases

All standards and interpretations except for IFRS 16 did not have a significant impact on the Group or were not relevant to the Group when applied for the first time.

First time adoption of IFRS 16 "Leases"

The Group adopted IFRS 16 "Leases" on its mandatory effective date of 1 January 2019. The Group's leasing activities relate mainly to office, data centre and equipment. The Group chose to apply the modified retrospective adoption method, which allows it to account for the difference between the previously applicable and new accounting framework through equity and to leave the comparative period unchanged. Consequently, the financial information for 2019 is prepared and presented in accordance with the requirements of IFRS 16, while the comparative information is prepared and presented in accordance with IAS 17. The lease liability reflects the present value of future lease payments, excluding any reinstatement cost provision, which is accounted for in accordance with IAS 37 and presented as a provision (Note 12). In contrast, expected reinstatement costs are included in the right-of-use asset. The right-of-use asset is presented in the line item "long-lived assets" and the lease liability in "other liabilities". The right-of-use asset is amortised on a straight-line basis over the lease term if it is not considered impaired according to the provisions of IAS 36. The regular lease payments are deducted from the lease liability after applying the interest rate determined at the commencement or transition of the lease.

In applying IFRS 16 for the first time, the Group has used the following practical expedients:

- The accounting for leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Lease payments associated with short-term leases and leases of low-value are recognised over the lease term as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value leases comprise IT- and other small items of office equipment.

The following table outlines the impact of the first time adoption of IFRS 16 on the opening balances of assets, liabilities and shareholders' equity as of 1 January 2019:

CHF thousands	Balance as of 31.12.2018	Adjustment due to the first time adoption of IFRS 16	Balance as of 01.01.2019
Assets			
Deferred tax assets	3,252	(141)	3,111
Long-lived assets	54,497	66,576	121,073
Liabilities			
Accrued expenses and deferred income	146,573	(4,206)	142,367
Other liabilities	18,294	66,549	84,843
Provisions	11,585	3,613	15,198
Shareholders' equity			
Retained earnings	317,720	479	318,199

Upon the first time adoption of IFRS 16, the Group exercised judgement regarding the effective lease term in cases where the lease agreements included one or more early termination or extension options. Extension options (or periods after termination options) are only included if the lease is reasonably certain to be extended or not terminated, respectively. In most cases, the extension options were included, given the Group currently has no intention to move out of its various office locations in the near future. In cases where the original lease will only mature several years in the future (e.g. after more than 5 years), the respective extension options were not yet considered given the inherent uncertainty about office space required at that point in time. The applicability of the lease terms and termination or extension options is reassessed regularly. As of 30 June 2019, the effect of revising lease terms to reflect the effect of exercising extension and termination options would result in an increase in the right-of-use assets and lease liabilities of approximately CHF 25.5 million. In addition the Group has committed to a modification of an existing lease contract which will result in an increase of CHF 1 million in the right-of-use assets and lease liabilities as of 1 July 2019.

In accordance with IAS 17, the total commitments arising from operational leases amounted to CHF 61,884 thousand as of 31 December 2018. As of 1 January 2019, the lease obligation determined in accordance with IFRS 16 amounts to CHF 67,244 thousand. The difference is attributable to the following reconciling items:

A weighted average discount (borrowing) rate of 1.41% was applied as of 1 January 2019.

The following table outlines the effect of IFRS 16 during the period 1 January to 30 June 2019:

CHF thousands	Balance
Commitments arising from operational leases as of 31 December 2018	61,884
Addition of extension options	9,240
Short-term and low-value leases	(142)
Effect of discounting	(3,973)
Other effects	235
Lease liability as of 1 January 2019	**67,244**

CHF thousands	Office under lease
Right-of-use asset	
Balance as of 1 January 2019	**66,854**
Additions	1,185
Disposals	—
Effect of contract modifications	102
Amortisation	(4,718)
Currency translation adjustments	38
Balance as of 30 June 2019	**63,461**
Lease liability	
Balance as of 1 January 2019	**67,244**
Additions	1,185
Disposals	—
Effect of contract modifications	128
Interest expense	458
Payments	(5,585)
Currency translation adjustments	(5)
Balance as of 30 June 2019	**63,425**
Contractual liability (excluding short-term or low-value leases) as of 30 June 2019	68,006
of which due within 1 year	9,750
of which due within 2 and 5 years	33,369
of which due within 6 and 10 years	24,887
of which due after 10 years	—

During the period 1 January 2019 to 30 June 2019 CHF 93 thousand of expenses relating to short-term leases or leases of low-value were accounted for as an other operating expense.

New standards and interpretations not yet adopted

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

- Amendments to IFRS 3, Definition of a Business – effective 1 January 2020
- Amendments to IAS 1 and IAS 8, Definition of Material – effective 1 January 2020
- 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 none of them will have an impact on the Group's interim consolidated financial statements.

The following accounting policies were newly adopted by the Group since 31 December 2018:

Debt instruments measured at fair value through other comprehensive income/ Fair value hedge accounting

In 2018, the Group started to invest a certain portion of proceeds from own product issuance in mid-term high-quality bonds issued by corporates and financials. This investment portfolio increased further in 2019, leading to a change in the business model (as defined under IFRS 9) for how the Group manages its investment portfolio (buying and selling debt instruments and collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding). Management therefore concluded that the investment portfolio should no longer be designated to be measured at fair value through profit or loss but at fair value through other comprehensive income (FVOCI). Bonds measured at FVOCI are presented as "financial investments measured at fair value through other comprehensive income". Effective interest, impairments and foreign exchange gains and losses are recognised in the income statement in the line item "result from trading activities and the fair value option". Other changes in fair value that are mainly attributable to changes in the benchmark interest rate or issuer credit risk are recognised in the statement of other comprehensive income.

Since issuer credit risk is initially recognised in other comprehensive income, the expected credit loss is accounted for on the portfolio of debt instruments measured at FVOCI. The change in the expected credit loss is recognised in the income statement in the line item "changes in value adjustments for default risks and losses from interest operations", while the reverse entry is recognised in the statement of other comprehensive income (Note 14).

If a bond measured at FVOCI is disposed of, the amount recognised in the statement of other comprehensive income is reclassified to the income statement. The cumulative changes in fair value are transferred to "results from trading activities and the fair value option" and the corresponding expected credit loss amount is credited to "changes in value adjustments for default risks and losses from interest operations".

The following table provides an overview of financial investments measured at FVOCI:

CHF thousands	30.06.2019	31.12.2018
Debt instruments	558,185	—
of which listed	518,638	—
of which unlisted	39,547	—
Total financial instruments measured at FVOCI	**558,185**	**—**

In accordance with the risk management framework, the Group hedges its exposure to the benchmark (market) interest rate risk related to its investment activities. Benchmark interest levels may have a positive impact (declining interest rates) or a negative impact (higher interest rates) on the bonds' market price. Payer interest rate swaps or other derivative financial instruments are used to offset the interest rate risk arising from the investment portfolio. For bonds measured at fair value through profit or loss, the changes in fair value of the hedging instruments as well as the hedged item are recognised in the income statement. By introducing the "fair value through other comprehensive income" business model, the hedged element of the changes in fair value of the respective bonds is first recognised in the statement of other comprehensive income and only recycled to the income statement if the bond is disposed of. To avoid this accounting mismatch, fair value hedge accounting was introduced simultaneously with the "fair value through other comprehensive income" business model. To apply hedge accounting, various criteria set out in IFRS 9 must be met:

- The hedging relationship must consist only of eligible hedging instruments and eligible hedged items.
- At inception of the hedging relationship, there is a formal designation and documentation of the hedging relationship, risk management objective and strategy for undertaking the hedge.
- Hedges must be expected to be effective, so that there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes that result from the economic relationship, and the hedge ratio is adequately weighted.

If the criteria for fair value hedge accounting are met, the Group reports the change in fair value on the financial investments measured at FVOCI attributable to the benchmark interest rate risk (hedged item) as "result from trading activities and the fair value option" in the income statement instead of in the statement of other comprehensive income. The ineffectiveness of the fair value hedge is also recognised in the income statement in the line item "result from trading activities and the fair value option".

Elements other than the benchmark interest rate risk are not part of the hedge. Hedge effectiveness is tested prospectively by applying different scenarios on a daily basis. Similarly, retrospective hedge effectiveness is measured on a daily basis by comparing the change in fair value of hedging instruments and the change in fair value of bonds that is attributable to the benchmark interest rate risk. The hedging relationship is discontinued and restarted on a daily basis to efficiently and effectively manage the investment portfolio and related hedging instruments. Ineffectiveness is mainly expected to arise due to the different maturities of the bonds that fall within the scope of the hedging relationship and the hedging instruments, as well as differences in overall sensitivities to movements in benchmark interest rate curves. Credit risk is limited by entering into derivatives transactions (related to hedging instruments) only with central clearing counterparties or on a collateralised basis. In the event of an early termination of the hedge, the cumulative adjustment of the carrying amount of the bonds that fall within the scope of the respective hedging relationship is recognised as "result from trading activities and the fair value option" in the income statement over their remaining term.

For further information on risk management activities, refer to Note 6.

The following table provides an overview of the effect of fair value hedge accounting on financial investments measured at FVOCI:

CHF thousands	30.06.2019	31.12.2018
Hedging instruments		
Positive replacement values of hedging instruments	13	—
Notional amount of derivative financial instruments used as hedging instruments	25,189	—
Negative replacement values of hedging instruments	9,058	—
Notional amount of derivative financial instruments used as hedging instruments	596,162	—

CHF thousands	30.06.2019	31.12.2018
Hedged item		
Carrying amount of financial investments measured at FVOCI	558,185	—
of which accumulated amount of fair value hedge gain/(loss) included in the carrying amount	4,926	—

CHF thousands	H1 2019	H1 2018
Hedge effectiveness		
Change in the fair value of the hedging instruments used as the basis for recognising hedge ineffectiveness	(5,006)	—
Change in the fair value of the hedged item used as the basis for recognising hedge ineffectiveness	4,926	—
Amount of hedge ineffectiveness recognised in the income statement	**(80)**	**—**

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses is zero as of 30 June 2019.

The carrying amount of the hedging instruments is presented as the positive and/or negative replacement values of derivative financial instruments. All assets presented as "financial investments measured at fair value through other comprehensive income" are considered hedged items.

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 not only ensure that risks are identified and monitored throughout the organisation but also that they are controlled in an effective and consistent manner.

In 2019, the Group established a branch in Guernsey (Leonteq Securities AG, Guernsey Finance Branch) which commenced operations on 1 March 2019. The main purpose of the branch is to manage a portfolio of mainly US dollar denominated bonds. As a consequence the functional currency of the branch is US dollar. The new branch was funded with capital of USD 150 million as well as a long term intra-group loan of USD 100 million, which created a US dollar exposure for the Group in the amount of approximately USD 250 million. This allocation represents a structural position in US dollar which reduces the sensitivity to US dollar of the capital ratios by offsetting the currency sensitivity of the risk-weighted assets by the currency sensitivity of the eligible capital. The US dollar sensitivity of the Group's risk-weighted assets is the most significant currency exposure since the largest portion of structured products is issued in US dollar. The Group has established a framework to monitor and manage the currency sensitivity of the capital ratios to US dollar and other currencies.

Other than outline in the previous paragraph, the risk management and control framework which includes relevant policies and procedures was generally the same as disclosed in the consolidated financial statements for the year ended 31 December 2018.

6.1 Risk disclosure

6.1.1 Market risk

Sensitivity analysis

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

- Delta risk measures the impact of a change in the price of the underlying (equity, precious metal or commodity) and the impact on profit and loss is measured based on a 1% increase in the price for all underlying securities.
- Vega risk is the sensitivity of the derivative value with respect to changes in the implied volatility of an underlying (equity, precious metal or commodity) and the impact on profit and loss is measured based on a 1% normalised shock on the implied volatility in absolute terms for all underlying securities. A normalised volatility shock is defined by a term structure of shocks with shocks decaying by 1/sqrt(t), with caps and floors applied at the short and long end.
- Correlation risk measures the impact on the derivative value of changes in implied correlation between underlying pairs and the impact on profit and loss is measured based on a change in implied correlation of 1 percentage point in absolute terms for all underlying pairs.
- Dividend risk measures the impact on the derivative value of changes in the expected dividend and the profit and loss impact is measured based on a change in dividend of -10% in relative terms for all underlying securities.

- Foreign exchange risk measures the impact of a change in currency prices. The impact on profit and loss is measured for a 1% change in the value of all currencies against the Swiss franc. Sensitivities are further classified into G10 currencies (FX G10) and non-G10 currencies (FX EM). Structural positions in foreign currencies are excluded from this analysis.
- Interest rate risk measures the impact of a parallel shift in the yield curve and the impact on profit and loss is measured based on a change in all the yield curves of 1% (DV100) for the G10 interest rates (IR G10) and the non-G10 interest rates (IR EM).
- IR vega risk is the sensitivity of the derivative value with respect to changes in the implied volatility of interest rates and the profit and loss impact is measured based on a change in the normal implied volatility of +1 basis point for all interest rate curves.

The tables below show the positive (or negative) impact on the Group's income statement based on the individual shocks applied to each risk factor as of 30 June 2019.

Structured Products

CHF thousands	30.06.2019 Impact on income statement	31.12.2018 Impact on income statement
Risk Factor		
Equity delta	(141)	(319)
Precious metal delta	75	35
Commodity delta	(72)	(30)
Equity vega	2,780	3,657
Precious metal vega	97	(10)
Commodity vega	(56)	(165)
Equity correlation	(5,361)	(9,820)
Equity dividend	(4,079)	(5,799)
FX G10 delta	(322)	(328)
FX EM delta	19	150
IR G10 DV100	886	3,980
IR EM DV100	(64)	310

Pension Products

CHF thousands	30.06.2019 Impact on income statement	31.12.2018 Impact on income statement
Risk Factor		
IR DV100	(500)	(200)
IR Vega	(16)	(66)

Stress analysis

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

- **9/11** is a 1-day crash scenario that happened on 11 September 2001 after the terrorist attack on the Twin Towers in New York. Equity prices fell significantly and equity volatilities increased.
- **Rally** is a 1-day rally scenario that happened two weeks after 11 September 2001, i.e. on 24 September 2001. Equity prices increased and equity volatilities decreased.

The following tables give an indication of the overall risk exposure as of 30 June 2019:

Structured Products

CHF thousands	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	(73,696)	(32,402)	(8,663)	12,045	37,099	64,166
Spot -5%	(37,257)	(14,621)	(1,053)	11,599	27,226	46,760
Spot -2%	(22,843)	(8,503)	(32)	8,196	19,079	33,601
Spot 0%	(14,536)	(5,872)	(0)	5,291	13,727	25,743
Spot +2%	(6,713)	(3,536)	(629)	2,635	8,768	19,095
Spot +5%	4,395	(481)	(1,436)	(598)	2,804	11,733
Spot +10%	13,975	3,297	(1,401)	(3,373)	(2,950)	5,154

Pension Products

CHF thousands	Vol. –20bps	Vol. –10bps	Vol. 0bps	Vol. +10bps	Vol. +20bps
Spot -50bps	(2,078)	(384)	1,781	4,185	6,722
Spot -25bps	367	(235)	356	1,619	3,287
Spot 0bps	3,125	769	(0)	206	1,035
Spot +25bps	4,986	1,635	(90)	(718)	(600)
Spot +50bps	5,740	1,972	(318)	(1,535)	(1,976)

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

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

6.1.2 Credit risk

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

The unsecured exposures after the impact of close-out netting and collateral, without haircuts and add-ons are shown below:

CHF million	30.06.2019 Exposure	31.12.2018 Exposure
OTC	43.7	67.3
SLB	46.6	62.9
Total	**90.3**	**130.2**

6.1.3 Investment portfolio

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

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

CHF million	0–12 months	12–24 months	24–36 months	Maturity > 36 months	Total 30.06.2019	Total 30.06.2019 in %	Total 31.12.2018	Total 31.12.2018 in %
Governments/Public sector bodies/ Supranational agencies	**162.6**	**363.0**	**494.1**	**376.9**	**1,396.6**	**65.1%**	**1,515.4**	**86.1%**
of which Aaa	152.8	180.0	342.7	248.7	924.2	43.1%	1,135.7	64.5%
of which Aa1-Aa2	9.8	183.0	151.4	128.2	472.4	22.0%	379.7	21.6%
Corporations/Institutions	**58.5**	**66.9**	**76.6**	**250.9**	**452.9**	**21.1%**	**130.7**	**7.4%**
of which Aaa	—	—	10.2	14.4	24.6	1.1%	—	—
of which Aa1-Aa3	15.6	—	16.8	72.9	105.3	4.9%	64.1	3.6%
of which A1-A2	42.9	31.5	39.6	150.6	264.6	12.4%	60.4	3.4%
of which Baa1-Baa3	—	35.4	10.0	13.0	58.4	2.7%	6.2	0.4%
Banks	**21.1**	**53.1**	**88.3**	**132.9**	**295.4**	**13.8%**	**114.3**	**6.5%**
of which Aa1-Aa3	—	29.6	64.7	56.0	150.3	7.1%	53.3	3.0%
of which A1-A3	21.1	18.5	23.6	55.7	118.9	5.5%	47.7	2.7%
of which Baa1-Baa3	—	5.0	—	21.2	26.2	1.2%	13.3	0.8%
Total	**242.2**	**483.0**	**659.0**	**760.7**	**2,144.9**	**100.0%**	**1,760.4**	**100.0%**

6.1.4 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 derivative hedges. Funding liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected liquidity flows. In addition, the Group 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. The Group 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 the Group to maintain sufficient liquidity reserves across its locations, thus allowing for adequate liquidity during general market, industry-specific or Group-specific stress conditions. Under the framework, the Group is required to maintain certain levels of available or onshore liquidity, excluding funding that may not be repatriated to Switzerland. The framework metrics are independently verified by Risk Control each business day.

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

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

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

CHF thousands	Due				Total 30.06.2019
	Up to 1 month	1–3 months	3–12 months	Over 12 months	
Assets					
Amounts due from banks	1,537,079	—	—	—	1,537,079
Amounts due from securities financing transactions	24,978	—	—	—	24,978
Amounts due from customers	89,103	—	—	—	89,103
Trading financial assets	1,903,952	13,790	8,246	85,377	2,011,365
Positive replacement values of derivative financial instruments	45,366	1,703,228	635,494	982,201	3,366,289
Other financial assets designated at fair value through profit or loss	20,756	5,965	193,219	1,491,978	1,711,918
Financial investments at fair value through other comprehensive income	—	—	42,622	505,263	547,885
Accrued income	9,936	4,968	—	—	14,904
Total financial assets	**3,631,170**	**1,727,951**	**879,581**	**3,064,819**	**9,303,521**
Liabilities					
Amounts due to banks	626,715	—	—	—	626,715
Liabilities from securities financing transactions	301,955	—	—	—	301,955
Amounts due to customers	801,259	—	—	—	801,259
Trading financial liabilities	210,443	—	—	894	211,337
Negative replacement values of derivative financial instruments	21,049	542,899	730,983	1,484,558	2,779,489
Other financial liabilities designated at fair value through profit or loss	805,993	973,922	922,206	1,353,043	4,055,164
Accrued expenses	25,406	16,932	2,085	—	44,423
Total financial liabilities	**2,792,820**	**1,533,753**	**1,655,274**	**2,838,495**	**8,820,342**

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

6.2 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	1,537,079	—	1,537,079	—	(241,038)	1,296,041
Amounts due from securities financing transactions	24,978	—	24,978	—	(24,978)	—
Amounts due from customers	89,103	—	89,103	(11,070)	(295)	77,738
Positive replacement values of derivative instruments	3,366,289	—	3,366,289	(2,125,224)	(767,002)	474,063
Other financial assets designated at fair value through profit or loss	1,755,375	—	1,755,375	(182,275)	—	1,573,100
Total as of 30 June 2019	**6,772,824**	**—**	**6,772,824**	**(2,318,569)**	**(1,033,313)**	**3,420,942**

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

In addition to the above amounts, the exposure to credit risk from trading financial assets is reduced via credit protection through structured products issued. The effect of this credit protection is a reduction in trading assets presented in the statement of financial position of CHF 46,668 for the six months ended 30 June 2019, and CHF 61,776 thousand for the year ended 31 December 2018, respectively.

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

CHF thousands	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amount of financial liabilities as reported in IFRS balance sheet	Effect of master netting agreements	Effect of collateral provided	Net amount
Amounts due to banks	626,715	—	626,715	—	(626,715)	—
Liabilities from securities financing transactions	301,955	—	301,955	—	(286,819)	15,136
Amounts due to customers	801,259	—	801,259	(11,070)	(683,623)	106,566
Negative replacement values of derivative financial instruments	2,779,489	—	2,779,489	(2,200,390)	(578,329)	770
Other financial liabilities designated at fair value through profit or loss	4,000,985	—	4,000,985	(107,109)	(806,308)	3,087,568
Total as of 30 June 2019	**8,510,403**	**—**	**8,510,403**	**(2,318,569)**	**(2,981,794)**	**3,210,040**

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 provided	Net amount
Amounts due to banks	924,049	—	924,049	—	(873,880)	50,169
Liabilities from securities financing transactions	428,901	—	428,901	—	(428,901)	—
Amounts due to customers	1,375,104	—	1,375,104	(44,974)	(1,297,071)	33,059
Negative replacement values of derivative financial instruments	3,688,353	—	3,688,353	(2,725,650)	(849,818)	112,885
Other financial liabilities designated at fair value through profit or loss	3,123,856	—	3,123,856	(91,946)	(806,784)	2,225,126
Total as of 31 December 2018	**9,540,263**	**—**	**9,540,263**	**(2,862,570)**	**(4,256,454)**	**2,421,239**

For the above financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements, 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.

6.3 Capital risk management

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

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

Swiss capital adequacy requirements are applicable to the consolidated Group under the supervision of FINMA and to Leonteq Securities AG as required for a licensed securities dealer. Both the Group and Leonteq Securities AG have complied with these rules and met the minimum Total Capital Ratio of 10.5% of risk-weighted assets as of 30 June 2019 and at all times through the first six months of 2019.

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

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

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

The tables below summarise the eligible capital, required capital and capital ratios calculated as of 30 June 2019 and 31 December 2018:

CHF thousands	30.06.2019	31.12.2018
BIS eligible capital		
Total shareholders' equity	631,161	607,656
Capital deductions	(112)	—
Other adjustments	—	—
CET 1 capital	**631,049**	**607,656**
Additional tier 1	—	—
Tier 1 capital	**631,049**	**607,656**
Tier 2 capital	2,483	2,950
Total BIS eligible capital	**633,532**	**610,606**

Capital deductions reflect the reversal of positive valuation differences in debt securities measured at fair value through other comprehensive income. Tier 2 capital takes the general provisions for default risk into account (see Note 11).

CHF thousands	BIS required capital		Risk-weighted assets	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Market risk (incl. derivatives)	158,262	138,109	1,978,289	1,726,360
Interest rates	101,228	81,127	1,265,363	1,014,088
Equities	36,320	38,366	453,995	479,573
Foreign exchange and gold	11,658	10,020	145,727	125,247
Commodities	9,056	8,596	113,204	107,452
Credit risk	34,722	45,912	434,022	573,904
Operational risk	35,304	33,367	441,294	417,084
Non-counterparty related risk	9,450	4,360	118,125	54,497
Amounts below threshold for deductions[4]	798	650	9,974	8,131
Cryptocurrencies[5]	29	50	366	629
Total	**238,488**	**222,448**	**2,981,105**	**2,780,605**

[4] With 250% to be risk-weighted positions.
[5] Cryptocurrencies are risk-weighted by 800% according to the FINMA communication during the fourth quarter of 2018.

BIS capital ratios (%)	30.06.2019	31.12.2018
CET 1 capital ratio (required: 7.0%[6])	21.2%	21.9%
Tier 1 capital ratio (required: 8.5%[6])	21.2%	21.9%
Total capital ratio (required: 10.5%[6])	**21.3%**	**22.0%**

[6] Minimum requirement including capital conservation buffer according to Annex 8 of the Capital Adequacy Ordinance (CAO).

Capital charges for market risks increased in the first six months of 2019 due to the growth in issuance volumes and related investment activities. As a result of the Group's hedging strategy, market risks are primarily related to interest rates and equities. Capital requirements for credit risks decreased in the first six months of 2019, driven by decreasing counterparty credit charges on the back of calmer equity markets at the end of June 2019. The Company primarily has large credit risk exposures to banks and insurance companies as a result of its cash holdings, securities transactions, derivative exposures arising from positions in OTC and listed derivatives, as well as securities lending and borrowing activities. The capital requirement for operational risk is based on average earnings over a three-year period.

For additional information according to the FINMA Circular 2016/1 "Disclosure – banks", refer to the separate Basel III Pillar 3 disclosures published in the Investor Relations section of the Company's website at: www.leonteq.com. The report was published at the end of April 2019.

6.4 Leverage ratio

CHF thousands	30.06.2019	31.12.2018
Tier 1 capital	631,049	607,656
Total consolidated assets as per published financial statements	9,586,675	10,690,224
Adjustments	(1,417,785)	(3,264,863)
Leverage ratio exposure	8,168,890	7,425,362
Leverage ratio	**7.7%**	**8.2%**

The leverage ratio decreased by 0.5 percentage points in the first six months of 2019 due to a 4% increase in tier 1 capital compared to a 11% increase in the leverage ratio exposure primarily due to increased issuance volumes and related investment activities. To calculate the leverage ratio exposure, the majority of derivative exposures can be netted or offset against cash collateral based on the netting agreements in place with trading counterparties (presented as adjustments).

6.5 Risk concentrations

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

Under Swiss banking law, banks and securities dealers are required to manage risk concentration ("large exposures") within specific limits. Aggregated credit exposure to any single counterparty or a group of related counterparties must bear an adequate relationship to the bank's eligible capital, taking into account counterparty risks and risk mitigating instruments. New large exposure rules have been effective since 1 January 2019. As of 30 June 2019, the Group identified 16 large exposures (as of 31 December 2018, seven large exposures under the rules applicable until 31 December 2019.

Credit risk concentrations are reflected in section 6.1.2 "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, financial investments measured at fair value through other comprehensive income and trading inventories are recognised at fair value in the statement of financial position. Changes in the fair values of these instruments are recognised in the income statement as the “result from trading activities and the fair value option”. Fair value changes on financial investments measured at fair value through other comprehensive income attributable to movements in the issuer credit risk or the benchmark interest rate are initially recognised in the statement of other comprehensive income (OCI). Either due to the application of hedge accounting or upon disposal of the respective investment, amounts initially recognised in OCI are reallocated to the income statement as “result from trading activities and the fair value option”.

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

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

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

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

There were no significant changes in the valuation models used during the period ending 30 June 2019.

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

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

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

Fair value of financial instruments

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

Financial assets and liabilities at amortised costs

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

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

Own credit

The Group determines its own credit spread regularly based on a model using observable (market) inputs such as market capitalisation, debt and product type-specific adjustments. Management compared the determined credit spread with observable and paid credit spreads for public distributed products of Leonteq to ensure that all available market information is reflected in the determined credit spread. No own credit spread adjustment was required during the six months ended 30 June 2019.

Valuation adjustments

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

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

Level 1 instruments

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

Level 2 instruments

The fair value of level 2 instruments is based on quoted prices in markets that are not active or on a valuation method using significant input parameters that are directly or indirectly observable. Level 2 instruments comprise positive or negative replacement values of derivative instruments, issued structured products, debt securities with reduced market liquidity and investment funds that are not quoted. The Group uses valuation methods to determine the fair value of positive and negative replacement values of derivative instruments and issued structured products if there is no active market pursuant to the definition of IFRS 13 or if market liquidity varies significantly over time. For the valuation of derivative instruments, including option components of structured products, and the interest rate components of structured products, generally recognised option pricing models and generally recognised valuation methods – e.g. discounted cash flow models – are used. If quoted prices for instruments are available but low trading volumes indicate that there is no active market, or if 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 comprise positive or negative replacement values for longer-term derivative financial instruments. The Group uses generally recognised pricing models to determine the fair value of derivative financial instruments. The input parameters for the valuation models are contract-specific and include the market prices of the underlying asset, yield curves, volatilities and possibly other parameters. Derivative financial instruments are traded predominantly on a collateralised basis and the Group's own credit risk, as well as third-party credit risk in the case of assets, is not included in the valuation of collateralised derivative instruments. Whenever possible, the Group uses market observable input parameters to determine the fair value of financial instruments. However, due to the longer-term nature of some instruments, significant input parameters are not always considered observable for those long-dated products and they are therefore classified as level 3. The Group estimates these unobservable input parameters using market information as well as historical data. The estimated input parameters are reviewed during monthly independent price verification processes and are further reviewed by an independent risk control function.

No day 1 gains or losses were recognised as a result of transactions involving level 3 instruments for the six months ended 30 June 2019. An unrealised loss of CHF 6,769 thousand for fair value movements was recognised in "result from trading activities and the fair value option" for the six months ended 30 June 2019. The closing balance of level 3 financial liabilities as of 30 June 2019 totalled CHF 25,535 thousand (31 December 2018: CHF 18,383 thousand).

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

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

Significant unobservable inputs in level 3 positions

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

CHF thousands	30.06.2019	31.12.2018	Valuation technique	Significant unobservable input[7]	Range of unobservable inputs 30.06.2019 low	30.06.2019 high	31.12.2018 low	31.12.2018 high	Unit[7]
Negative replacement values of derivative financial instruments	**25,535**	18,383	Generic Replication Model[8]	Volatility of interest rates	**53**	**63**	62	72	basis points

[7] The ranges of significant unobservable inputs are represented in basis points.
[8] A generic replication model is used to price interest rate derivatives.

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

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

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

CHF thousands	30.06.2019	31.12.2018
Impact of shifts of unobservable input parameters on fair values		
Increase of volatility of interest rates (+5 bps)	(13)	(167)
Decrease of volatility of interest rates (-5 bps)	13	167

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

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

CHF thousands	Level 1	Level 2	Level 3	Total 30.06.2019
Financial assets				
Trading financial assets				
Debt securities (listed)	65,276	14,990	—	80,266
Equity securities	1,491,562	54,965	—	1,546,527
Funds	190,712	163,149	—	353,861
Other securities	—	30,093	—	30,093
of which hybrid financial instruments	—	30,093	—	30,093
Total trading financial assets	1,747,550	263,197	—	2,010,747
Positive replacement values of derivative instruments	2,108,116	1,258,173	—	3,366,289
Other financial assets designated at fair value through profit or loss	1,518,450	236,925	—	1,755,375
Financial investments measured at fair value through other comprehensive income	550,332	7,853	—	558,185
Total financial assets	**5,924,448**	**1,766,148**	**—**	**7,690,596**
Trading inventories	51,759	—	—	51,759
Total trading inventories	**51,759**	**—**	**—**	**51,759**
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	1,301	—	—	1,301
Equity securities	200,001	3	—	200,004
Funds	10,440	—	—	10,440
Other securities	—	—	—	—
of which hybrid financial instruments	—	—	—	—
Total trading financial liabilities	211,742	3	—	211,745
Negative replacement values of derivative instruments	1,510,843	1,243,111	25,535	2,779,489
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	401,435	—	401,435
Equities	—	3,462,113	—	3,462,113
Foreign currency	—	10,129	—	10,129
Commodities (incl. precious metals)	—	127,308	—	127,308
Total other financial liabilities designated at fair value through profit or loss	—	4,000,985	—	4,000,985
Total financial liabilities	**1,722,585**	**5,244,099**	**25,535**	**6,992,219**

In the first six months of 2019, there were no significant reclassifications of positions between level 1 and level 2 and vice versa.

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

In the 12 months ended 31 December 2018, there were no significant reclassifications of positions between level 1 and level 2 and vice versa.

Level 3 financial instruments

CHF thousands	30.06.2019	31.12.2018
Statement of financial position		
Balance at the beginning of the year	18,383	14,975
Additions	3,518	7,410
Disposals	(175)	(1,317)
Result recognised as trading income	6,482	(298)
Result recognised as other comprehensive income	—	—
Reclassifications to level 3	—	—
Reclassifications from level 3	(2,673)	(2,387)
Translation differences	—	—
Total balance at the end of the reporting period	**25,535**	**18,383**
Income in the period on holdings on balance sheet date		
Unrealised income/(loss) recognised in the trading income	(6,769)	1,019
Unrealised income/(loss) recognised in other income	—	—
Unrealised income/(loss) recognised in other comprehensive income	—	—

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

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

- CHF 0 of level 2 financial instruments were reclassified to level 3 for the six months ended 30 June 2019 (CHF 0 for the 12 months ended 31 December 2018).
- CHF 2,673 thousand of level 3 financial instruments were reclassified to level 2 during the six months ended 30 June 2019 (CHF 2,387 thousand for the 12 months ended 31 December 2018).

The result recognised as trading income mainly relates to the substantial drop in long-term interest rates.

8 Net fee income

CHF thousands	H1 2019	H1 2018
Fee income from Leonteq sales distribution	89,963	113,471
Fee income from Platform Partner distribution	29,900	31,058
Other fee income	3,522	2,842
Total fee income from securities trading and investment activities	**123,385**	**147,371**
Fee expense	(2,527)	(1,611)
Total fee expense	**(2,527)**	**(1,611)**
Net fee income	**120,858**	**145,760**

Net fee income decreased by 17% compared to the first half of 2018. Contributors were both, Leonteq sales and Platform Partner sales fee income. The relative larger decrease relates to Leonteq sales fee down 21% compared to the first half of 2018. The fee reduction is predominantly driven by the negative market sentiment at the beginning of the year 2019. Other fee income and fee expenses were largely impacted by higher net securities lending & borrowing commissions.

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

CHF thousands	30.06.2019	31.12.2018
Balance of deferred fees as of 31 December 2017	**—**	**45,553**
Adjustment due to the first time adoption of IFRS 15	—	20,690
Balance of deferred fees as of 1 January	**75,745**	**66,243**
Recognition of deferred fees in the income statement	(43,513)	(92,610)
Deferral of fees collected	45,776	102,112
Balance of deferred fees at the end of the reporting period	**78,008**	**75,745**
of which recognised within the next 12 months	38,314	39,988
of which recognised after 12 months	39,694	35,757

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

The balance of deferred fees is recognised as fee income in the income statement when the respective service obligations are satisfied. In the Investment Solutions divisions, service obligations that are not satisfied upon issuance of the product are deemed to be satisfied over the average effective lifetime of issued products, which is estimated to be 12 months as of 30 June 2019. Consequently, an amount of CHF 31.1 million (31 December 2018: CHF 32.6 million) is expected to be recognised as fee income over a period of 12 months. Due to the long-term nature of the Investment & Wealth Planning Solutions business, service obligations are satisfied over a period of up to 48 years. CHF 15.1 million (31 December 2018: CHF 14.5 million) are expected to be recognised as fee income over the next 5 years, CHF 20.5 million (31 December 2018: CHF 18.5 million) between 6 and 20 years and CHF 11.3 million (31 December 2018: CHF 10.1 million) after 20 years.

9 Result from trading activities and the fair value option

CHF thousands	H1 2019	H1 2018
Result from trading activities and the fair value option	7,525	(3,743)

The result from trading activities and the fair value option is mainly driven by the fair value changes of issued structured products as well as financial instruments purchased or sold as part of the hedging activities. In addition costs directly attributable to these activities are recognised in the result from trading activities and the fair value option.

The positive contributions from hedging activites as well as a higher treasury result (net funding costs arising from Leonteq's own issued products) significantly improved the result from trading activities and the fair value option compared to the comparative period in 2018.

10 Net result from interest operations

CHF thousands	H1 2019	H1 2018
Interest income from assets at fair value	4,963	1,572
Total interest and discount income	**4,963**	**1,572**
Interest expense from financial liabilities at fair value	(10,394)	(7,944)
Total interest expense	**(10,394)**	**(7,944)**
Gross result from interest operations	**(5,431)**	**(6,372)**
Changes in value adjustments for default risks and losses from interest operations	165	(1,092)
Net result from interest operations	**(5,266)**	**(7,464)**

The increase in interest income and expense is primarily due to increased usage of credit facilities and higher collateral balances in connection with increased US dollar interest rates, especially at the beginning of 2019. In addition with the adoption of IFRS 16, additional interest expenses in the amount of CHF 458 thousand were recognised in 2019.

For further information on Changes in value adjustments for default risks and losses from interest operations refer to Note 11.

11 Expected credit loss

In accordance with IFRS 9, the Group applies the expected credit loss methodology to calculate and recognise an impairment provision for financial assets measured at amortised cost or at fair value through other comprehensive income. These assets comprise the balance sheet items "cash in hand", "amounts due from banks", "amounts due from securities transactions", "amounts due from customers" and "financial investments measured at fair value through other comprehensive income".

Credit risk management

Assets measured at amortised costs mainly consist of cash balances or cash collateral in connection with the Group's business operations. The Group holds cash collateral in connection with its trading activities relating to derivative instruments and/or securities financing transactions. Assets measured at fair value through other comprehensive income consist of bonds.

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

The Group's products usually have a short duration. Consequently, all credit exposures are of a short-term nature or could be reduced with risk-mitigating actions such as the unwinding of trades and removal of excess cash.

Expected credit loss calculation

The expected credit loss takes into account the exposure at default, probability of default and loss given default. The starting point for the expected credit loss calculation is the determination of the input factors that are based on market observable inputs whenever possible. Exposure at default is based on exposures to different counterparties, taking into account the time value of money and risk-mitigating measures. The probability of default and loss given default are based on industry standard values, observable market inputs such as credit default swaps, and the extrapolation of observable market inputs. The calculation of the expected credit loss provision is performed at portfolio level.

Development of expected credit loss allowance

CHF thousands	30.06.2019	31.12.2018
Balance at the beginning of the period	2,950	1,310
Change in 12-month expected credit loss	(166)	1,640
Change in lifetime expected credit loss	—	—
for non-credit impaired financial assets with significantly 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 period	**2,784**	**2,950**
of which presented as a liability	2,483	2,950
of which presented in equity	301	—

The Group calculates the expected credit loss provision at portfolio level. Due to the short duration of financial assets measured at amortised cost or at fair value through other comprehensive income, no discounting of the expected credit loss allowance is required.

The overall expected credit loss remained stable compared to year end 2018. The lower balance of assets measured at amortised cost, which would have led to a lower expected credit loss provision, was compensated with the assets measured at fair value through other comprehensive income. The expected credit loss allowance in connection with assets measured at fair value through other comprehensive income is recognised in the other comprehensive income (equity).

12 Provisions

CHF thousands	Reinstatement cost provisions	Other provisions	30.06.2019 Total provisions	31.12.2018 Total provisions
Balance as of 1 January	**—**	**11,585**	**11,585**	**8,890**
Adjustment due to first time adoption of IFRS 16	3,613	—	3,613	—
Utilisation in conformity with designated purpose	—	(1,010)	(1,010)	(730)
Increase in provisions recognised in the income statement	26	2,195	2,221	4,016
Release of provisions recognised in the income statement	—	(564)	(564)	(518)
Translation differences	1	(28)	(27)	(73)
Balance at the end of the reporting period	**3,640**	**12,178**	**15,818**	**11,585**
of which short-term provisions	—	2,488	2,488	2,922
of which long-term provisions	3,640	9,690	13,330	8,663

Reinstatement cost provisions
In the course of the adoption of IFRS 16 the Group reassessed its expected reinstatement costs as well as presentation of these costs. The amount of CHF 3,613 thousand therefore consists of amounts previously presented within other line items and newly built provisions (initially offset with the right-of-use asset or through equity – refer to Note 5 for further information on the first time adoption of IFRS 16). Such provisions include a high level of judgement with regard to the point in time as well as the respective amounts which are expected to be incurred. While the point in time when it is expected to incur these costs is aligned with the estimated duration of the underlying lease contract, the amount is determined based on inputs received from experts (e.g. architects) or derived from costs incurred when moving office locations in the past.

Other provisions
From time to time, the Group is involved in legal proceedings and litigation that arise in the normal course of business. Such proceedings and litigation are subject to many uncertainties and the outcome is often difficult to predict, particularly in the early stages of a case. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows. The Group makes provisions for legal proceedings and litigation brought against it based on Management's assessment after seeking legal advice.

In connection with a VAT audit for the years 2007 through and including 2011, the Swiss Federal Tax Administration ("SFTA") has taken the view that distribution services of foreign providers, including those from our subsidiary Leonteq Securities (Europe) GmbH, rendered to Leonteq Securities AG are subject to VAT as a reverse charge (Bezugssteuer). Leonteq has filed an appeal against the SFTA determination. In October 2018 the Federal Administrative Court has decided in favour of the SFTA and Leonteq has thereafter filed an appeal with the Swiss Federal Supreme Court. A negative outcome could have an adverse impact on our business and results of operations. The provision related to the pending Swiss VAT litigation in connection with distribution services of foreign third party providers is totaling CHF 7,025 thousand as of 30 June 2019 and was left unchanged compared to 31 December 2018. The provision covers the period from 2007 to 2019 but does not consider reverse charges on the services provided by group companies.

The amount of CHF 564 thousand recognised as a provision for employment law related matters at the end of 2018 was released through the income statement in 2019 and no new provision was recognised in 2019. A provision in the amount of CHF 1,022 thousand for legal fees was recognised as of 30 June 2019. For further potential disputes and litigations related to the main business activities of Leonteq, CHF 4,130 thousand (31 December 2018: CHF 3,326) are provisioned.

13 Shareholders' equity

Share capital

			30.06.2019			31.12.2018
	Total par value (CHF)	Number of shares	Capital eligible for dividends	Total par value (CHF)	Number of shares	Capital eligible for dividends
Share capital	18,934,097	18,934,097	18,934,097	18,934,097	18,934,097	18,934,097
whereof fully paid in	18,934,097	18,934,097	—	18,934,097	18,934,097	—
Total share capital	**18,934,097**	**18,934,097**	**18,934,097**	**18,934,097**	**18,934,097**	**18,934,097**
Authorized capital	4,000,000	4,000,000	—	3,000,000	3,000,000	—
of which capital increase completed	—	—	—	2,989,593	2,989,593	—
Condititonal share capital	1,000,000	1,000,000	—	100,000	100,000	—
whereof capital increase completed	—	—	—	18,584	18,584	—

Authorised capital
On 27 March 2019, the Annual General Meeting approved an increase in share capital in the period to 22 March 2021 of a maximum amount of CHF 4 million through the issuing of up to 4 million fully paid-in registered shares with a nominal value of CHF 1.00 each.

Conditional share capital
On 27 March 2019, the Annual General Meeting approved an increase in share capital of a maximum of CHF 1 million through the issuance of up to 1 million fully paid-in registered shares with a nominal value of CHF 1.00 each to cover potential exposures arising from restricted stock units granted to certain Group employees.

Own shares

			30.06.2019			31.12.2018
	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	224,421	13,141	59	250,231	15,335	61
Purchases	—	—	—	57,481	3,300	57
Disposal	(104,122)	(6,117)	59	(83,291)	(5,494)	66
Balance at the end of the period	**120,299**	**7,024**	**59**	**224,421**	**13,141**	**59**

Own shares are held in connection with the Group's share-based payment programmes.

Capital distribution
On 27 March 2019, shareholders decided that no dividend should be paid out of retained earnings and that no distribution out of reserves from capital contributions should be made for the financial year 2018 and, accordingly, that all accumulated profits as well as accumulated reserves from capital contributions be carried forward.

14 Other comprehensive income/(loss)

CHF thousands	Currency translation adjustments	Defined benefit cost	Debt instruments measured at FVOCI	ECL changes on debt instruments measured at FVOCI	Deferred tax	Accumulated other comprehensive income/(loss)
Balance as of 31 December 2018	**(639)**	**(4,758)**	**—**	**—**	**1,008**	**(4,389)**
Increase/(decrease)	(7,394)	(3,663)	112	301	775	(9,869)
Balance as of 30 June 2019	**(8,033)**	**(8,421)**	**112**	**301**	**1,783**	**(14,258)**

CHF thousands	Currency translation adjustments	Defined benefit cost	Debt instruments measured at FVOCI	ECL changes on debt instruments measured at FVOCI	Deferred tax	Accumulated other comprehensive income/(loss)
Balance as of 31 December 2017	**(93)**	**(3,199)**	**—**	**—**	**678**	**(2,614)**
Increase/(decrease)	(83)	(2,741)	—	—	580	(2,244)
Balance as of 30 June 2018	**(176)**	**(5,940)**	**—**	**—**	**1,258**	**(4,858)**

Currency translation adjustments

In 2019 the Group established a second branch of Leonteq Securities AG in Guernsey ("Leonteq Securities AG, Guernsey Finance Branch"). The functional currency of the branch is US dollar and therefore the capital allocated is exposed to USD/CHF currency fluctuations. In addition to the capital allocated, the branch is financed with an intra-company long-term loan facility in US dollar. Given the nature of this loan facility, it qualifies for a treatment in accordance with IAS 21.15A and consequently recognising the foreign currency impact in equity. Due to the appreciation of the Swiss franc versus the US dollar, a negative impact of CHF 7.2 million was recorded as of 30 June 2019. Refer to Note 6 for further information on the set up of the second branch in Guernsey.

Defined benefit cost

The discount rate applied by the Group was reduced to 0.6% compared to 1.0% at year end 2018. The declining long-term interest rates resulted in an increase of the pension liability and consequently a negative impact on the Group's equity.

Debt instruments measured at FVOCI / ECL changes on debt instruments measured at FVOCI

The adoption of the FVOCI classification as well as the expected credit loss related to the bonds measured at FVOCI are outlined in Note 5 and 11 respectively.

Deferred tax

The deferred taxes relate to the defined benefit cost.

15 Significant shareholders

	30.06.2019		31.12.2018	
	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	5,495,157	29.02%	5,495,157	29.02%
Lukas Ruflin family interests [9, 10, 11]	1,543,756	8.15%	1,543,756	8.15%
Sandro Dorigo [11]	463,533	2.45%	463,317	2.45%
Subtotal shareholders' agreement	**7,502,446**	**39.62%**	**7,502,230**	**39.62%**
Rainer-Marc Frey [12, 13, 14]	2,301,081	12.15%	2,201,081	11.63%
Credit Suisse Funds AG [15]	571,998	3.02%	—	—
Directors and executives [16]	174,649	0.93%	157,523	0.83%
Total significant shareholders	**10,550,174**	**55.72%**	**9,860,834**	**52.08%**

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

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

[11] Founding partner.

[12] H21 Macro Ltd is the direct shareholder of the shares.

[13] Includes 405,063 written put options as of 30 June 2019 (31 December 2018: 486,081) subject to the following conditions: Strike price CHF 48.35; subscription ratio 1:1; maturity 21 October 2019.

[14] Creation of obligation to notify: 29 March 2019.

[15] Creation of obligation to notify: 25 February 2019.

[16] Excluding shareholdings of founding partners.

16 Related-party transactions

The Group entered into various transactions and agreements with related parties. Significant transactions and agreements can be categorised as financial and platform partner agreements with Raiffeisen Switzerland Cooperative and its affiliated companies.

CHF thousands	Amounts due from 30.06.2019	Amounts due from 31.12.2018	Amounts due to 30.06.2019	Amounts due to 31.12.2018	Income from H1 2019	Income from H1 2018	Expense to H1 2019	Expense to H1 2018
Significant shareholders								
Raiffeisen Switzerland Cooperative								
Amounts due from banks	27,856	25,112	—	—	—	—	—	—
Positive replacement values of derivative instruments	79,154	186,462	—	—	—	—	—	—
Amounts due to banks	—	—	56,405	285,891	—	—	—	—
of which credit facility	—	—	—	98,160	—	—	—	—
Negative replacement values of derivative instruments	—	—	52,300	29,632	—	—	—	—
Accrued expenses and deferred income	—	—	—	555	—	—	—	—
Platform partner service fee income	—	—	—	—	6,784	6,206	—	—
Interest income	—	—	—	—	299	94	—	—
Interest expense	—	—	—	—	—	—	1,532	2,573
Affiliated companies								
Raiffeisen Switzerland B.V. Amsterdam								
Amounts due from customers	17,979	31,331	—	—	—	—	—	—
Positive replacement values of derivative instruments	200,778	383,233	—	—	—	—	—	—
Accrued income and prepaid expenses	901	3	—	—	—	—	—	—
Amounts due to customers	—	—	268,368	377,581	—	—	—	—
Negative replacement values of derivative instruments	—	—	52,885	25,917	—	—	—	—
Platform partner service fee income	—	—	—	—	10,592	14,815	—	—
Interest income	—	—	—	—	350	103	—	—
Interest expense	—	—	—	—	—	—	788	164

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

On 6 April 2018, the Group entered into a credit facility framework agreement with Raiffeisen (the "Raiffeisen Facility"). The Raiffeisen Facility is valid from 1 April 2018 and ends automatically and without notice on 31 March 2022, if not renewed for another four years by the parties. The Raiffeisen Facility has a maximum limit of CHF 350 million (unsecured). Leonteq Securities AG has the right to reduce the facility to CHF 300 million at any time at the end of a calendar quarter. As of 30 June 2019 Leonteq made use of this clause and reduced the facility to CHF 300 million.

Business activities with related parties are subject to standard market rates.

17 Earnings per share

	H1 2019	H1 2018
Group net profit (CHF thousands)	30,235	40,113
Weighted average number of shares outstanding – undiluted	18,776,867	15,708,760
Dilution effect number of shares	249,135	218,138
Weighted average number of shares outstanding – diluted	19,026,002	15,926,898
Basic earnings per share	**1.61**	**2.55**
Diluted earnings per share	**1.59**	**2.52**

The dilution effect (number of shares) includes the effects of employee share-based benefit plans.

18 Off-balance

CHF thousands	30.06.2019	31.12.2018
Off-balance-sheet transactions		
Contingent liabilities	32,263	42,092
Irrevocable commitments	32	32
Obligations to pay up shares and make further contributions	—	—
Credit commitments	—	—

Irrevocable commitments relate to Swiss Deposit Insurance.

Contingent liabilities of CHF 20.5 million (as of 31 December 2018 of CHF 29.2 million) arise from deferred payments in relation with long-term incentive plans.

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 2019 the total commitment relating to future rental payments under the original lease contract amounted to GBP 9.1 million (CHF 11.3 million) and as of 31 December 2018 GBP 9.9 million (CHF 12.4 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 2019 the total commitment relating to future rental payments under this lease amounted to JPY 42.2 million (CHF 0.4 million), as of 31 December 2018 JPY 54.7 million (CHF 0.5 million), excluding taxes.

19 Segment reporting

Leonteq's Executive Committee, which is the chief operating decision maker, manages and assesses the performance of the Group and its businesses based on the following operating segments:

- Investment Solutions
- Insurance & Wealth Planning Solutions
- Corporate Centre

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

Investment Solutions

The Investment Solutions business line manufactures and distributes structured investment products, which it offers to and distributes on behalf of financial intermediaries (our clients) in more than 50 countries. The business line further enables and enhances the structured product capabilities of its issuance partners. Structured investment products are manufactured and managed for Leonteq's own name or for an issuance partner, which acts as the issuer or guarantor of the respective products. The services cover the entire lifecycle of a structured product, and clients are serviced by an experienced sales force with the possibility to choose from a variety of issuers available on the platform. The structured investment product offerings are grouped into three main categories: capital protection, yield enhancement and participation with a variety of different payoffs, all managed on Leonteq's platform. Distribution of structured investment products is done by Leonteq or by its issuance partners and distribution capabilities are complemented by a dedicated in-house ideation, structuring, and trading team and include a digital and automated pricing engine.

Insurance & Wealth Planning Solutions

The Insurance & Wealth Planning Solutions business line offers a digital platform to life insurers, enabling unit-linked retail products with financial protection. This provides a viable alternative to traditional guarantee product approaches. Partners and their end customers benefit from attractive and transparent long-term savings and draw-down solutions with both, upside potential and downside protection. Partners have the advantage of high capital efficiency based on third party-guarantees and upfront hedging as well as high cost efficiency by employing scalable straight-through digital processes covering the full policy lifecycle on individual policy level.

Beyond the platform business, Leonteq provides structured solutions, both, to life insurers for their single premium business and to insurance brokers. In addition, the business line offers structured products with interest rates as underlying securities.

Corporate Centre

Costs related to corporate functions such as Finance, Human Resources, Investor Relations & Communications, Legal & Compliance, Marketing, Information Technology, Operational Services and Risk Control are largely allocated to the business lines based on cost allocation keys. The unallocated corporate functions are presented within the Corporate Centre.

CHF thousands	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total H1 2019
Net fee income	106,964	13,894	—	120,858
Net trading income	5,623	1,902	—	7,525
Net interest income/(expense)	(5,538)	332	(60)	(5,266)
Other ordinary income	233	—	1,212	1,445
Total operating income	**107,282**	**16,128**	**1,152**	**124,562**
Personnel expenses	(47,742)	(4,878)	(6,187)	(58,807)
Other operating expenses	(16,011)	(824)	(2,426)	(19,261)
Depreciation of long-lived assets	(10,635)	(1,678)	(2,021)	(14,334)
Changes to provisions and other value adjustments, and losses	—	—	(1,657)	(1,657)
Total operating expenses	**(74,388)**	**(7,380)**	**(12,291)**	**(94,059)**
Result from operating activities	**32,894**	**8,748**	**(11,139)**	**30,503**

CHF thousands	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total H1 2018
Net fee income	132,652	13,108	—	145,760
Net trading income/(loss)	(4,655)	912	—	(3,743)
Net interest income/(expense)	(7,771)	307	—	(7,464)
Other ordinary income	355	—	1,227	1,582
Total operating income	**120,581**	**14,327**	**1,227**	**136,135**
Personnel expenses	(51,600)	(4,408)	(4,649)	(60,657)
Other operating expenses	(19,549)	(966)	(3,904)	(24,419)
Depreciation of long-lived assets	(6,801)	(534)	(732)	(8,067)
Changes to provisions and other value adjustments, and losses	(1,755)	—	(786)	(2,541)
Total operating expenses	**(79,705)**	**(5,908)**	**(10,071)**	**(95,684)**
Result from operating activities	**40,876**	**8,419**	**(8,844)**	**40,451**

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).

Investment Solutions' net fee income decreased by CHF 25.7 million to CHF 107.0 million mainly due to a reduction in net fee income margin[17] from 83 bps to 71 bps. The net trading income improved to CHF 5.6 million (compared to a net trading loss of CHF -4.7 million in the first half of 2018) as a result of improved hedging contributions[17] as well as a higher treasury result[17].

Insurance & Wealth Planning Solutions' total operating income increased by 13% compared to the first half of 2018 in line with new and outstanding products and unit-linked life insurance policies.

Other ordinary income generated within Investment Solutions comprises cost reimbursements from issuance partners whereas Corporate Centre's other ordinary income is mainly a result of rental income from subleased office space.

Personnel expenses for the Corporate Centre increased due to IT development and project hiring mainly whereas Investment Solutions' personnel expenses were predominantly impacted by lower variable compensation in line with the net fee income development.

[17] For an overview and definition of alternative performance measures used in this report in accordance with the 'Directive of Alternative Performance Measures' issued by SIX Exchange Regulations, please refer to page 17.

The first time adoption of IFRS 16, "Leases" led to a shift of around CHF 5 million from other operating expenses (reduction compared to previous period) to depreciation of long-lived assets and interest expense (increase compared to previous period). Adjusting this effect, the cost base in Investment Solutions and Corporate Centre remained stable compared to the first half of 2018. Total operating expenses in the segment Insurance & Wealth Planning Solutions increased by 25% due to higher average staff base as well as increased investments related to the IT infrastructure.

Information by geographic location

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total H1 2019
Net fee income	52,399	55,199	13,260	120,858
Net trading income/(loss)	4,576	2,860	89	7,525
Net interest income/(expense)	(1,973)	(3,102)	(191)	(5,266)
Other ordinary income	1,423	22	—	1,445
Total operating income	**56,425**	**54,979**	**13,158**	**124,562**

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 30.06.2019
Accrued income and prepaid expenses	7,072	16,270	215	23,557
Current tax assets	964	—	—	964
Deferred tax assets	3,425	228	339	3,992
Long-lived assets	103,115	3,235	11,775	118,125
Other assets	45,040	1,372	110	46,522

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total H1 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 31.12.2018
Accrued income and prepaid expenses	2,469	13,142	238	15,849
Current tax assets	964	—	—	964
Deferred tax assets	2,690	197	365	3,252
Long-lived assets	52,395	497	1,605	54,497
Other assets	36,115	749	163	37,027

The Group has offices in various international locations to diversify its revenue generation. The Company distributes its own and issuance partners' structured investment products, either through its own sales distribution and coverage desks or through the distribution channels of its issuance partners. The distribution network is empowered by the related group companies outside of Switzerland. The geographical allocation of the Group's revenue is undertaken based on the location of the distributor, servicing primarily banks, insurance companies and asset managers/financial intermediaries. Switzerland consists of the headquarters in Zurich and of its office in Geneva. Europe subsumes the Group's operations in its offices located in Amsterdam, Frankfurt, Guernsey, London, Monaco and Paris. Asia represents the locations Hong Kong, Singapore and Tokyo.

The decrease in net fee income margin arising from the current market environment impacted all three regions in the first half of 2019 and could only partially be compensated through a higher market share in certain regions. The net trading income from Investment Solutions is allocated across the regions whereas net trading income from Insurance & Wealth Planning Solutions is recognised in Switzerland.

20 Post-balance sheet events

No events occurred after the balance sheet date that would adversely affect the interim consolidated financial statements.

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 20 to 63) of Leonteq AG for the period ended 30 June 2019. 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, 24 July 2019

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GROUP

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