LEONTEQ

ANNUAL REPORT 2019

CONTENT

About the Annual Report 2019

Leonteq AG (throughout this report the 'Company' or 'Leonteq' and together with its subsidiaries the 'Group') is a business in transformation to become a leading marketplace for structured investment solutions.

The Annual Report 2019 is a detailed presentation of Leonteq's transformation with a dedicated Management Report (previously reported as 'Our Business' and 'Business and Financial Review') reviewing the company structure, strategy, offering and sustainability along with financial results both on a Group and a business line level.

This year's Annual Report also introduces for the first time a new Risk and Control section that informs on the measures taken for proper assessment and control of risks at Leonteq.

Along with the transformation in business, Leonteq strengthened its corporate governance. A revised and newly structured Corporate Governance section provides a comprehensive overview of Leonteq's shareholder and capital structure and the composition and function of Leonteq's Board of Directors and Executive Committee.

In 2019, Leonteq also implemented a new compensation framework for the members of the Executive Committee, which is reported on for the first time in this publication as part of the Compensation Report. Content includes an overview of the compensation design, transparent disclosures of performance assessment and resulting compensation outcomes for the members of the Executive Committee, members of the Board of Directors and Leonteq employees.

The Consolidated Financial Statements were streamlined and feature accounting policies that are tied directly to the notes of the respective financial statement line item. The notes to the financial statements were rearranged grouping income statement line items together followed by balance sheet line items.

The Annual Report 2019 is available as a printed document, downloadable pdf and in a summarised interactive online version on our website at www.leonteq.com/annual-report-2019.

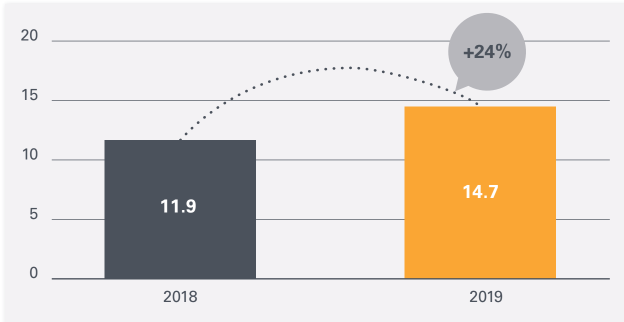
FINANCIAL HIGHLIGHTS 2019

Turnover (in CHF billion)

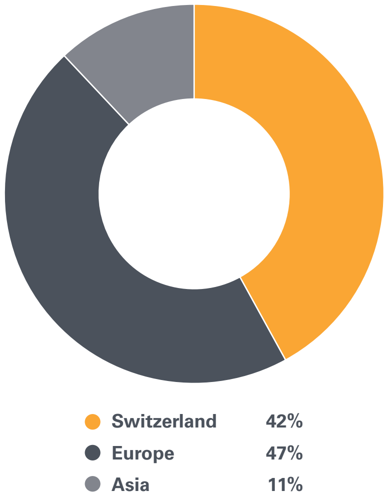
30.3

2018 **28.8**

Platform assets (in CHF billion)



Net fee income of CHF 264.9 million by region



Total operating income (in CHF million)

256.2

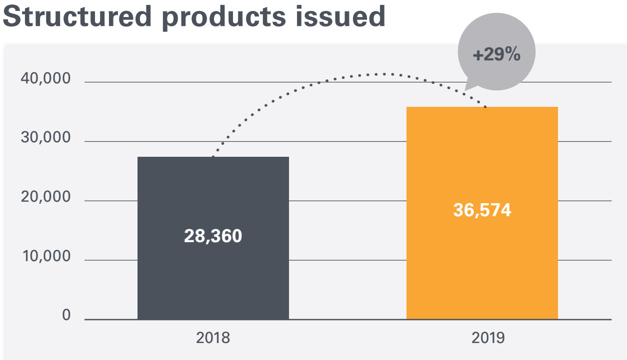
2018 **282.4**

Net profit (in CHF million)

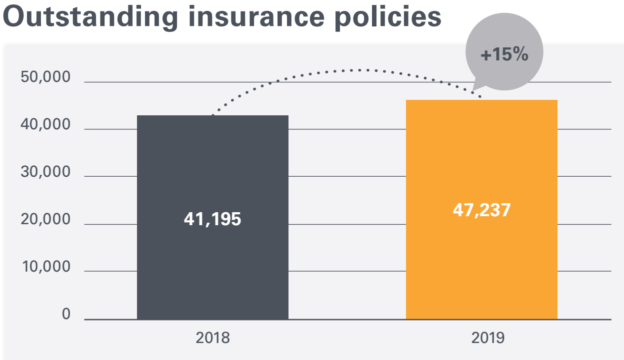
62.7

2018 **91.5**

Structured products issued



Outstanding insurance policies



BIS total eligible capital (in CHF million)

648.1

2018 **610.6**

Total capital ratio

21.1%

2018 **22.0%**

At a glance

	2019	2018	Change %
Group results (CHF million)			
Total operating income	256.2	282.4	(9%)
Profit before taxes	65.1	93.3	(30%)
Group net profit	62.7	91.5	(31%)
Key ratios			
Cost/income ratio	75%	67%	8 pp
Return on equity	10%	18%	(8 pp)
Investment Solutions			
Platform assets (CHF billion)[1]	14.7	11.9	24%
Turnover (CHF billion)	30.3	28.8	5%
Fee income margin (bps)	76	86	(10 bps)
Number of clients	998	967	3%
Insurance & Wealth Planning Solutions			
Number of outstanding policies[1]	47,237	41,195	15%
Net new policies	6,042	7,807	(23%)
Balance sheet (CHF million)[1]			
Total assets	9,076.8	10,690.2	(15%)
Total shareholders' equity	662.5	607.7	9%
Regulatory capital[1]			
Risk-weighted assets (CHF million)	3,067.0	2,780.6	10%
Common equity tier 1 capital (CHF million)	647.5	607.7	7%
Total BIS eligible capital (CHF million)	648.1	610.6	6%
Common equity tier 1 ratio	21.1%	21.9%	(0.8 pp)
BIS total capital ratio	21.1%	22.0%	(0.9 pp)
Share information			
Market capitalisation (CHF million)[1]	622	776	(20%)
Number of shares outstanding[1]	18,934,097	18,934,097	N/A
Share price (CHF)[1]	32.84	41.00	(20%)
Basic earnings per share (CHF)	3.35	5.40	(38%)
Diluted earnings per share (CHF)	3.30	5.33	(38%)
Employees			
Number of full-time equivalent employees[1]	508	486	5%
Credit rating			
Long-term issuer default rating (Fitch)	BBB-/positive	BBB-/positive[2]	N/A
Long-term issuer rating (JCR)	BBB+/stable	BBB+/stable	N/A

1 At the end of the respective period.
2 Rating assigned on 14 January 2019.

Alternative performance measures

On 20 March 2018, SIX Exchange Regulation issued the Directive of Alternative Performance Measures ('APMs') which entered into force on 1 January 2019. In the application of the Directive, 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 platform partners) through Leonteq's platform plus the aggregate notional amount of structured products (issued by Leonteq and its platform partners) traded through Leonteq's platform

SHAREHOLDERS' LETTER

Dear shareholders

Leonteq demonstrated resilience in a challenging and competitive market environment and once again achieved a solid financial performance thus continuing our good track record over the past 24 months. Our ongoing business transformation has made good progress, with a focus on scalability, digital client experience, strengthened capital base, as we strive to become the leading marketplace for structured investment solutions.

Group results

Following a subdued start to the year, Leonteq delivered a solid performance in a challenging market environment. In January 2019, economic revenues declined sharply to CHF 8.1 million, compared to CHF 26.1 million in January 2018. As a result, net fee income decreased by 17% to CHF 120.9 million in the first half of 2019. In the second half of the year, client demand recovered, with 14% growth in net fee income to CHF 144.0 million compared to the prior-year period. For the full year 2019, net fee income was relatively stable at CHF 264.9 million, compared to CHF 272.5 million in 2018. The net trading result declined by CHF 24.6 million to CHF -3.2 million in 2019, primarily reflecting the absence of hedging contributions due to reduced levels of market volatility. At the same time, the treasury result improved significantly, increasing by CHF 18.2 million to CHF -0.1 million, and the net interest result grew by CHF 6.6 million to CHF -8.3 million. Reflecting relative stable fee income and significantly lower net trading income, total operating income decreased by 9% to CHF 256.2 million in 2019.

Despite significant investments in key initiatives, total operating expenses increased by only 1% to CHF 191.1 million, reflecting Leonteq's disciplined cost management. In line with the announced hiring plan, headcount increased to 508 FTEs at end-2019 from 486 FTEs at end-2018. Personnel expenses rose by 1% to CHF 116.9 million in 2019. The introduction of IFRS 16 ("Leases") resulted in a decrease in other operating expenses of CHF 10.7 million and an increase in depreciation in the amount of CHF 9.6 million (and in interest expense of CHF 0.9 million) in 2019.

As a result, Group net profit totalled CHF 32.5 million in the second half of 2019 and CHF 62.7 million for the full year 2019, compared to CHF 91.5 million in 2018. Shareholders' equity totalled CHF 662.5 million as of 31 December 2019, an increase of 9% compared to 31 December 2018. Leonteq maintained its strong capital position, with total BIS eligible capital of CHF 648.1 million and a total capital ratio of 21.1% as of 31 December 2019, compared to 22.0% as of 31 December 2018.

Segment and regional results

The Investment Solutions business line issued 36,574 structured products and reached a record CHF 14.7 billion in total platform assets as of end-2019. Turnover generated with platform partners increased by 8% to CHF 9.5 billion in the second half 2019 while platform partner margins improved by 4 bps to 78 bps compared to the same period of 2018. Capitalising on Leonteq's investment grade credit rating, turnover generated with own issued products increased by 41% to CHF 5.8 billion in the second half of 2019, while margins decreased, in line with management guidance, to 84 bps from 120 bps compared to the second half of 2018.

In the Insurance & Wealth Planning Solutions business line, total operating income increased by 63% to CHF 48.3 million in 2019 as a result of growth in both net fee income (CHF +9.4 million) and net trading income (CHF +9.2 million). The number of outstanding policies serviced on the platform increased by 15% to 47,237 policies as of 31 December 2019.

In our home market of Switzerland, we reported net fee income of CHF 111.7 million in 2019, down 3% compared to 2018. In Europe, we generated stable net fee income of CHF 125.0 million over the same period. Asia saw a 12% decrease in net fee income year on year to CHF 28.2 million, reflecting reduced client activity on the back of macroeconomic uncertainty and increased competition.

Business transformation

We have achieved further progress on our key strategic initiatives for business transformation. The past 24 months have witnessed Leonteq's new and improved corporate governance, honed business model, improved profitability, stronger capital foundation, investment grade recognition and renewed corporate culture. Looking forward, Leonteq's ongoing business transformation will continue to centre around delivering enhanced scalability and further growth, and renewing the investment experience for clients and partners. As part of this, we have continued to advance our Smart Hedging Issuance Platform (SHIP) project with a total of six leading investment banks providing external quotes for around 11% of all daily automated transactions. Of these, three hedging counterparties are currently executing trades. In 2019, more than 2,600 transactions ran through SHIP with a total notional volume of approximately CHF 1.0 billion (of which the majority was still hedged by Leonteq).

On the distribution side, we launched the first modules and new features of our new digital marketplace, LynQs. Clients received access to the new lifecycle management module, enabling them to monitor structured products and receive vast flexibility irrespective of product type or issuer. In addition, the lifecycle management services have been expanded and allow clients to upload their third-party products onto LynQs, to get a comprehensive and complete overview of their structured products portfolio across all issuers.

Governance

In 2019, we welcomed two new members to the Board of Directors: Susana Gomez Smith as an independent member and Dominik Schärer as a representative of our anchor shareholder, Raiffeisen Switzerland. Throughout the year, we also implemented the new compensation framework for the Executive Committee, which is reported for the first time in the following pages and provides an overview of the compensation design, transparent disclosures of performance assessment and resulting compensation outcomes for members of the Executive Committee, members of the Board of directors and Leonteq's Group employees.

Sustainable growth to create shareholder value

Going forward, Leonteq aims to enhance the scalability of its platform with a view to addressing the volume-driven market environment and growing its revenues. At the same time, Leonteq will continue to invest in key projects while further optimising its cost base to support improved profitability and further reinforcing its already solid capital base. As a result of the improved earnings situation over the last 24 months and the strategic progress achieved, Leonteq is now entering a new phase of conservative dividend payments, following a period with no pay-outs to shareholders. At our Annual General Meeting on 31 March 2020, the Board of Directors will propose a distribution of CHF 0.50 per share, which is to be paid in equal amounts out of retained earnings and capital contribution reserves.

Christopher M. Chambers
Chairman of the Board of Directors

Lukas T. Ruflin
Chief Executive Officer

Leonteq has never been stronger and the new dividend policy underscores our confidence in the company's prospects to generate attractive and sustainable returns as our investments in key strategic initiatives will start to pay off. The Board of Directors and the Executive Committee remain fully committed to further develop our business with our focus on scalability, strengthened capital base, and digital client experience.

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

Christopher M. Chambers
Chairman of the Board of Directors

L. Ruflin
Lukas T. Ruflin
Chief Executive Officer

MANAGEMENT REPORT

Our group

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

Business model

Since our company was founded in 2007, we have focused on developing an integrated technology platform that enables the automation of key processes in the value chain for the production of structured investment products and long-term savings and retirement solutions. In the first years after Leonteq was established, our value proposition centred on transparency of product documentation, service throughout the product lifecycle, liquidity in the secondary market, security through the innovation of COSI® products and sustainability. We subsequently entered our second phase as a platform business and white-labelling service provider. Taking advantage of major technology advancements and using state-of-the-art tools and services, the scalability of our platform increased, with automation enabling a rapid computation of three billion product computations per minute. With the commencement of a third phase in 2018, we set a new business transformation in motion and implemented several initiatives to enable scalability and invest in the growth of the company. Our ambition with these initiatives, which include SHIP (Smart Hedging Issuance Platform), LynQs and an improved AMC Gateway, is to leverage our established client, partner and hedging franchise, and give digital access to one of the largest structured product universes, along the way to becoming the leading marketplace for structured investment solutions worldwide.

Leonteq's platform functionalities address changing client needs and the demand for more transparent and flexible solutions within a highly competitive industry. In order to proactively meet these requirements and offer high standards of service, we focus on controlling and automating all key processes along the value chain, based on continuous enhancement of our technology platform, which instantly calculates complex structured financial products, even when tailored to individual client needs, and automatically produces all necessary documentation in four languages. Our system accesses over 1,900 equities and around 150 indexes and exchange-traded funds, as well as credits, interest rates and major currencies and commodities as underlying assets. As Leonteq's technology platform is built from the ground up by our inhouse development teams, it is vertically integrated, covering the entire value chain from structuring, pricing, documentation, issuance, listing and settlement to risk management, market-making, lifecycle management, distribution, risk and regulatory reporting, and accounting services. Common platform functionalities are implemented in one unique service layer that can be accessed by other applications. The grid network and calculation servers are crucial for various calculations and the distribution of such calculations. Today, our technology platform operates on approximately 75 different applications, with data centres independently working 24/7 in two remote locations outside Zurich, and plays an essential role in ensuring the quality of our products and services, the timeliness of delivery of our products and services, and the creation of new innovative product and service offerings.

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

Leonteq currently operates in eleven locations worldwide and is headquartered in Zurich with offices in Amsterdam, Frankfurt, Geneva, Guernsey, Hong Kong, London, Monaco, Paris, Singapore and Tokyo. As part of our regional growth strategy, we aim to increase our footprint in Europe and Asia by taking preparatory steps to open two new office locations in Dubai and Milan in 2020, subject to regulatory approval.

Strategy

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

Leonteq has set several initiatives in place to achieve its desired business scalability and growth.

SHIP

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

In 2019, SHIP made significant progress to be fully operational by mid-2020. To date, SHIP has six hedging counterparties connected to the platform that provide external quotes for around 11% of all daily automated transactions. In 2019, more than 2,600 transactions ran through SHIP with a total notional volume of approximately CHF 1.0 billion of which the majority was still hedged by Leonteq.

LynQs

As part of the transformation of Leonteq's platform and distribution capabilities, we launched an initiative in 2018 to transform Leonteq's structured product offering. Throughout 2019 the digital marketplace initiative developed further into what is today called LynQs and provides Leonteq clients digital access to one of the largest structured product universes available.

LynQs is an in-house developed technology based on Leonteq's analytical library and financial product engine and provides Leonteq clients with a completely new investment experience. By receiving access to one of the largest structured product universes, clients benefit from unique lifecycle management and investment ideas, and can invest in a tailor-made and optimised way. LynQs serves as a one-stop-shop and provides Leonteq's clients external access to applications, services and market and product data that were previously only available internally. The marketplace offers Leonteq's clients an array of features and modules within the existing Constructor environment, which enable them to explore new investment ideas across all asset classes, monitor structured products in real time through customised lifecycle management and maintain a comprehensive portfolio overview of all consolidated structured product investments.

The establishment and further development of LynQs will enable Leonteq to scale its platform and distribution offering.

AMC Gateway

Leonteq continued to improve operational efficiency of its actively managed certificate (AMC) gateway with a redesigned client portal. This innovative solution for asset managers is designed to customise and implement an investment strategy with greater adjustability, cost efficiency and transparency. The benefits of the AMC gateway include excellent time-to-market in the issuing process, high flexibility in terms of product design, execution across all asset classes and instruments, and daily detailed reporting on a single AMC basis.

Platform partners

Leonteq continues to improve operational efficiency and strengthen cooperation with existing platform partners. As part of this, Leonteq 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. As Leonteq continues to expand its issuance and distribution offerings, it has started to also focus on adding third-party issuers to its platform. Leonteq currently works with 14 third-party issuers in a manual or semi-automated cooperation and aims to build direct connectivity between its digital marketplace and platforms from third-party issuers.

Group results

Leonteq delivered solid performance in a challenging market environment characterised for most of the year by a dominance of geopolitical risks. The 2019 consolidated financial statements of Leonteq AG, which are prepared in accordance with International Financial Reporting Standards, show that the Group generated net profit of CHF 62.7 million in the reporting year, compared to CHF 91.5 million in 2018.

Total operating income amounted to CHF 256.2 million (-9%) driven by relatively stable net fee income of CHF 264.9 million in the absence of positive contributions from hedging activities. Total operating expenses increased only slightly by 1% despite significant investments in people and key initiatives reflecting continued cost management focus.

Leonteq issued 36,574 structured products (+29%) in 2019 and generated record total turnover of CHF 30.3 billion, an increase of 5% compared to the previous year. It also reached an all-time high in platform assets of CHF 14.7 billion as of 31 December 2019, up from CHF 11.9 billion at end-2018.

Shareholders' equity totalled CHF 662.5 million as of 31 December 2019, an increase of 9% compared to 31 December 2018. Leonteq maintained its strong capital position, with total BIS eligible capital of CHF 648.1 million and a total capital ratio of 21.1% as of 31 December 2019.

Income statement

CHF million	FY 2019	FY 2018	Change y-o-y	H2 2019	H1 2019	H2 2018	Change y-o-y
Net fee income	264.9	272.5	(3%)	144.0	120.9	126.8	14%
Net trading income/(loss)	(3.2)	21.4	(115%)	(10.7)	7.5	25.1	(143%)
Net interest income/(expense)	(8.3)	(14.9)	(44%)	(3.1)	(5.2)	(7.4)	(58%)
Other ordinary income	2.8	3.4	(18%)	1.4	1.4	1.8	(22%)
Total operating income	**256.2**	**282.4**	**(9%)**	**131.6**	**124.6**	**146.3**	**(10%)**
Personnel expenses	(116.9)	(115.7)	1%	(58.1)	(58.8)	(55.0)	6%
Other operating expenses	(40.8)	(53.2)	(23%)	(21.5)	(19.3)	(28.8)	(25%)
Depreciation	(30.1)	(16.7)	80%	(15.8)	(14.3)	(8.6)	84%
Changes to provisions	(3.3)	(3.5)	(6%)	(1.6)	(1.7)	(1.0)	60%
Total operating expenses	**(191.1)**	**(189.1)**	**1%**	**(97.0)**	**(94.1)**	**(93.4)**	**4%**
Profit before taxes	**65.1**	**93.3**	**(30%)**	**34.6**	**30.5**	**52.9**	**(35%)**
Taxes	(2.4)	(1.8)	33%	(2.1)	(0.3)	(1.5)	40%
Group net profit	**62.7**	**91.5**	**(31%)**	**32.5**	**30.2**	**51.4**	**(37%)**

Total operating income

Leonteq experienced a subdued start to the year but saw recovering client demand in the second half which resulted in relatively stable net fee income in the amount of CHF 264.9 million compared to CHF 272.5 million in 2018. In the absence of hedging contributions primarily driven by the low volatility environment, net trading result declined by CHF 24.6 million to CHF -3.2 million in 2019. As a result, total operating income decreased by 9% to CHF 256.2 million in 2019.

Net fee income

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

2018 was characterised by favourable markets and strong levels of client activity. In 2019, the first half was influenced by a subdued start with economic revenues declining sharply to CHF 8.1 million in January 2019 compared CHF 26.1 million in January 2018 resulting in a 17% lower net fee income of CHF 120.9 million in the first half of 2019 compared to the first half of 2018. In the second half client demand recovered with a 14% growth in net fee income to CHF 144.0 million compared to the prior year period. On a full-year basis, net fee income was relatively stable at CHF 264.9.1 million in 2019 compared to CHF 272.5 million.

Large ticket transactions accounted for 7%, or CHF 17.5 million, of net fee income in 2019, just slightly below the contribution of 8%, or CHF 22.0 million, in 2018.

Net fee income split by regions

CHF million	FY 2019	FY 2018	Change y-o-y	H2 2019	H1 2019	H2 2018	Change y-o-y
Switzerland	111.7	115.3	(3%)	59.3	52.4	52.0	14%
Europe	125.0	125.3	(0%)	69.8	55.2	61.0	14%
Asia	28.2	31.9	(12%)	14.9	13.3	13.8	8%
Total net fee income	**264.9**	**272.50**	**(3%)**	**144.0**	**120.9**	**126.8**	**14%**

In its home market of Switzerland, Leonteq's net fee income amounted to CHF 111.7 million in 2019 (down 3% compared to 2018). Yield enhancement products such as barrier reverse convertibles and express certificates continued to represent the most important product category in 2019. Compared to 2018, there was increased demand for leverage products and actively managed certificates. While Raiffeisen, EFG International and Leonteq were again most sought issuers, rising interest for Cornèr Bank, Standard Chartered Bank and Aargauische Kantonalbank was reported.

In Europe, the business generated stable net fee income of CHF 125.0 million in the reporting year compared to CHF 125.3 million in 2018. Products issued by EFG International and Leonteq attracted the highest level of client interest. Express certificates, barrier reverse convertibles and credit-linked notes were the most popular product types in Europe.

Net fee income in Asia decreased by 12% year on year to CHF 28.2 million, reflecting reduced client activity on the back of macroeconomic uncertainty and increased competition in the Asian structured product market. Most traded products in Asia were OTC products guaranteed by Raiffeisen and barrier reverse convertibles issued by Leonteq and EFG International.

Net trading income

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 value of financial assets and liabilities, as well as directly trade-related expenses such as brokerage fees. It is influenced by hedging activities, which can fluctuate positively or negatively depending on market factors. Over the long term, the hedging strategy is expected to have a neutral impact on Leonteq's financials. The treasury result represents the net funding costs related to Leonteq's own issued products. Net trading income fell to CHF -3.2 million in 2019 from CHF 21.4 million in the prior year primarily due to the absence of hedging contributions. In the reporting year, hedging contributions decreased by CHF 42.8 million to CHF -3.1 million on the back of decreasing volatility levels compared to 2018. At the same time, the treasury result on Leonteq's own products improved markedly by CHF 18.2 million to CHF -0.1 million compared to CHF -18.3 million in 2018 due to the new investment portfolio approach.

Net interest income

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 increased by CHF 6.6 million to CHF -8.3 million in the reporting year from CHF -14.9 million in 2018 due to higher interest income received on own collateral posted with counterparties and a decrease in the overall expected credit loss (ECL) provision on the back of the ECL model revision.

Other ordinary income

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 includes rental income from subleases. Other ordinary income amounted to CHF 2.8 million in 2019, compared to CHF 3.4 million in the previous year.

Total operating expenses

Total operating expenses increased by 1% to CHF 191.1 million in 2019 reflecting a continued cost management focus.

Personnel expenses

Personnel expenses are the largest component of total operating expenses and mainly comprise fixed and variable compensation for the Group's employees. Personnel expenses increased only slightly by 1% to CHF 116.9 million in 2019 mainly driven by stable fixed compensation. Fixed salaries grew due to the announced hiring plan, however, were partially offset by a decrease in the pension plan expenses (including a benefit of CHF 4.5 million) on the back of the introduction of a new pension plan. Headcount grew by 5%, mainly among IT development and operations specialists, to 508 FTEs at end-2019 compared to 486 FTEs at end-2018.

FTEs split by region

	31.12.2019	30.06.2019	31.12.2018	Change from YE 2018
Switzerland	350	342	335	4%
Europe	85	79	77	10%
Asia	73	74	74	(1%)
Total FTEs	**508**	**495**	**486**	**5%**
whereof IT	138	128	117	18%
whereof sales	92	87	90	2%

Other operating expenses

Other operating expenses mainly consist of professional services, expenses related to marketing, travel and representation, IT-related expenses, banking fees and other administrative expenses. The first-time adoption of IFRS 16 resulted in a decrease in other operating expenses of CHF 10.7 million and an increase in depreciation in the amount of CHF 9.6 million (and in interest expense of CHF 0.9 million) in 2019. Primarily as a result of the introduction of IFRS 16, other operating expenses decreased by 23%, or CHF 12.4 million, to CHF 40.8 million.

Depreciation

Long-lived assets (furniture, equipment, leasehold improvements, internally developed and purchased software, and IT equipment) are depreciated over their useable lives using the straight-line method. Primarily as a result of the introduction of IFRS 16, depreciation increased by CHF 13.4 million to CHF 30.1 million in 2019. Capital expenditure in information technology and systems increased by 55% due to continued investments in the company's technology platform and systems.

Capital expenditures

CHF million	FY 2019	FY 2018	Change from YE 2018
Capital expenditure	0.3	0.8	(63%)
Depreciation	(2.3)	(2.6)	(12%)
Other value adjustments/impairments, translation adjustments & reclassifications	(0.3)	—	
Net increase/(decrease) in property and equipment	**(2.3)**	**(1.8)**	**28%**
Capital expenditure	28.0	18.1	55%
Depreciation	(18.2)	(14.1)	29%
Other value adjustments/impairments, translation adjustments & reclassifications	(0.2)	(0.1)	100%
Net increase in information technology and systems	**9.6**	**3.9**	**146%**

Provisions

Provisions decreased by 6% to CHF 3.3 million in 2019 compared to the prior year.

Capital and balance sheet

Total platform assets increased by 24% and reached a record CHF 14.7 billion as of 31 December 2019, up from CHF 11.9 billion at end-2018. This increase 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 32% to CHF 4.1 billion as of 31 December 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 10.6 billion, compared to CHF 8.8 billion as of 31 December 2018.

Total balance sheet assets decreased by 15% to CHF 9.1 billion as of 31 December 2019, compared to CHF 10.7 billion as of 31 December 2018. Total liabilities decreased by 17% to CHF 8.4 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 2019, the value of those options has also decreased. Shareholders' equity totalled CHF 662.5 million as of 31 December 2019.

Balance sheet

CHF million	31.12.2019	30.06.2019	31.12.2018	Change from YE 2018
Total assets	9,076.8	9,586.7	10,690.2	(15%)
Shareholders' equity	662.5	631.2	607.7	9%

As of 31 December, Leonteq qualified as a category 5 financial institution pursuant to FINMA Circular 2011/2. Such category 5 financial institutions were required to maintain a total capital ratio of at least 10.5% of risk- weighted assets, a common equity tier 1 (CET1) ratio of at least 7%, and a tier 1 capital ratio of at least 8.5% of risk-weighted assets. The Group and its subsidiary, Leonteq Securities AG, both complied with these minimum capital requirements throughout 2019 and 2018, without exception.

Leonteq's total eligible capital totalled CHF 648.1 million as of 31 December 2019, up 6% compared to CHF 610.6 million as of 31 December 2018. Risk-weighted assets increased by 10% to CHF 3,067.0 million driven by higher market risk primarily due to the growth in issuance volume. With a BIS total capital ratio of 21.1% (22.0% at end-2018) and a common equity tier 1 ratio of 21.1% (21.9% at end-2018) Leonteq was able to maintain a strong capital position despite significant business growth. Return on equity amounted to 10% in 2019 compared to 18% in 2018.

Selected regulatory capital items

	31.12.2019	30.06.2019	31.12.2018	Change from YE 2018
Risk-weighted assets (CHF million)	3,067	2,981.1	2,780.6	10%
BIS total eligible capital (CHF million)	648.1	633.5	610.6	6%
CET1 ratio	21.1%	21.2%	21.9%	(0.8pp)
BIS total capital ratio	21.1%	21.3%	22.0%	(0.9pp)

Investment Solutions

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

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

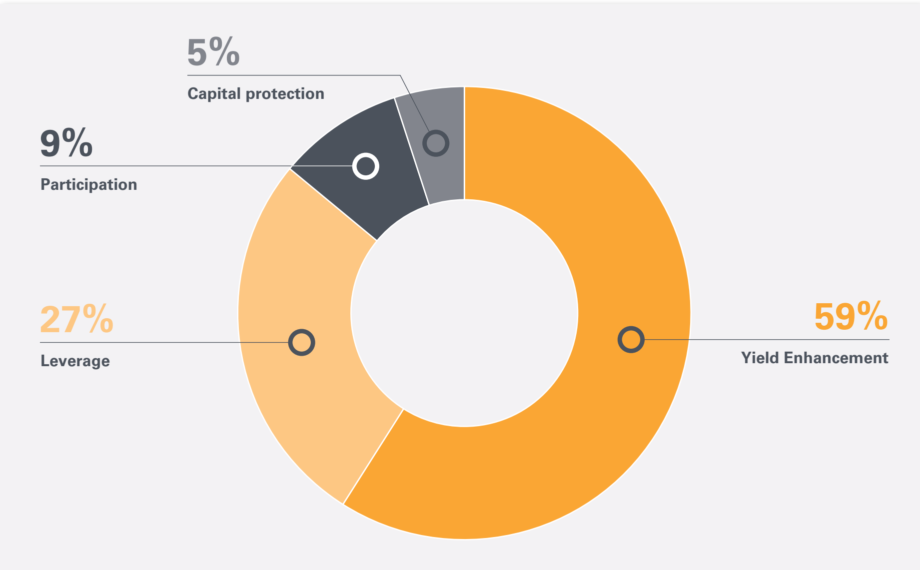
The distribution of structured investment products is performed either by Leonteq or by our issuance partners. Our distribution capabilities are complemented by a dedicated in-house ideation, structuring, and trading team and include a digital and automated pricing engine.

Our products

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

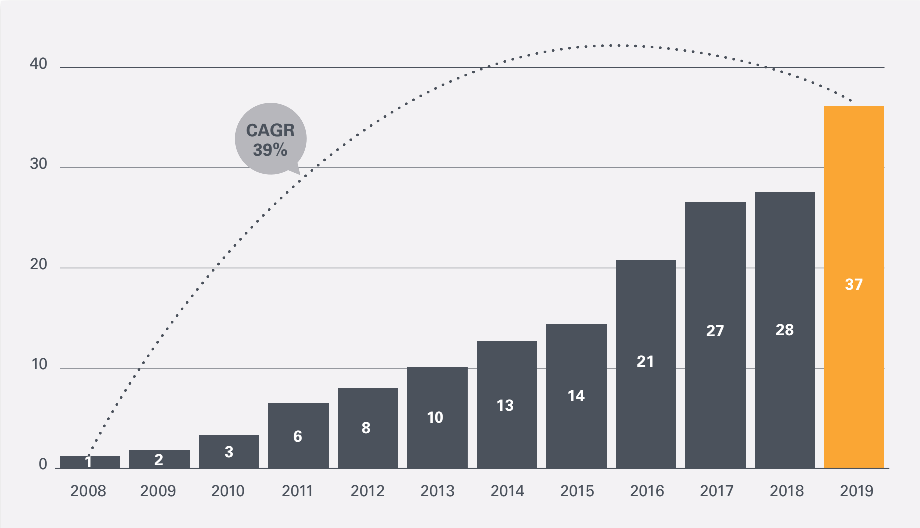
While we offer a broad range of structured products, our focus is on products resulting from our issuance partner service offering as well as on products which we offer under our name. We define structured investment products as structured products, including yield enhancement, participation and capital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

Turnover by product category (2019)



Since our company was founded in 2007, we have launched over 170,000 structured products on our platform, of which approximately 65,000 were issued in 2018 and 2019. Among these is included the world's first exchange-listed reverse convertible on bitcoin (launched in September 2019) and two tracker certificates in cooperation with Finanz und Wirtschaft on their FuW value and risk portfolio indexes.

Structured products issued (in thousand)



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

Capital protection products

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

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

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

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

Yield enhancement products

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

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

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

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

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

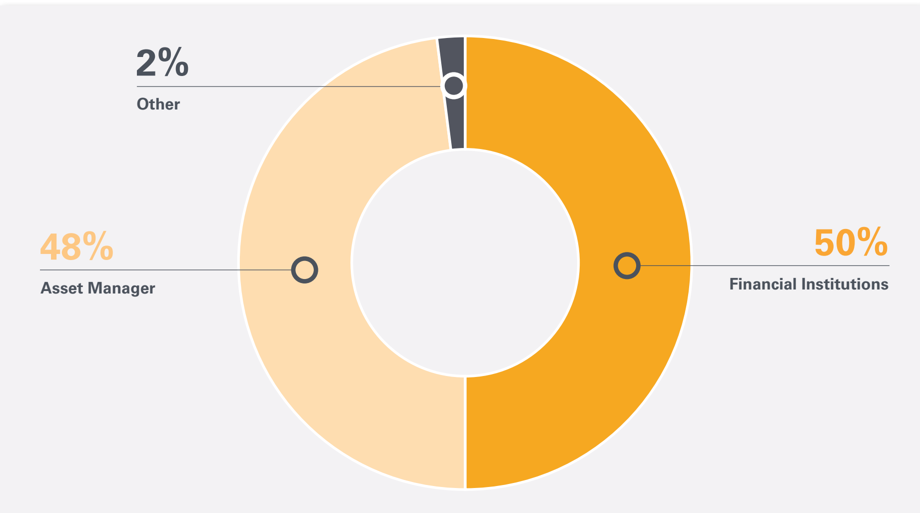
Participation products
In general, the performance of participation products is closely linked to the underlying asset's price movements, with no up or down limitations, and a comparable risk to a direct investment in the underlying. These products sometimes feature conditional capital protection (e.g.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

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

Our services

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

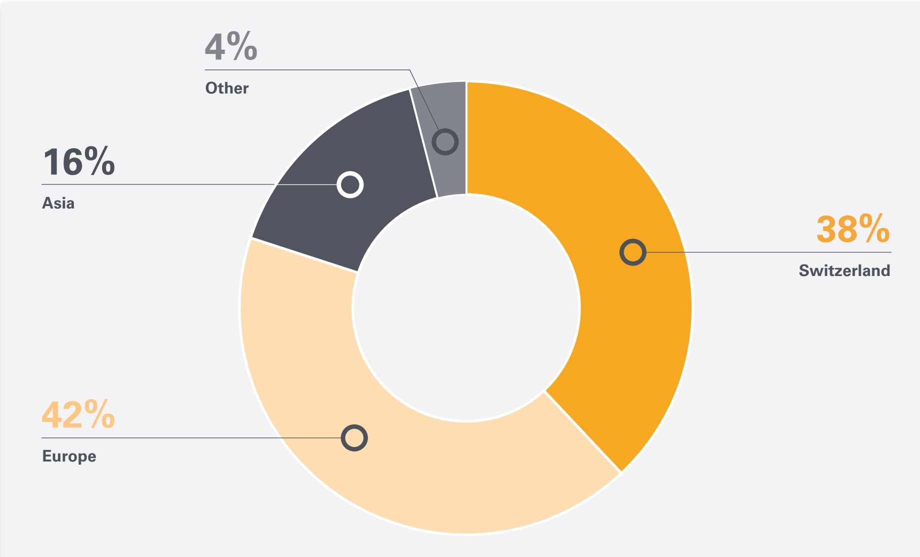
Economic fee income by type of intermediary (2019)



In 2019, 998 of our clients entered into at least one primary or secondary market transaction on account of their respective clients or for their own account. In terms of intermediary type, 50% of our economic fee income in 2019 was generated by financial institutions, 48% by asset managers and 2% by other parties.

From a geographical perspective, 38% of our economic fee income in 2019 was generated through clients domiciled in Switzerland. In the same period, European clients generated 42% of our fee income, while clients domiciled in Asia and the rest of the world generated 16% and 4%, respectively.

Economic fee income by domicile of intermediary (2019)



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

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

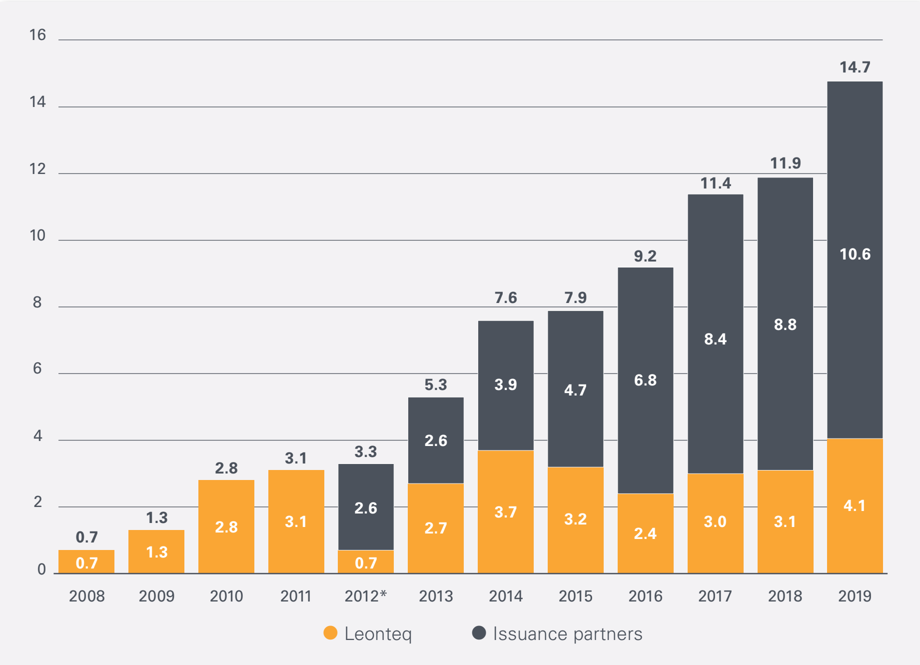
The issuance of structured products under a white-labelling cooperation arrangement provides our issuance partners with access to additional and diversified long-term funding and represents an additional revenue stream. At the same time, they are able to offer their clients structured products in their own name.

Since 2013, we have built a network of platform partners in Switzerland, Europe and Asia, and we currently work with the following financial institutions: Aargauische Kantonalbank, Cornèr Bank, Crédit Agricole Corporate and Investment Bank, Deutsche Bank, EFG International AG, J.P. Morgan, PostFinance, Raiffeisen Switzerland and Standard Chartered Bank. As part of its efforts to further improve operational efficiency and enhance the level of automation for its platform partners, Leonteq added new functionalities and features to the white-labelling platforms of Raiffeisen, Cornèr Bank and Crédit Agricole CIB. It also launched an upgraded white-labelling platform for EFG International that enables automated pricing, trading and execution processes.

As Leonteq continues to expand its issuance and distribution offerings, it has started to also focus on adding third-party issuers to its platform. Leonteq currently works with 14 third-party issuers in a manual or semi-automated cooperation and aims to build direct connectivity between its digital marketplace and platforms from third-party issuers.

By focusing on the platform partner business, we were able to significantly increase the volumes outstanding with white-labelling and third-party issuers, resulting in a 72% contribution to the total outstanding volume. At the same time, Leonteq continued to offer its own products, which serve as its primary source of funding, while maintaining the flexibility to offer clients the full range of products and pay-offs with any additional features required. Since its inception in 2007, our platform assets have grown by an annual average of 32%. As of end-2019, we had CHF 14.7 billion of platform assets outstanding.

Platform assets (CHF billion)



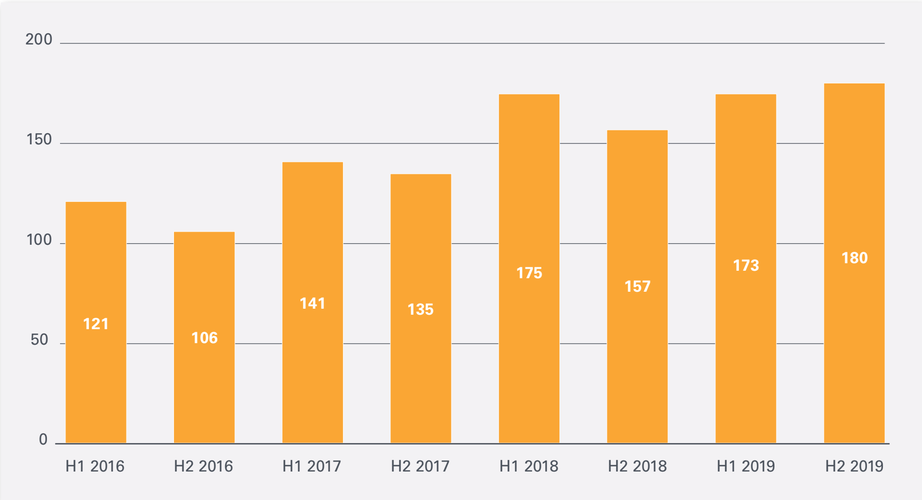
* Before 2012, products were issued by EFG Financial Products; at the time of the IPO in 2012, Leonteq sold its Guernsey operations to EFG International; after the rebranding, in 2013, Leonteq started issuing products under its own name.

Our market

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

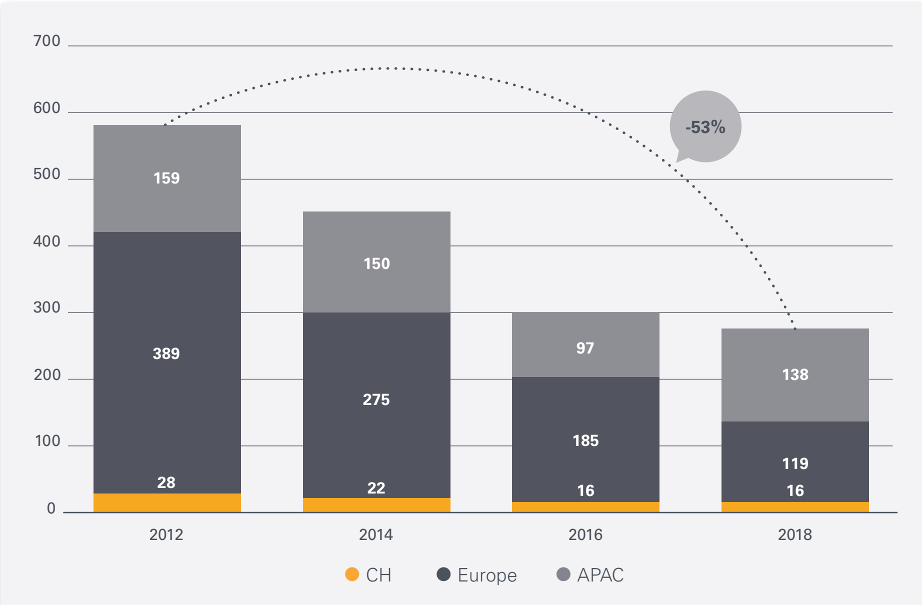
According to the statistics published by the Swiss Structured Products Association (SSPA), taking into account both listed and unlisted products created in or for Switzerland and sold nationally and internationally, the turnover of structured products increased by 6% to CHF 352 billion in 2019. This increase was primarily driven by yield enhancement products (up 11% to CHF 170 billon) and participation products (up 33% to CHF 71 billion), while leverage products decreased by 14% to CHF 73 billion and capital protected products remained stable at CHF 47 billion. From an asset class perspective, equity and foreign exchange were again the dominant asset classes for structured products with a share of 54% and 26%, respectively in 2019, continuing the trend seen in 2018. With a 51% increase to CHF 8.6 billion, commodities showed the highest growth in turnover in 2019 while turnover with equity and foreign exchange grew by 8% and 2%, respectively. With a contribution of 63%, OTC products still account for the majority of turnover produced in 2019 amounting to CHF 220 billion (+7%). Turnover generated with listed products increased by 6% to CHF 132 billion from CHF 125 billion in 2018. The US dollar was the main currency once again in 2019 with a share of 38%, followed by the Euro which contributed 33% to the total turnover. The Swiss franc share rose by 2 percentage points year on year to 16%.

Market turnover Switzerland (CHF billion)



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

Number of structured product issuers



Financial year 2019

In Leonteq's Investment Solutions business line, total platform assets reached a record CHF 14.7 billion as of 31 December 2019, an increase of 24% from CHF 11.9 billion at end-2018. Turnover generated with platform partners increased by 8% to CHF 9.5 billion in the second half 2019 (full-year 2019: CHF 18.8 billion, down 5%) while platform partner margins improved to 78 bps (full-year 2019: 71 bps), up 4 bps compared to same period in 2018. Capitalising on Leonteq's investment grade credit rating, turnover generated with own issued products increased significantly by 41% to CHF 5.8 billion in the second half of 2019 (full-year 2019: CHF 11.5 billion, up 28%), while margins decreased, in line with management guidance, to 84 bps (full-year 2019: 84 bps).

Despite the challenging market environment, a record amount of 36,574 structured products (+29%) was issued on Leonteq's platform in the reporting year and Leonteq was able to attract additional clients during the year. The number of clients that made at least one primary or secondary market transaction grew from 967 to 998 intermediaries.

As a result of the decline in fee income and significantly lower trading income of CHF -33.8 million, total operating income in the Investment Solutions business line decreased by 18% to CHF 205.5 million in 2019 from CHF 250.2 million in 2018. Total operating expenses in 2019 decreased 3% to CHF 149.5 million, driven largely by lower personnel expenses. For the full year 2019, the Investment Solutions business line reported a decrease in profit before taxes of CHF 39.9 million to CHF 56.0 million compared to CHF 95.9 million in 2018.

Segment results

Investment Solutions	FY 2019	FY 2018	Change y-o-y	H2 2019	H1 2019	H2 2018	Change from H2 2018
Total operating income (CHFm)	205.5	250.2	(18%)	98.2	107.3	129.6	(24%)
Total operating expenses (CHFm)	(149.5)	(154.3)	(3%)	(75.1)	(74.4)	(74.6)	1%
Profit before taxes (CHFm)	**56.0**	**95.9**	**(42%)**	**23.1**	**32.9**	**55.0**	**(58%)**
Platform assets (CHFbn)	**14.7**	**11.9**	**24%**	**14.7**	**13.8**	**11.9**	**24%**
Whereof platform partner business (CHFbn)	10.6	8.8	20%	10.6	9.8	8.8	20%
Whereof Leonteq business (CHFbn)	4.1	3.1	32%	4.1	4.0	3.1	32%
Turnover (CHFbn)	**30.3**	**28.8**	**5%**	**15.3**	**15.0**	**12.9**	**19%**
Whereof platform partner business (CHFbn)	18.8	19.8	(5%)	9.5	9.3	8.8	8%
Whereof Leonteq business (CHFbn)	11.5	9.0	28%	5.8	5.7	4.1	41%
Fee income margin (bps)	**76**	**86**	**(10bps)**	**80**	**71**	**88**	**(8bps)**
Platform partner margin (bps)	71	72	(1bps)	78	64	74	4bps
Leonteq margin (bps)	84	115	(31bps)	84	83	120	(36bps)

Insurance & Wealth Planning Solutions

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

Our Insurance & Wealth Planning Solutions business line generates stable recurring fee income (in-force) and has seen steady growth in the underlying number of policies sold by our insurance partners. The technologically advanced services we provide in this business line have resulted in more than 47,000 individually-managed unit-linked life insurance policies being issued on our platform, with over 50,000 policy contract changes and over 1,400,000 individual transactions processed on an automated basis every year.

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

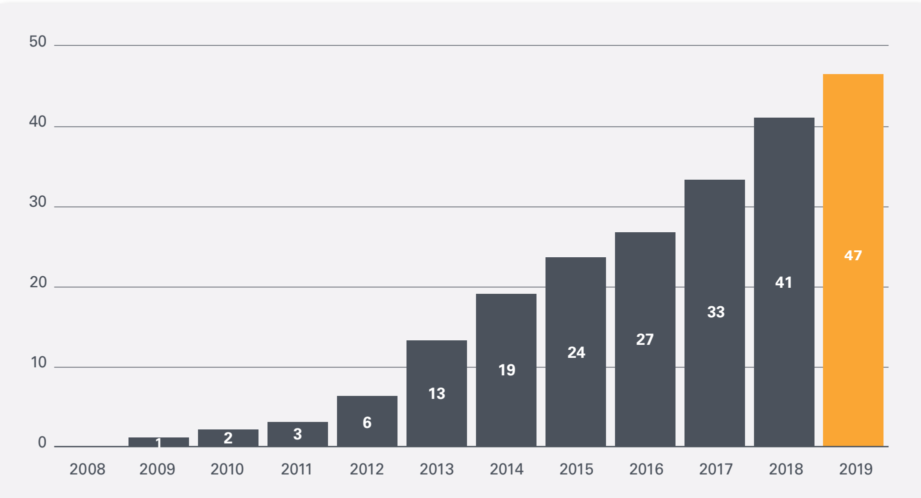
Our products

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

Principle features of our products include:

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

Outstanding unit-linked insurance policies (in thousand)



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

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

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

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

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

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

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

Our services

We are currently engaged in insurance partnerships for unit-linked life insurance policies with Helvetia and Swiss Mobiliar.

To date, Leonteq has launched four products in the Swiss market that are actively being sold. Three are in partnership with Helvetia Schweizerische Versicherungsgesellschaft AG (Helvetia) and one with Swiss Mobiliar.

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

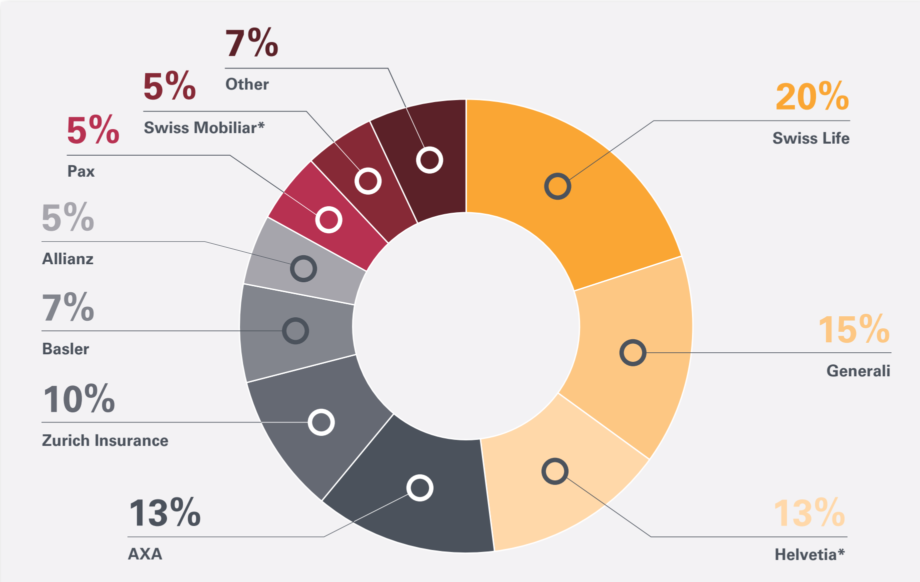
As part of our cooperation with Swiss Mobiliar, the insurer offers the Mobiliar Auszahlungsplan, a one-off financed drawdown plan to its retail clients in Switzerland.

Our market

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

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

Market shares in Switzerland for individual life insurance savings (2018)



* Insurance partners of Leonteq; Source: Swiss Insurance Association, 2019.

Financial year 2019

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 6,042 to 47,237 policies as of 31 December 2019. Total operating income increased by 63% to CHF 48.3 million in 2019 driven by both growth in net fee income of CHF 9.4 million and net trading income of CHF 9.2 million. The growth in net fee income was driven by one-off effects from changes to future service obligations. The increase in trading income was primarily driven by historically low levels of long-term interest rates and high realised volatilities. Total operating expenses increased by 32% year on year to CHF 15.4 million as a result of higher personnel expenses and an increase in depreciation due to additional investments in IT infrastructure. The Insurance & Wealth Planning Solutions business line reported an increase in profit before taxes of CHF 14.9 million, or 83%, to CHF 32.9 million, compared to CHF 18.0 million in 2018.

In response to the 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 policy holders, thus expanding its product shelf. In an effort to also increase the development and testing velocity of its digital insurance platform, IWPS commenced investment into a new cloud-based environment to support its growth potential.

Segment results

Insurance & Wealth Planning Solutions	FY 2019	FY 2018	Change y-o-y	H2 2019	H1 2019	H2 2018	Change from H2 2018
Total operating income (CHFm)	48.3	29.7	63%	32.2	16.1	15.4	109%
Total operating expenses (CHFm)	(15.4)	(11.7)	32%	(8)	(7.4)	(5.8)	38%
Profit before taxes (CHFm)	**32.9**	**18**	**83%**	**24.2**	**8.7**	**9.6**	**152%**
Number of outstanding policies	**47,237**	**41,195**	**15%**	**47,237**	**44,287**	**41,195**	**15%**

Sustainability

Culture

In 2019, we redefined our corporate culture framework, aligning our vision, mission statement and values with the company Leonteq has developed into. This process was very much a company-wide endeavour, starting in January 2019 with a corporate culture survey available to all employees with a tenure at Leonteq of at least six months. The outcome, presented in a townhall, highlighted the key areas in which Leonteq already excels and those where improvement and change were needed. The key areas for improvement were further explored as part of a series of corporate culture workshops comprised of corporate culture ambassadors (a pre-defined group of employees from various departments and ranks within the company) and Executive Committee members. These company representatives worked together to address the problem areas highlighted in the survey and to redefine Leonteq's vision, mission statement and values.

In a further step to solidify the importance of Leonteq's new corporate culture framework, a Corporate Culture Committee was established in October 2019. Employees company-wide were encouraged to run for election and members were elected through an anonymous majority vote. The committee is chaired by the CEO, Lukas Ruflin.

Vision and mission statement
With the vision to be the leading marketplace for structured investment solutions, it is our mission to deliver quality products and services to our partners and clients.

We achieve this by living our core values, which shape the essence of our corporate culture. Our people come together every day with great passion and dedication to combine their expertise and deliver quality services for our company, our clients and our partners.

Our values
Our core values build the foundation of our corporate culture. We live, respect and protect them.

Passion
We love what we do, take pride in our work, and are excited to be innovators in our field.

Quality
We uphold professional excellence in everything that we do, creating sustainable relationships and driving innovation.

Expertise
We are a team of experts; we trust our specialists, develop our teams and share our knowledge.

Dedication
Our success is driven by committing to and focusing on our clients' needs, professionally and in a solution-oriented manner.

People Together
We believe in the power of collaboration between our employees, our clients and our partners, and we respect them for their values, knowledge and experience.

Stakeholder engagement

Leonteq is committed to a continuous open and fair information policy with its stakeholders to keep them informed of the Group's performance and business activities. We use targeted communication methods through various platforms. They include:

Clients and partners
Our clients and partners are serviced by a dedicated sales force of industry professionals with the support of a distribution system that includes in-house ideation and structuring and trading team, as well as a digital, automated pricing engine. Clients and partners receive regular newsletters on product and business updates and can subscribe to the e-mail distribution service to receive free and timely notification of potentially price-sensitive facts.

Board of Directors, Executive Committee and employees
All employees, including the Executive Committee and Board of Directors, receive regular updates on business developments and changes within the company and the industry as a whole. A variety of company events and engagement activities are regularly held for all staff members. Morning Meetings take place twice a week to inform staff about internal product structuring updates, as well as external industry affairs with presentations by external business leaders from top financial institutions. Power Hours and Townhalls are also held regularly to inform employees about topics ranging from internal business developments to important current events and industry trends, as well as advice on health and other topics. In 2019, topics covered included regular Product Organisation updates, social media and cyber-security safety measures to name a few examples.

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

Shareholders, investors and analysts
The Group maintains regular contact with its shareholders, investors and analysts. Leonteq holds individual and group meetings bi-annually during half- and full-year results roadshows as well as at investment conferences. When new analysts take up coverage of Leonteq, they are taken through a thorough onboarding process before initiation. Throughout the year, the Investor Relations department is in proactive contact with its investors and analysts, updating them on business or market developments.

Media and the general public
Information is provided to shareholders and other stakeholders each year by means of the annual and half-year reports, together with press releases, presentations and brochures as needed. Interested parties can subscribe to the e-mail distribution service to receive free and timely notification of potentially price-sensitive facts. The Company maintains a regular updated schedule of important publication and event dates, updated information on matters of corporate governance, as well as the latest version of its Articles of Association on its website.

Notices to shareholders required under Swiss law are made by publication in the Swiss Official Gazette of Commerce. Notices required under the listing rules of the SIX Exchange Regulation are published on the Company's website and simultaneously distributed via press releases to all interested parties, to at least two Swiss newspapers of national importance, to at least two electronic information systems and to SIX Exchange Regulation.

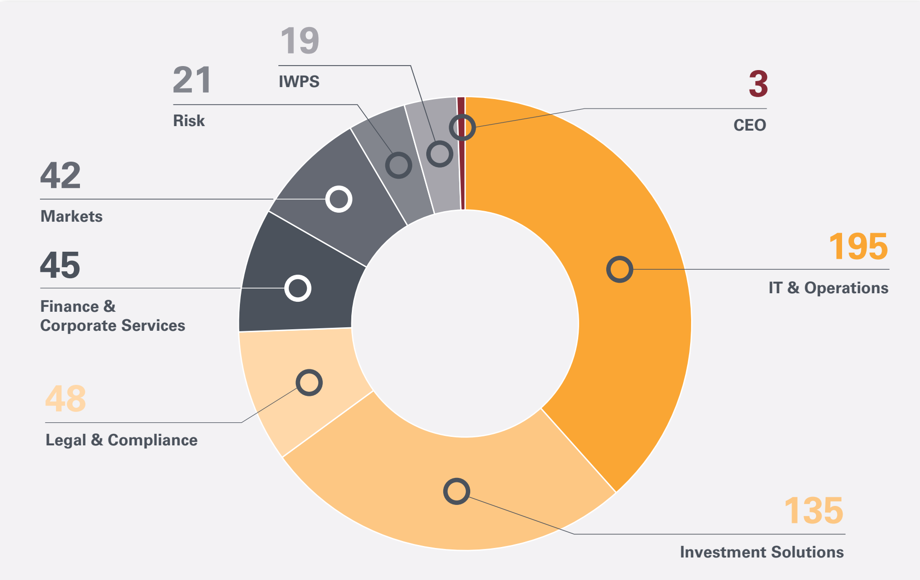
Rating agencies
The rating agencies Fitch Ratings Ltd. (Fitch) and Japan Credit Rating Agency, Ltd. (JCR) have evaluated and assigned ratings to Leonteq AG and Leonteq Securities AG (including the Guernsey and Amsterdam branches), respectively. In order to ensure the most accurate and up-to-date rating possible, Leonteq maintains regular contact with these rating agencies and routinely informs them on business developments.

Memberships
As a leading marketplace for structure investment products, Leonteq is active in promoting and supporting the image of the structured products sector within the Swiss financial sector. As such, Leonteq's Head Investment Solutions and Executive Committee member, David Schmid, sits on the Board of Representatives of the Swiss Structured Products Association (SSPA).

Employees

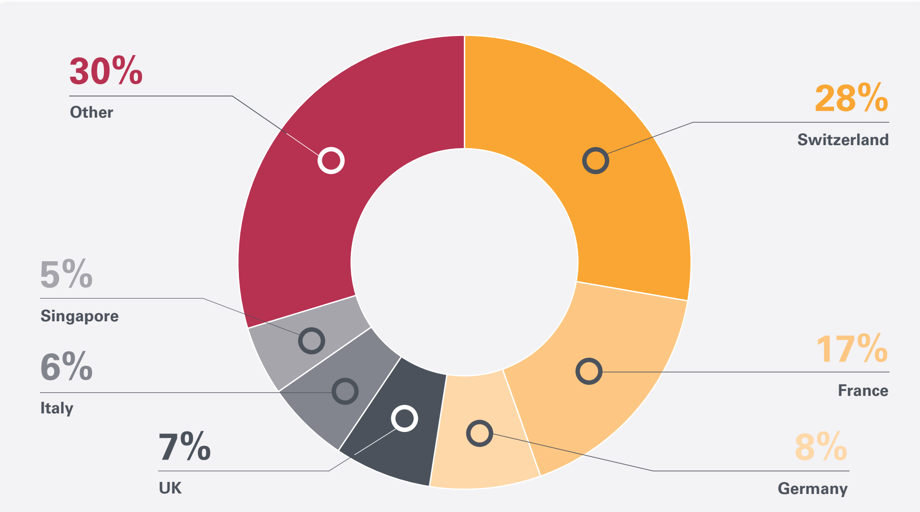
Headcount
At Leonteq, we recognise that our employees are our most important resource and the key to our success in all areas of our business. As our company continues to innovate and expand, we are also growing our workforce. As of end-2019, we increased our full-time equivalents by 5% to 508 full-time equivalents (2018: 486 full-time equivalents). Equalling a total headcount of 519 employees, 415 of those are male and 104 female. When expanding our workforce, it is also important to ensure that all our employees are committed to helping achieve the company's goals. Providing interesting fields of work, attractive training and development opportunities and a safe working environment, while promoting open communication within the team, are our key areas of focus when positioning Leonteq as an employer of choice. We are proud to employ a unique pool of structured investment product experts with extensive experience in the relevant field who have been hired from major investment banks, leading law firms, Big-4 audit and management consulting companies, FINMA and SIX.

Employees by department (end-2019)



Our workforce comprises employees of 50 different nationalities and the average age is 36 years. We also strive to help our staff achieve a healthy work/life balance, allowing them to combine their professional and personal commitments. We therefore offer part-time working models on an individual basis. As of end-2019, 8% of our workforce was employed on a 90% basis or less.

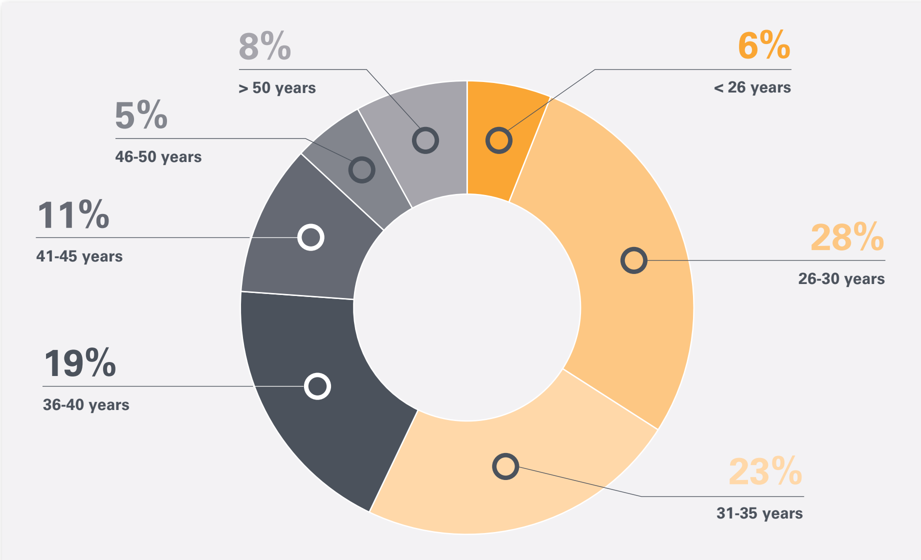
Distribution of workforce by nationality (end-2019)



Employee retention and tenure

We are a young and dynamic company and take pride in the talent we hire. In 2019, coming out of a company restructuring that took place in 2017, we experienced an employee turnover rate (defined as the total number of leavers in relation to the average headcount of the respective period) of 19% (20% in 2018; 31% in 2017), but we have a core group of employees who have been with the company for several years. Of our workforce, 10% of employees have ten or more years of experience at Leonteq, and 11% have been with the company for between seven and nine years. 29% of our employees have worked at Leonteq for between four and six years, and 50% have been with the company for three years or less.

Age distribution of workforce (end-2019)



Employee support

Many factors can influence the work environment: internal company politics, economic circumstances, or even an employee's personal or family situation. Leonteq's HR department is always available and willing to support all employees or their line managers clarify any issues that may arise. For topics that extend beyond our HR department's expertise, a complimentary employee assistance service is offered through the specialised counselling firm, Movis, on topics ranging from work-related issues, to health, or personal or financial issues. Leonteq puts great efforts into supporting its staff and is aware that employees should be seen as individuals with differing needs within the context of their own life situation.

Employee remuneration

Appropriate remuneration is essential for employee satisfaction and loyalty, and Leonteq is committed to paying fair and competitive remuneration in line with industry standards. Fixed remuneration varies according to rank and other requirements, while variable compensation components are a direct reflection of the success of the company and individual performance.

Additionally, Leonteq rewards employees for their loyalty to the company by offering time benefit vacation days and sabbaticals. Upon reaching a service anniversary of 5/15/25/35 years, employees are awarded 5 additional vacation days. Upon obtaining service anniversaries of 10/20/30/40 years, depending on the employee's rank, between 10 days and 8 weeks of time off are awarded.

Employee development

From day one, we invest in the development of our employees, both as part of their professional role within a company in the financial industry as well as in areas that are partly unrelated to their specialised positions.

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

Job functions that bring a sense of meaning, satisfaction and inspiration to our staff is an important consideration for employee well-being. Leonteq offers its employees regular opportunities to develop their skills and knowledge in areas that are partly unrelated to their core area of work. These include foreign language courses, attendance of conferences and events to learn more about industry trends, as well as continued education and certification programmes such as the CFA. In 2019, four Leonteq employees completed their CFA certification, and 37 employees, or 7% of Leonteq's workforce, took part in a training course that was not a one-day event.

Young talent

Leonteq highly values and recognises young talent in its workforce. We therefore offer internships and graduate training programmes for less experienced employees. The internship programme, lasting six to twelve months, gives university students and new graduates their very first professional training within the industry. In the last three years, Leonteq hired 78 interns, nine of whom subsequently took on graduate positions and eight of whom were hired directly for permanent roles.

Leonteq's graduate programme, which was initiated in 2015 and subsequently took place in 2016, 2018 and 2019 offers long-term career development opportunities for new graduates by providing tailored, business-specific training so that they can become highly effective professionals. The 12-month programme includes an off-campus, two-week intensive training course, and upon successful completion of the programme, graduates receive full-time employment. Of the 109 graduates hired between 2015 and 2019, 60% are still with the company. In 2019, we hired 20 graduates.

Leonteq leadership

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

In 2019, we additionally implemented a 360-degree management review to holistically assess the performance of each leader throughout the company. Through this process we are actively able to encourage good leadership practices and address issues where they are present.

Ethics and compliance

Leonteq takes measures each year to ensure proper training of its employees on relevant compliance matters. It continues to conduct mandatory compliance trainings for all employees via e-learning to prevent violations of the Code of Conduct and other important regulations such as the European Union General Data Protection Regulation (GDPR). Whilst GDPR is a European Union regulation it does impact organisations outside of the EU such as Leonteq, as we operate and have customers inside of the EU. As a result, we have ensured that we are compliant with the regulation and our staff are aware of it and their responsibilities.

Social engagement

Sponsoring

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

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

As part of our CSR activities in Asia, Leonteq has partnered with two organisations to support animal welfare and children with disabilities. In cooperation with Wildlife Reserve Singapore, Leonteq contributed to the sponsorship of their animal adoption programme by adopting a giant tortoise. Funds raised through this adoption go to the support of programmes to improve animal welfare. Alongside this, Leonteq employees worked with children from the Rainbow Centre in Singapore, an organisation aimed at improving the quality of life for children with disabilities.

Green footprint

Sustainability has long been an important part of Leonteq's corporate culture. With the growth of our business, we are consistently making efforts to reduce our environmental footprint.

Minergie standards

Our Zurich office operates according to the Minergie building standard. The emphasis here is on creating comfortable working conditions while reducing energy consumption. Our offices are also equipped with a controlled air exchanger.

Renewable energy

The electricity used to run our offices and data centres comprises 91.3% renewable energy, 82.2% of which is generated using hydropower. Each month, our Zurich headquarters use around 50,000 kWh of energy, and our datacentres use 100,000 kWh. With the objective to continue to improve our energy consumption, Leonteq has signed a "Kantonale Zielvereinbarung", which indicates our commitment to do so in the coming years.

Mobility management

To encourage employees to engage in sustainable practices, Leonteq subsidises Swiss public transportation pass costs by 15% and offers a very limited number of parking spaces in order to encourage the use of public transport. In 2019, Leonteq additionally took part in the Swiss-wide health promotion campaign bike to work. Twenty-four Leonteq employees formed six teams and took part in the challenge to support sustainable mobility, fitness and teambuilding.

RISK AND CONTROL

Audited information according to IFRS 7 and IAS 1

Risk and capital disclosures provided in line with the requirements of International Financial Reporting Standard 7 (IFRS 7), Financial Instruments: Disclosures, and International Accounting Standard 1 (IAS 1), Presentation of Financial Statements, form part of the financial statements included in the "Consolidated financial statements" section of this report and audited by the independent registered public accounting firm PricewaterhouseCoopers AG, Zurich. This information is marked as "Audited" within this section of the report.

Signposts

The Audited | signpost that is displayed at the beginning of a section, table or chart indicates that those items have been audited. A triangle symbol -▲- indicates the end of the audited section, table or chart.

Risk management and control framework

Audited | The proper assessment and control of risks are critically important for Leonteq's business. In compliance with regulatory requirements in Switzerland and other applicable jurisdictions, the Group has established a comprehensive risk management and control framework covering market risk, credit risk, operational risk 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.

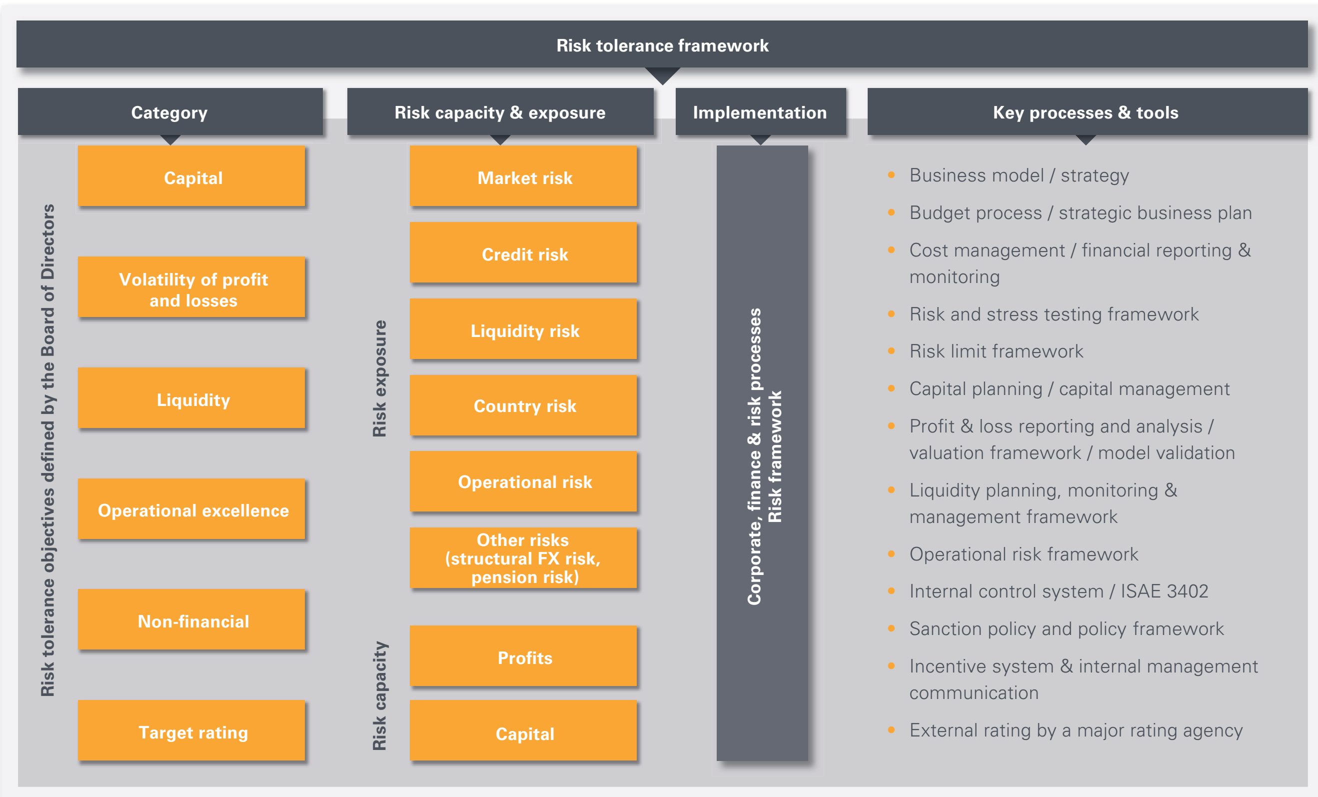
Risk management and control principles

Risk management and control are an integral part of the ongoing management of Leonteq's business. Leonteq is exposed to market, credit and operational risks as part of its client-focused, fee-based business model. Risk management and control are an important component of this model, ensuring that the activities of Investment Solutions and Insurance & Wealth Planning Solutions – which offer services related to the structuring and issuance of structured investment products – are client-driven rather than motivated by proprietary risk-taking activities.

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

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

Our policies, risk measurement and reporting methodologies and the risk limit framework reflect the above principles. The risk framework is constantly being developed to take account of new business activities and changes in our risk profile. ▲

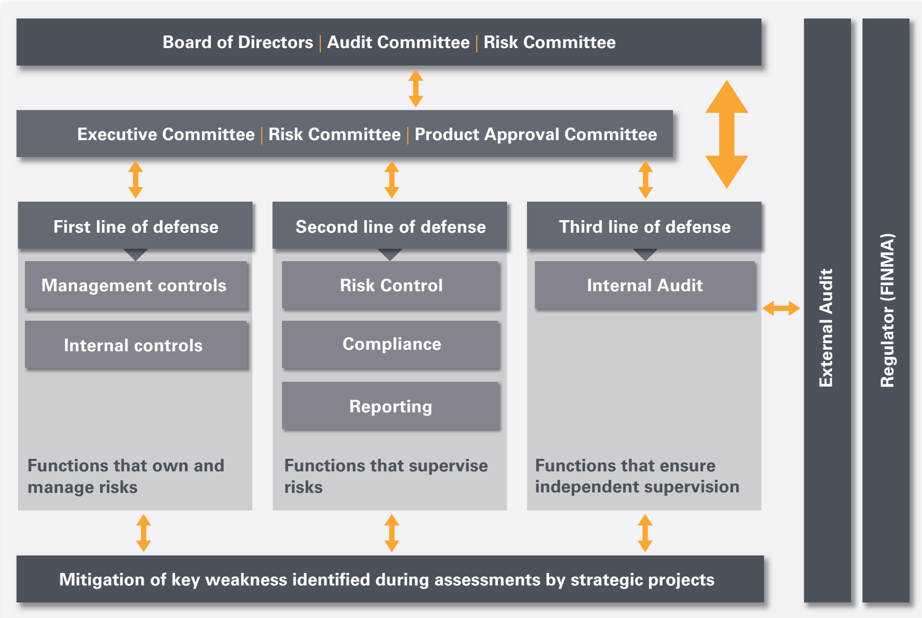


Risk governance

Leonteq's risk governance framework operates according to the "Three lines of defence" model, which provides guidance regarding the main set-up of the internal control system, with its clear allocation of tasks and responsibilities and the segregation of duties between risk management and risk control functions, as well as Internal and External Audit.

Overall responsibility for the Group-wide internal control system lies with the Board of Directors and its committees. The Board of Directors defines the overall guidelines and performs an assessment of the internal control system on a regular basis but delegates the implementation and maintenance of the internal control system to the Executive Committee. The first line of defence is formed by managers and "risk owners", who are responsible for identifying, assessing and managing inherent risks associated with business activities. Line managers must implement effective internal controls, operational activities and other risk responses to address the risks associated with the processes they manage. The second line of defence consists of functions such as compliance and risk control and provides independent oversight of the risk management activities of the first line of defence. The second line of defence prepares the policies, frameworks, tools and techniques to be implemented in the first line, conducts monitoring to judge how effectively this is being done and helps to ensure consistency in the definition and measurement of risk. The third line of defence comprises the Internal Audit which reports independently to the Board of Directors and is not part of the risk management processes. The function provides an evaluation, using a risk-based approach, of the effectiveness of governance, risk management, and internal control and submits it to the Company's Board of Directors and Executive Committee.

The key roles and responsibilities for risk management and control are illustrated in the following chart and described on the following pages.



Audited | The Board of Directors is responsible for defining an appropriate framework for the measurement, limitation, management and supervision of all risks to which the Group is exposed. It approves the overall risk policies and global risk limits, following decisions by the Risk Committee.

The Risk Committee of the Board of Directors monitors a wide variety of risks – especially credit (clients, counterparties, bond investment portfolios, countries, large exposures), market, liquidity, reputational and operational risks. It also oversees general risks within the policy, framework, rules and limits set by the Board of Directors or by the Committee itself, as well as the internal control system and risk management process throughout the Group.

The Executive Committee is responsible for the operational management and supervision of all types of risks within the framework and risk appetite defined by the Board of Directors. The Chief Risk Officer is responsible for the development of the Group's risk framework, its risk management and control principles, and its risk policies. In this context, the Executive Committee has delegated certain responsibilities to the following committees:

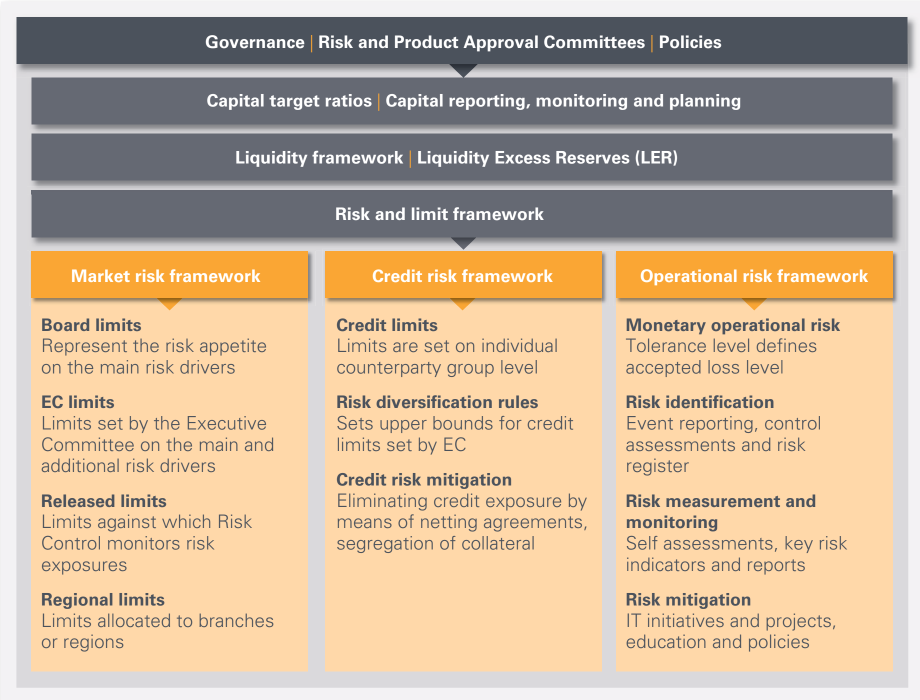
- The Product Approval Committee is responsible for approving new types of financial products before they are issued and new services before they are launched. The Product Approval Committee is composed of both members of the Executive Committee and employees responsible for operational risk control, trading and treasury.
- The Risk Committee of the Executive Committee is responsible for determining and monitoring liquidity risks, market risk limits, counterparty limits and country-specific limits within the scope defined by the Board of Directors. It establishes permissible hedging instruments within the scope defined by the Board, approves eligible issuers and stress scenarios, and issues guidelines on the general handling of legal and regulatory risks. The Risk Committee further decides on the initiation of lawsuits, the withdrawal from lawsuits or other legal proceedings and the conclusion of settlements if the committed amount is below a certain threshold or not of a material nature.

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

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

Risk limit framework

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

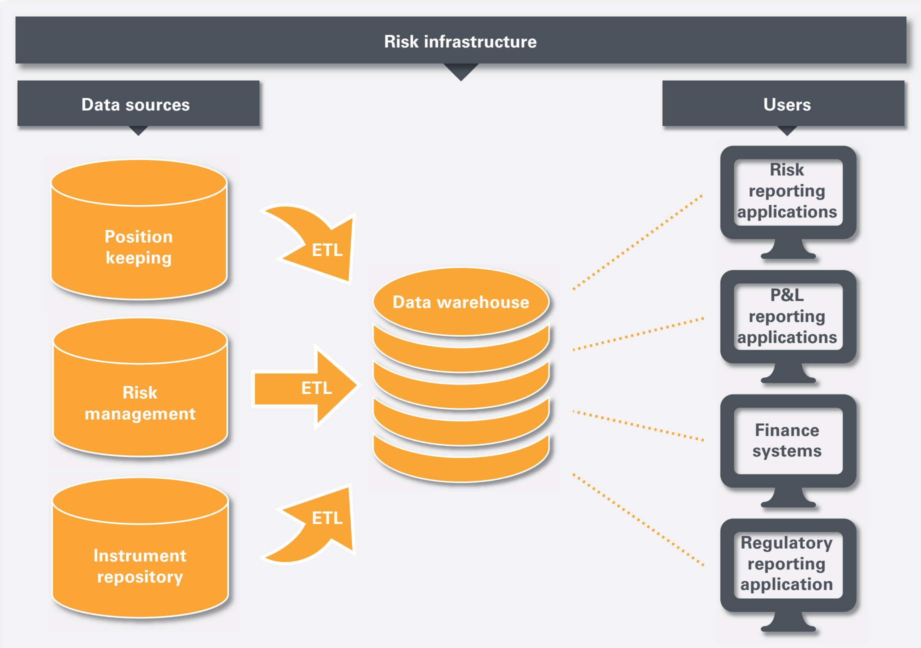


The limit framework has three different levels of limits:

- Board of Directors limits represent the Group's overall risk appetite set by the Board of Directors. Breaches of these limits are escalated to the Board of Directors.
- Executive Committee limits are additional granular limits imposed by the Risk Committee of the Executive Committee.
- Released limits are the part of the limits defined by the Board of Directors and the Executive Committee that the Executive Committee decides to release in order to closely monitor and control trading activity. ▲

Risk infrastructure

The Group's risk infrastructure has been continuously developed since Leonteq started its operations in 2007. Since then Leonteq has significantly invested in its maintenance and further development. Today, a single position keeping system eliminates the need for complex data and risk aggregation and consolidation systems. A data warehouse which is accessed by all relevant departments ensures a high level of data consistency. Automated data extractions, enrichment and risk analysis processes ensure a high level of efficiency when monitoring and reporting risks and risk exposures. Significant computational resources are available to handle hundreds of risk and trading reports each day and no approximations or proxy models are used for risk management purposes, i.e. all instruments are fully calculated.



As of 31 December 2019, over 100 experienced IT professionals were responsible for maintaining and further developing the Group's systems. The same core information technology system is used across all asset classes, integrating important front-, mid- and back-office functions as well as risk management and risk control and quantitative modelling. Leonteq's structured investment service platform consists of its proprietary information technology systems and processes as well as standard hardware and software tools for non-differentiating and commoditized functions.

Sophis RISQUE is the Group's risk management, trading and position keeping system. Leonteq uses Sophis RISQUE for all products across all asset classes in all its business lines, including for straight-through processing, covering a large part of the value chain from trading via mid-office to back office areas. Sophis RISQUE is also integrated with systems used in risk control to perform stress scenario, sensitivity and other calculations.

Analytics Service, which includes Leonteq's Analytics Library, is key to all quantitative and analytical computations that Leonteq performs and is the basis for all pricing and risk management applications. The Analytics Library is a proprietary library that contains the quantitative pricing and risk-management models that are developed in-house. Since it covers all asset classes, the Analytics Library allows to create hybrid products and implement new payoffs across all asset classes. It currently supports a wide number of different payoffs and can be extended using a scripting language. The Analytics Library contains functions for calibrating the Group's market data in a consistent way. The resulting volatility surfaces allow pricing of both exotic and vanilla options on a continuous basis. This methodology enables the Group's traders to maintain a large universe of underlyings more efficiently, facilitating short response times to client requests. The combination of pricing functionality with the calibration methods of market data within the Analytics Library ensures that Leonteq's pricings and analytical computations are not only indicative but tradable and executable for the clients.

INCORE is a proprietary data warehouse that was developed in-house and is used for internal and external reporting and data delivery. It serves as the central repository of risk and financial data reporting and is used by several departments, such as Risk Control, Finance, Compliance, Trading and Treasury. In addition, it serves as the reporting engine for regular data delivery to platform partners. INCORE also stores instrument and market data for end-of-day pricing requests and is used for daily profit and-loss analysis. Data and reports are distributed and provided to end-users via automated schedules or visualised in dashboards using business intelligence tools.

Risk control

Audited | Leonteq's risk control department is responsible for identifying, monitoring and controlling risks resulting from the issuance of structured investment products to clients, which the Group seeks to hedge efficiently. It is exposed to market risk, which results from mismatches between its exposure to equity prices, interest rates, currencies, credit spreads and commodity prices arising from the issuance of structured investment products and the instruments that are used to hedge that exposure. It is also exposed to liquidity risk relating to the need to fund its hedging activities. The Group is exposed to credit risk due to its exposure to trading counterparties and as a result of the investment of the proceeds from the issuance of structured investment products in bonds and other fixed income instruments. In addition, Leonteq is exposed to operational risks including processing errors, legal and regulatory risks and risks related to its IT infrastructure.

Risk measures

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

Leonteq does not use any approximation techniques to calculate risk sensitivities or the results of sensitivity and stress scenarios. A full revaluation of all positions, including derivatives priced using Monte Carlo techniques, is used for risk-related calculations. The resulting risk exposure and limit consumption for all established risk limits is reported to senior management on a daily basis. Risk limits are applied to credit exposures and market risk sensitivities.

Stress testing
Daily stress testing of the Group's portfolios is performed in order to monitor and control exposures to various risks. More than 300 daily stress tests and scenarios are calculated to ensure that the trading book remains within the defined risk limits. Specific stress scenarios have been defined for changes in security prices (including changes in underlying parameters such as volatilities, correlation and dividend parameters), foreign exchange rates and interest rates, as well as for the Group's credit exposures.

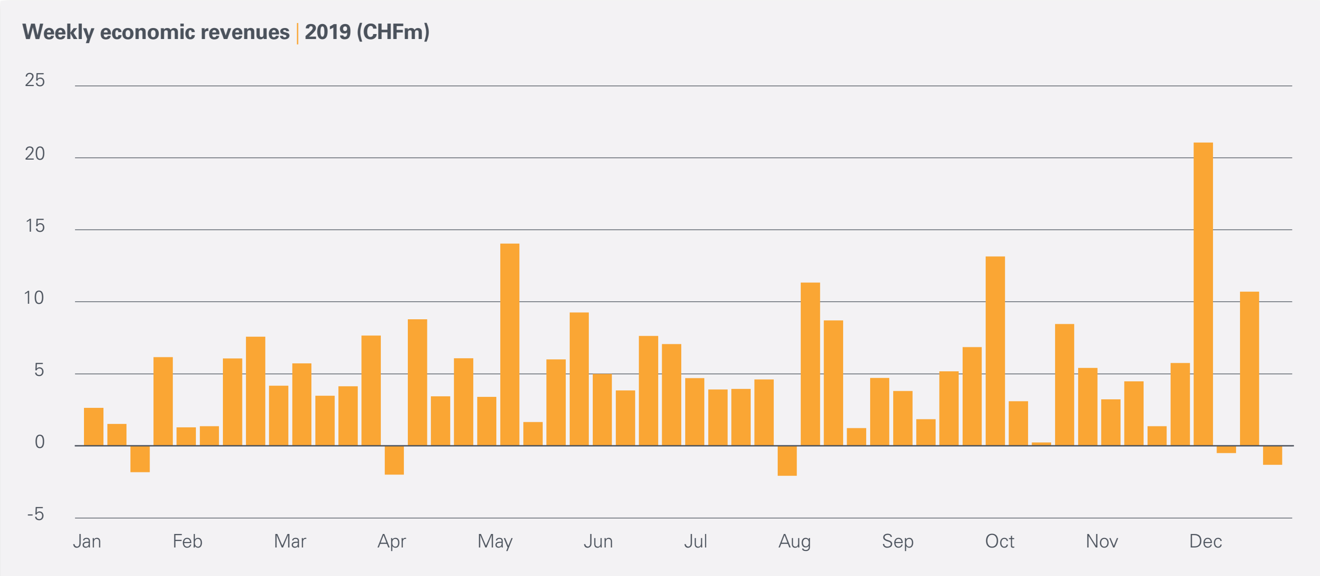
Sensitivity analysis
The Group calculates the sensitivity to changes in the value of individual positions and the sensitivity of the entire portfolios to changes in underlying risk factors such as share prices, volatility, interest rates and credit spreads.

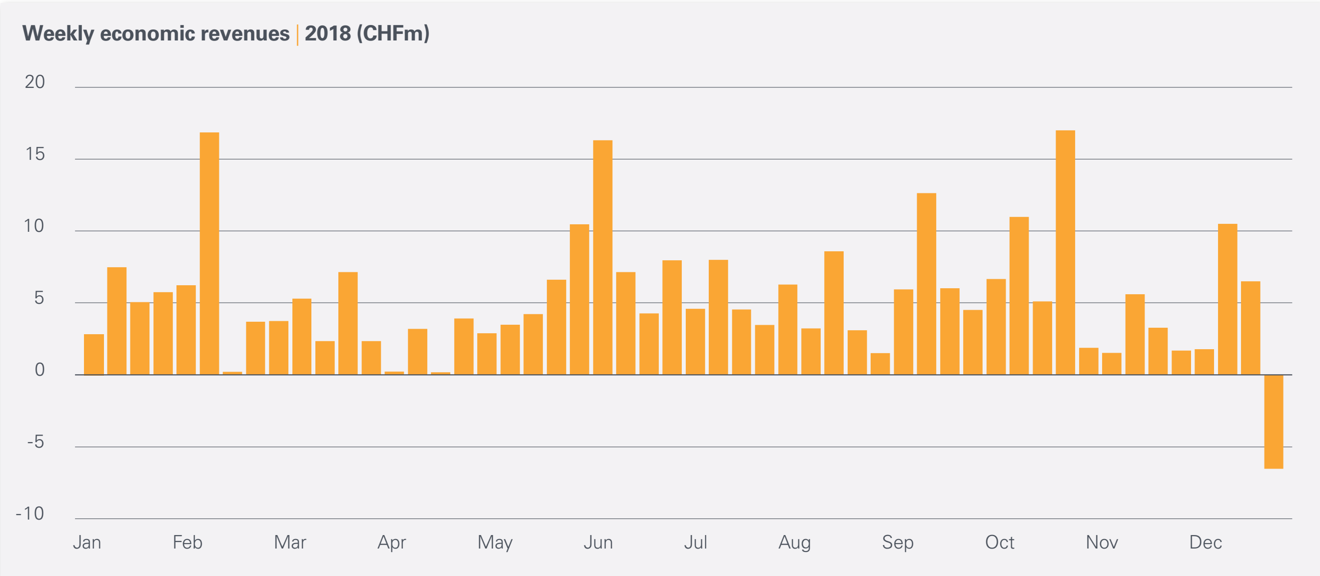
Risk concentration
Management considers that a risk concentration exists when an individual or group of financial instruments is exposed to changes in the same risk factor and that exposure could result in a significant loss based on plausible adverse future market developments. Management monitors and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

Profit and loss analysis

The Group performs daily profit and loss analysis and reports economic revenues on a consolidated as well as individual trading book level to senior management. Economic revenues consist of sales and trading income earned and are considered as recognised at the trade date without applying IFRS revenue recognition rules. Economic revenues do not include certain other income components such as partner project cost reimbursements.

The below charts show the weekly economic revenues for the financial year 2019 and 2018. Leonteq's fee-based business model and its focus on risk management within tight limits is evidenced by a small number of weeks with negative contribution. The economic revenues are relatively stable in different market dynamics as a result of a large number of trades with a rather small average notional per trade. In 2018 and 2019, a total of 6 out of 104 weeks had a negative contribution in the amount of CHF -14.3 million, representing 3% of the total economic revenues of CHF 537.0 million during these periods.





Market risk

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

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

Monitoring of market risk

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

- Delta risk measures the impact of a change in the price of the underlying (equity, precious metal or commodity) and the impact on profit and loss is measured based on a 1% increase in the price of all underlying securities.
- Vega risk is the sensitivity of the derivative value with respect to changes in the implied volatility of an underlying (equity, precious metal or commodity) and the impact on profit and loss is measured based on a 1% normalised shock on the implied volatility in absolute terms for all underlyings. A normalised volatility shock is defined by a term structure of shocks with shocks decaying by 1/sqrt(t), with caps and floors applied at the short and long end.
- Correlation risk measures the impact on the derivative value of changes in implied correlation between underlying pairs and the impact on profit and loss is measured based on a change in implied correlation of 1 percentage point in absolute terms for all underlying pairs.
- Dividend risk measures the impact on the derivative value of changes in the expected dividend and the profit or loss impact is measured based on a change in dividend of -10% in relative terms for all underlyings.
- Foreign exchange risk measures the impact of a change in currency prices. The impact on profit and loss is measured for a 1% change in the value of all currencies against the Swiss franc. Sensitivities are further classified into G10 currencies (FX G10) and non G10 currencies (FX EM).
- Credit spread risk measures the impact of a change in the price of the underlying bond as a result of a change in the credit spread of the issuer and is measured based on the change in credit spreads of 10 basis points. Sensitivities are divided between credit linked products (CS10 Credit linked products), corporate and financial institution exposures (CS10 Corporations and banks), and governments, agencies and supranationals (CS10 Governments and agencies).
- Interest rate risk measures the impact of a parallel shift in the yield curve and the impact on profit and loss is measured based on a change in all the yield curves of 1% (DV100) for the G10 interest rates (IR G10) and the non G10 interest rates (IR EM).
- IR vega risk is the sensitivity of the derivative value with respect to changes in the implied volatility of interest rates and the profit or loss impact is measured based on a change in the normal implied volatility of +1 basis point for all interest rate curves.

Sensitivity analysis

As of 31 December 2019, the Group had the following exposures relating to its financial assets and liabilities.

Impact on the income statement

CHF thousand	31.12.2019	31.12.2018
Risk factor		
Equity delta	65	(319)
Precious metal delta	134	35
Commodity delta	(43)	(30)
Equity vega	2,294	3,657
Precious metal vega	16	(10)
Commodity vega	223	(165)
Equity correlation	(4,570)	(9,820)
Equity dividend	(3,480)	(5,799)
FX G10 delta	(44)	(328)
FX EM delta	46	150
CS10 Credit linked products	437	345
CS10 Government and agencies	(1,866)	(2,526)
CS10 Corporations and banks	(1,039)	(983)
IR G10 DV100	(7,868)	3,980
IR EM DV100	(444)	310
IR Vega	(107)	(66)

Impact on equity

CHF thousand	31.12.2019	31.12.2018
Risk factor		
FX G10 delta	2,905	N/A
CS10 Government and agencies	(81)	N/A
CS10 Corporations and banks	(3,836)	N/A

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. Consequently, the functional currency of the branch is US dollar. As of 31 December 2019, the new branch was funded with capital of USD 150 million as well as a long-term intra-group loan of USD 150 million, which created a US dollar exposure for the Group in the amount of approximately USD 300 million. Sensitivities between the US dollar and the Swiss franc affecting the Group's equity are reflected in the above table.

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 new 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". Credit spread sensitivities relating to this FVOCI portfolio are presented in the above table. ▲

Stress analysis

Audited | 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 31 December 2019 and as of 31 December 2018. 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.

Structured products

31 December 2019 CHF thousand	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	(69,844)	(31,161)	(8,879)	10,904	35,582	64,242
Spot -5%	(31,976)	(12,740)	(808)	10,689	25,977	46,662
Spot -2%	(17,438)	(7,025)	(95)	6,967	17,746	34,297
Spot 0%	(10,299)	(4,407)	—	4,666	12,721	27,433
Spot +2%	(3,020)	(1,345)	437	3,151	9,291	21,938
Spot +5%	9,924	4,855	3,701	4,077	7,491	17,202
Spot +10%	30,811	20,542	15,589	12,805	12,414	19,189

31 December 2018 CHF thousand	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	(55,542)	(23,995)	(8,995)	1,861	10,082	7,733
Spot -5%	(40,976)	(14,249)	(934)	8,391	16,180	13,252
Spot -2%	(30,576)	(10,325)	284	7,682	13,568	9,221
Spot 0%	(24,055)	(8,476)	—	5,944	9,883	4,846
Spot +2%	(19,627)	(7,435)	(1,228)	2,936	5,329	(458)
Spot +5%	(15,858)	(8,614)	(5,531)	(3,617)	(3,139)	(9,729)
Spot +10%	(16,345)	(17,022)	(17,888)	(19,250)	(21,997)	(29,439)

Pension products

31 December 2019 CHF thousand	Vol. –20bp	Vol. –10bp	Vol. 0bp	Vol. +10bp	Vol. +20bp
Spot -50bp	570	811	1,061	1,359	1,716
Spot -25bp	1,963	819	173	(147)	(241)
Spot 0bp	3,591	1,392	—	(860)	(1,356)
Spot +25bp	3,907	1,476	(179)	(1,296)	(2,028)
Spot +50bp	2,648	480	(1,055)	(2,144)	(2,901)

31 December 2018 CHF thousand	Vol. –20bp	Vol. –10bp	Vol. 0bp	Vol. +10bp	Vol. +20bp
Spot -50bp	(92)	(1,019)	(895)	(114)	1,101
Spot -25bp	2,281	449	(224)	(113)	548
Spot 0bp	3,550	1,176	—	(330)	(55)
Spot +25bp	3,895	1,387	(9)	(595)	(589)
Spot +50bp	4,905	2,112	383	(532)	(835)

Credit risk

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

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

Monitoring of credit risk

Leonteq is exposed to credit risks related to over-the-counter (OTC) derivatives and securities lending and borrowing activities with counterparties, as well as through the investment of proceeds from the issuance of structured investment products in bonds or other fixed income instruments, as well as the exposure incurred by the issuance from credit linked notes. Counterparty and country risk limits are set by management and reviewed regularly by the Risk Committee of the Board of Directors. Exposure to counterparties resulting from the Group's OTC derivatives and securities lending and borrowing activities is typically mitigated through the use of mark-to-market collateral and close-out netting arrangements. Investments in bonds or other fixed income instruments are subject to additional limits.

Counterparty exposures

CHF million	31.12.2019 Exposure	31.12.2018 Exposure
OTC	23.5	67.3
SLB	46.3	62.9
Total	**69.8**	**130.2**

Investment portfolio

The Group has primarily invested proceeds from own product issuance in short- to mid-term high-quality bonds issued by corporations and financial institutions, as well as by central governments, organisations supported by these governments and supranational organisations. A comprehensive overview of the investment portfolio is provided in the following tables:

CHF million	Maturity						Total 31.12.2019	Total 31.12.2019 in %
	0 – 12 months	12 – 24 months	24 – 36 months	36 – 48 months	48 – 60 months	>60 months		
Governments and agencies[1]	77.0	456.9	341.2	167.2	51.1	0.0	1,093.4	45.5%
of which Aaa	43.2	303.9	216.2	123.5	39.3	0.0	726.1	30.2%
of which Aa1-Aa3	33.8	153.0	125.0	43.7	0.0	0.0	355.5	14.8%
of which A1-A3	—	—	0.0	0.0	11.8	0.0	11.8	0.5%
Corporations/Institutions	11.1	56.1	202.3	175.1	209.3	220.7	874.6	36.4%
of which Aaa	—	—	28.5	0.7	14.3	60.4	103.9	4.3%
of which Aa1-Aa3	15.6	20.3	45.6	56.2	41.6	74.2	253.5	10.6%
of which A1-A3	5.9	35.8	126.8	101.5	138.5	79.3	487.8	20.3%
of which Baa1-Baa3	—	—	1.4	6.0	14.9	6.8	29.1	1.2%
of which B1-B3	(10.4)	—	0.0	10.7	0.0	0.0	0.3	0.0%
Banks	57.9	39.1	106.4	63.0	96.5	71.4	434.3	18.1%
of which Aa1-Aa3	24.9	12.6	76.0	29.4	26.3	34.4	203.6	8.5%
of which A1-A3	22.9	26.5	12.3	28.6	61.3	32.1	183.7	7.6%
of which Baa1-Baa3	10.1	—	18.1	5.0	8.9	4.9	47.0	2.0%
Total	**146.0**	**552.1**	**649.9**	**405.3**	**356.9**	**292.1**	**2,402.3**	**100%**

[1] Includes bonds issued by governments, public sector bodies and supranational agencies.

CHF million	Maturity						Total 31.12.2018	Total 31.12.2018 in %
	0 - 12 months	12 - 24 months	24 - 36 months	36 - 48 months	48 - 60 months	>60 months		
Governments and agencies[2]	661.2	266.8	233.5	177.6	127.5	48.8	1,515.4	86.1%
of which Aaa	543.4	184.3	167.7	83.9	107.6	48.8	1,135.7	64.5%
of which Aa1-Aa3	117.8	82.5	65.8	93.7	19.9	—	379.7	21.6%
of which A1-A3	—	—	—	—	—	—	—	—
Corporations/Institutions	0.0	0.0	24.2	0.0	42.6	63.9	130.7	7.4%
of which Aaa	—	—	—	—	—	—	—	—
of which Aa1-Aa3	—	—	23.6	—	25.0	15.5	64.1	3.6%
of which A1-A3	—	—	0.6	—	11.4	48.4	60.4	3.4%
of which Baa1-Baa3	—	—	—	—	6.2	—	6.2	0.4%
of which B1-B3	—	—	—	—	—	—	—	—
Banks	0.9	15.0	15.5	10.2	27.5	45.2	114.3	6.5%
of which Aa1-Aa3	—	9.8	15.5	—	14.6	13.4	53.3	3.0%
of which A1-A3	0.9	5.0	—	10.2	8.1	23.5	47.7	2.7%
of which Baa1-Baa3	—	0.2	—	—	4.8	8.3	13.3	0.8%
Total	**662.1**	**281.8**	**273.2**	**187.8**	**197.6**	**157.9**	**1,760.4**	**100.0%**

[2] Includes bonds issued by governments, public sector bodies and supranational agencies.

▲

Operational risk

Audited | Operational risk is the risk of losses occurring due to inadequate or failed internal processes, people and systems or due to external causes. Losses can take the form of direct financial losses, regulatory sanctions or lost revenues, e.g. due to the failure of a service or system. Such events may also lead to reputational damage that could have longer-term financial consequences.

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

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

Other risks

Audited | The Group is also exposed to a number of other risks, including reputational risk, model risk and tax risk.

Reputational risk is the risk of a potential loss of reputation due to a financial loss or any other real or perceived event with a negative impact on reputation. In particular, this includes the risk arising from any cases of employee misconduct. The implemented risk framework aims to identify, quantify and reduce primary and consequential risks that could have an adverse impact on the Group's reputation. Leonteq believes that its reputational risk is further mitigated through strict compliance controls and a culture of ownership and responsibility across all levels of the Group. This is also reinforced by a systematic and transparent communication policy towards all stakeholders.

Model risk is the risk of financial loss due to inappropriate model assumptions or inadequate model usage. In Leonteq's business, the major model risks arise when models are used to value financial securities and to calculate hedging ratios. The consequence of an inadequate model could be an incorrect valuation, leading to incorrect risk measurement and incorrect hedging positions, both of which could result in a financial loss. Leonteq mitigates these risks through a comprehensive model validation process performed independently by the Risk Control department. The process includes the assessment of conceptual aspects, model implementation and integration into the risk management system, valuation results and best market practices, and it is concluded by the granting of a formal approval. Further validation is achieved through continuous monitoring of model performance in daily market operations.

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

The Group proactively manages risks relating to cyber security by implementing multiple layers of technical defences against unauthorized access from both internal and external sources. In addition to these technical defences, the Group's Information Security Management System includes scheduled controls to ensure that the procedures and routines that underpin its defences are correctly configured and are effective. ▲

Liquidity management

Audited | The Group distinguishes between market liquidity risk, or the risk that it may not be able to sell or buy assets at fair value, and funding liquidity risk, or the risk that Leonteq may not have sufficient cash or other liquid assets to meet its obligations as they come due.

Market liquidity risk

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

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

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

- Ensuring the investment universe comprises government and supranational agency credits with a high grade credit rating as well as bonds issued by corporates and financials with an investment grade rating;
- Maintaining diversification across countries and issuers;
- Specifying a minimum issue size;
- Defining the maximum concentration per single issue.

Funding liquidity risk

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

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

The liquidity management framework requires Leonteq to maintain sufficient liquidity reserves across its locations, thus ensuring adequate liquidity during general market, industry-specific or Group-specific stress conditions. Under the framework, Leonteq is required to maintain certain levels of available or onshore liquidity, excluding funding that may not be repatriated to Switzerland. The framework metrics are independently verified by Risk Control each business day. In addition, Risk Control simulate the effects of various stress scenarios on the amount of funding required under those scenarios on a daily basis. The framework requires that sufficient liquidity is available in locations to cover their respective funding requirements. If Leonteq were to experience shortfalls in any aspect of its liquidity requirements, committed credit facilities can be drawn on in conjunction with other reserve liquidity measures, as specified in the liquidity framework.

Maturity analysis of assets and liabilities

The following tables show 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 of 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, financial investments measured at fair value through other comprehensive income and trading financial assets and liabilities.

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

CHF thousand	Due				Total 31.12.2019
	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	
Assets					
Liquid Assets	130,891	—	—	—	130,891
Amounts due from banks	515,826	—	—	—	515,826
Amounts due from securities financing transactions	48,883	—	—	—	48,883
Amounts due from customers	394,938	—	—	—	394,938
Trading financial assets	2,034,867	5,950	10,576	103,692	2,155,085
Positive replacement values of derivative financial instruments	48,998	1,668,929	472,038	801,781	2,991,746
Other financial assets designated at fair value through profit or loss	1,933	21,220	144,012	1,320,156	1,487,321
Financial investments measured at fair value through other comprehensive income	—	30,055	—	1,070,295	1,100,350
Accrued income	16,517	7,079	—	—	23,596
Total financial assets	**3,192,853**	**1,733,233**	**626,626**	**3,295,924**	**8,848,636**
Liabilities					
Amounts due to banks	232,210	—	—	—	232,210
Liabilities from securities financing transactions	259,319	—	—	—	259,319
Amounts due to customers	591,304	—	—	—	591,304
Trading financial liabilities	432,606	—	—	1,301	433,907
Negative replacement values of derivative financial instruments	29,197	687,703	556,355	1,253,819	2,527,074
Other financial liabilities designated at fair value through profit or loss	986,661	797,698	1,067,479	1,292,504	4,144,342
Lease liability	—	—	9,633	53,548	63,181
Accrued expenses	125,098	53,614	—	—	178,712
Total financial liabilities	**2,656,395**	**1,539,015**	**1,633,467**	**2,601,172**	**8,430,049**

CHF thousand	Due				Total 31.12.2018
	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	
Assets					
Liquid 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
Financial investments measured at fair value through other comprehensive income	—	—	—	—	—
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
Lease liability	—	—	—	—	—
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**

Capital management

Audited | Leonteq's capital base mainly serves to cover inherent business risks. The active management of the amount 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 defined 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 based on future profits, dividend policy and corporate actions. Capital planning is based on realistic assumptions about 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.

Eligible capital

The table below summarises the Group's capital as of 31 December 2019 and 31 December 2018:

CHF thousand	31.12.2019	31.12.2018
Total shareholders' equity	662,512	607,656
Capital deductions	(5,555)	0
Other adjustments	(9,467)	0
CET 1 capital	**647,490**	**607,656**
Additional Tier 1	0	0
Tier 1 capital	**647,490**	**607,656**
Tier 2 capital	618	2,950
Total BIS eligible capital	**648,108**	**610,606**

Capital deductions account for the reversal of positive valuation differences and the expected credit loss provision on financial instruments measured at fair value through other comprehensive income. Other adjustments are deductions for proposed distributions out of retained earnings and reserves from capital contributions. Tier 2 capital component is related to the expected credit loss provision.

Capital adequacy

Risk-weighted assets are determined according to specific requirements, which reflect the varying levels of risk related to on- 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 to calculate 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. For options the delta-plus approach is applied.
- Credit risk: The international standardised approach (SA-BIS) is applied to calculate credit risk charges. Credit equivalents for derivatives are calculated according to the current exposure method. Collateral is recognised using the comprehensive approach. Requirements on potential credit valuation adjustments are calculated according to the standardised approach.
- Operational risk: The basic indicator approach is applied to calculate operational risk charges.
- Non-counterparty related risk: The standardised approach is applied to calculate non-counterparty related risk charges.

Swiss capital adequacy requirements are applicable to the consolidated Group under the supervision of FINMA and to Leonteq Securities AG as required for a licensed securities dealer. Both the Group and Leonteq Securities AG have complied with these rules and met the minimum total capital ratio of 10.5% of risk-weighted assets as of 31 December 2019 and at all times throughout 2019. The tables below summarise the required capital, risk-weighted assets and capital ratios calculated as of 31 December 2019 and 31 December 2018:

CHF thousand	BIS required capital		Risk-weighted assets	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Market risk (incl. derivatives)	161,848	138,109	2,023,104	1,726,360
Interest rates	107,505	81,127	1,343,817	1,014,088
Equities	35,291	38,366	441,140	479,573
Foreign exchange and gold	12,655	10,020	158,190	125,247
Commodities	6,397	8,596	79,957	107,452
Credit risk	35,388	45,912	442,342	573,904
Operational risk	35,559	33,367	444,489	417,084
Non-counterparty related risk	9,690	4,360	121,120	54,497
Items not deducted in application of threshold 3 but risk-weighted with 250%	646	650	8,076	8,131
Cryptocurrencies	2,227	50	27,841	629
Total	**245,358**	**222,448**	**3,066,972**	**2,780,605**

BIS capital ratios (%)	31.12.2019	31.12.2018
CET 1 capital ratio (required 7.0%[3])	21.1%	21.9%
Tier 1 capital ratio (required 8.5%[3])	21.1%	21.9%
Total capital ratio (required: 10.5%[3])	**21.1%**	**22.0%**

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

Capital charges for market risks increased in 2019 due to the growth in issuance volume and the increase in investment activity which contributed to the increase in interest rate risk related capital requirements in addition to the increase in capital requirements related to credit sensitive products. On the back of a quiet market environment, capital requirements for credit risks decreased at the end of 2019, driven by the reduced exposures to banks and insurance companies as a result of the Group's cash holdings, securities transactions, derivative exposures arising from positions in OTC and listed derivatives, as well as securities lending and borrowing activities. The capital requirement for operational risk is based on average earnings over a three-year time period.

For additional information according to the FINMA Circular 2016/1 Disclosure-Banks, refer to the separate Basel III Pillar 3 Report published in the Investor Relations section of the Company's website at: www.leonteq.com. The report will be available at the end of April 2020.

Leverage ratio

CHF thousand	31.12.2019	31.12.2018
Tier 1 capital	647,490	607,656
Total consolidated assets as per published financial statements	9,076,769	10,690,224
Adjustments	(282,720)	(3,264,863)
Leverage ratio exposure	8,794,049	7,425,362
Leverage ratio	**7.4%**	**8.2%**

The leverage ratio decreased by 0.8 percentage points in 2019 primarily due to the increase in issuance volume. For the calculation of the leverage ratio exposure the majority of derivative exposures can be netted or offset against cash collateral based on the netting agreements in place with trading counterparties (presented as adjustments). ▲

CORPORATE GOVERNANCE

Corporate governance framework

Leonteq's corporate governance complies with internationally accepted standards, and the Group recognises the importance of good corporate governance. Leonteq provides transparent disclosure about its governance to help stakeholders assess the quality of the Group's corporate governance and assists investors in their investment decisions.

Over the past three years, the Board of Directors has significantly improved the company's governance framework and strengthened the independence, skills and diversity of the Board and its committees. The Remuneration Committee became the Nomination and Remuneration Committee and all Committees were newly composed so that all or at least the majority of the committee members are independent directors. Following the streamlining of the structure of the Executive Committee in 2017 and the appointment of a new CEO in 2018, the redesigning of Leonteq's compensation system marked another milestone in this process and served as the starting point for how the Company wants to shape its business in the future and position it for success.

In 2019, shareholders elected Susana Gomez Smith as new independent member of the Board of Directors at the Annual General Meeting 2019. In addition, Richard A. Laxer was elected as new independent Chairman of the Nomination and Remuneration Committee, succeeding Vince Chandler effective as of the Annual General Meeting 2019. With the election of Dominik Schärer as new member of the Board of Directors at the Extraordinary General Meeting in September 2019, the Board of Directors comprises eight members, six out of which are independent.

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

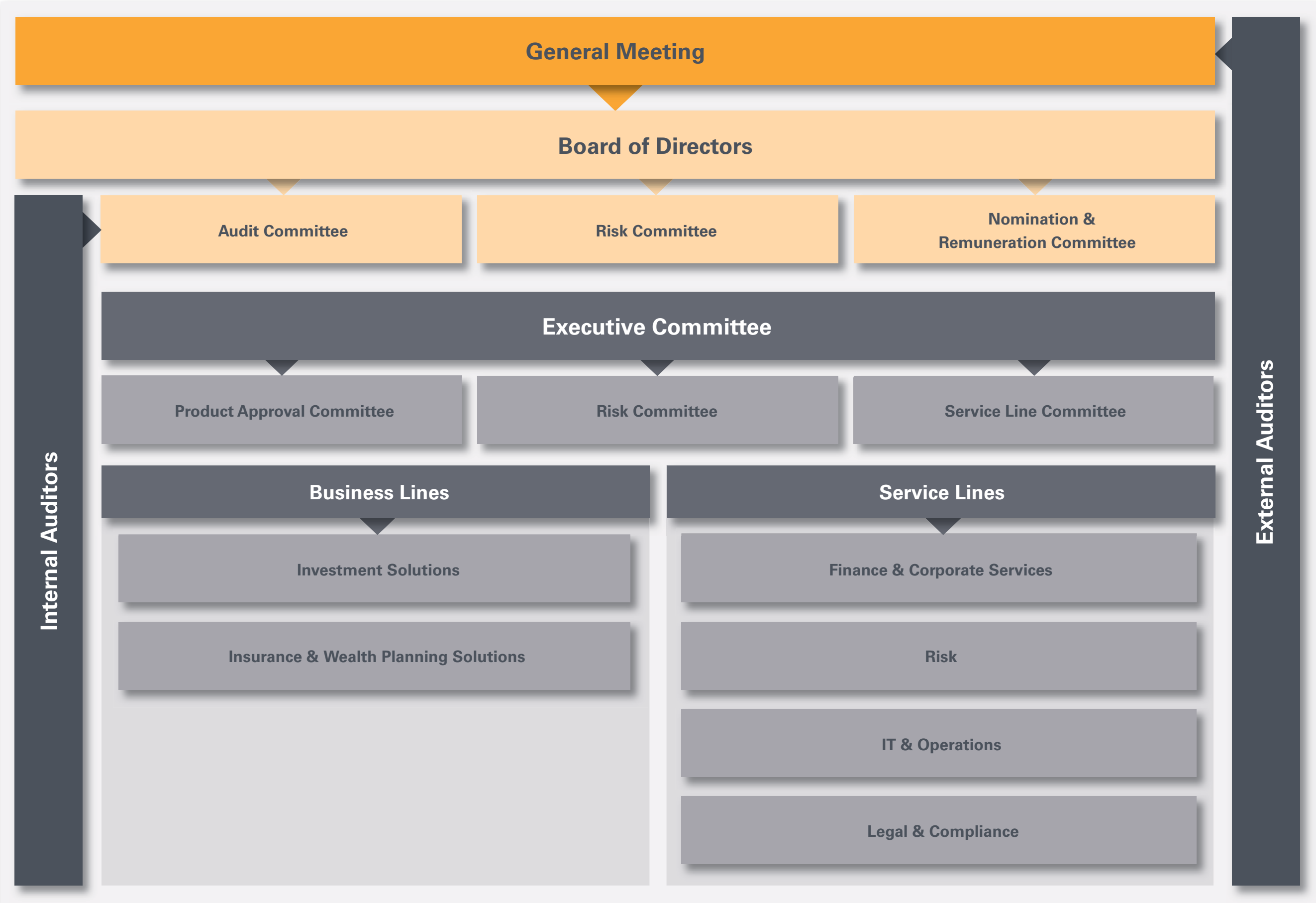
The governing bodies of Leonteq are:

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

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

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

Corporate governance framework

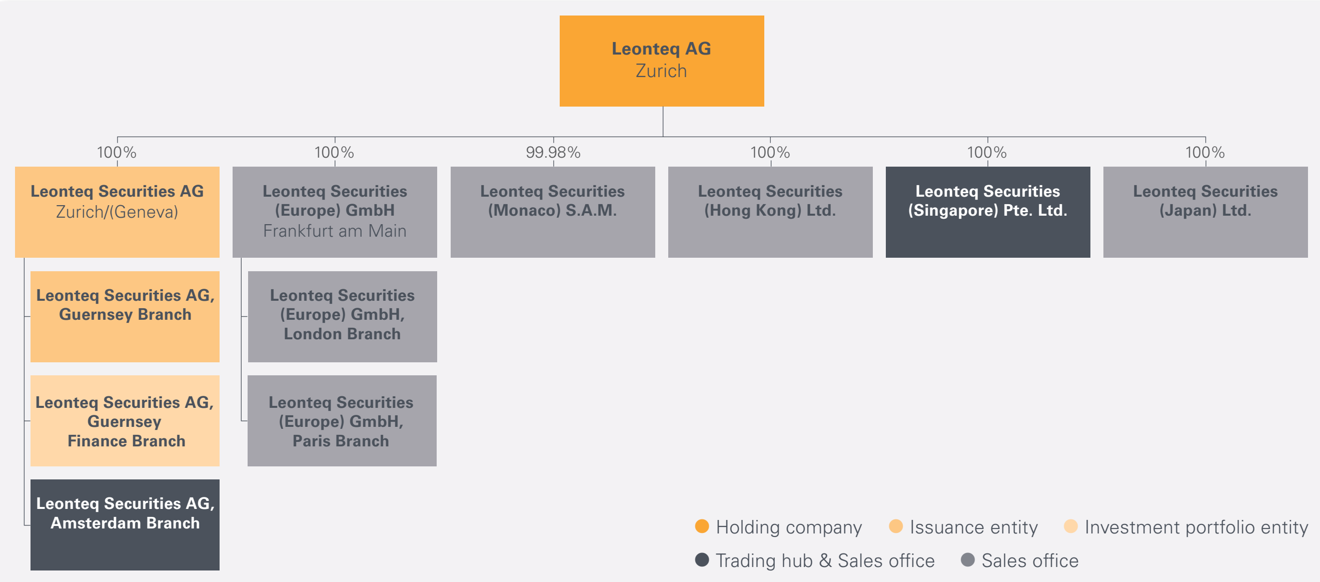


Leonteq is active in the finance and technology sector with a focus on the structured products segment. The Group is managed on the basis of business and service lines and comprises Investment Solutions, Insurance & Wealth Planning Solutions, Finance & Corporate Services, IT & Operations, Risk and Legal & Compliance.

Leonteq is headquartered in Zurich, Switzerland, and together with its subsidiary Leonteq Securities AG, which has an additional office in Geneva, is regulated by the Swiss Financial Market Supervisory Authority (FINMA). Leonteq Securities AG has branch offices in Guernsey, regulated by the Guernsey Financial Service Commission, and Amsterdam, registered with the Netherlands Authority for the Financial Markets. The Group accesses the European market through Leonteq Securities (Europe) GmbH, which is domiciled in Germany and is authorised by the German Federal Financial Supervisory Authority. Leonteq Europe has exercised passporting rights to access the markets of other countries in the European Economic Area. Leonteq Europe has branch offices in London and Paris. Leonteq also operates an office in Monte Carlo, Leonteq Securities (Monaco) SAM, which is regulated by the Monegasque Financial Activities Supervisory Commission. Leonteq accesses the Asian market through its offices in: Hong Kong, Singapore and Tokyo. Leonteq Securities (Hong Kong) Ltd. operates under the licence granted to it by the Securities and Futures Commission of Hong Kong; Leonteq Securities (Singapore) Pte Ltd. is operating under the capital markets licence granted by the Monetary Authority of Singapore; and Leonteq Securities (Japan) Ltd. is authorised and regulated by the Financial Services Agency of Japan.

Leonteq AG is the Swiss holding company responsible for the overall management of the Leonteq Group. The registered shares of Leonteq AG are traded on the main standard of SIX Swiss Exchange in Zurich (security no. 19089118, ISIN CH0190891181, symbol LEON). On 31 December 2019, the Company's market capitalisation was CHF 622 million.

Leonteq operates in highly regulated markets and is in compliance with strict mandatory standards. The Group's legal entity structure shown in the graph below as of 31 December 2019 is line with its business operations and regional footprint.



The registered office and share capital of each subsidiary is listed in the table below:

Name	Registered office	Capital
Leonteq Securities AG[1]	Europaallee 39, 8004 Zurich, Switzerland	CHF 15,000,000
Leonteq Securities (Europe) GmbH[2]	Goetheplatz 2, 60311 Frankfurt am Main, Germany	EUR 200,000
Leonteq Securities (Hong Kong) Ltd.	Level 6, Two Chinachem Central, 26 Des Voeux Central, Central, Hong Kong	HKD 10,000,000
Leonteq Securities (Japan) Ltd.	Chose Ark Hills South Tower 9F, 1-4-5 Roppongi, Minato-ku, Tokyo, Japan	JPY 312,500,000
Leonteq Securities (Monaco) SAM	Villa Les Aigles, 15 avenue d'Ostende 98000 Monaco	EUR 500,000
Leonteq Securities (Singapore) Pte Ltd.	8 Marina View, #36-03/04, Asia Square Tower 1, Singapore 018960	SGD 1,000,000

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

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

Shareholders

Capital structure

Leonteq's total issued share capital as of 31 December 2019 amounted to CHF 18,934,097, divided into 18,934,097 registered shares, each with a nominal value of CHF 1.00. All registered shares are fully paid-in and entitled to a dividend. Each share carries one vote. No preferential rights or similar rights are attached to the shares. Leonteq does not have any participation certificates outstanding and no profit-sharing certificates are outstanding or have been issued in the past. The registered shares of Leonteq AG (security no. 19089118, ISIN CH0190891181, symbol LEON) are listed on the main standard of SIX Swiss Exchange and are included in the Swiss Performance Index SPI®.

Changes in capital structure
Effective 3 August 2018, the share capital of Leonteq AG was increased by 2,989,593 shares with a nominal value of CHF 1.00 each, resulting in a share capital increase of CHF 2,989,593. Total capital subsequently amounted to CHF 18,934,097, consisting of 18,934,097 registered shares with a nominal value of CHF 1.00 each, with the shares being fully paid-in. No further changes to the capital structure of Leonteq occurred in 2019, 2018, 2017 or 2016.

Authorised capital
On 27 March 2019, the Annual General Meeting approved the proposal authorising the Board of Directors to increase share capital at any point in time until 22 March 2021 up to a maximum of CHF 4,000,000 fully paid-in registered shares with a nominal value of CHF 1.00 each, corresponding to around 21% of the share capital of Leonteq. Increases and partial increases by means of firm underwriting are permitted. The Board of Directors determines the issue price, the dividend entitlement and the form of contribution for the shares. The new registered shares are subject to transfer restrictions in accordance with the Articles of Association.

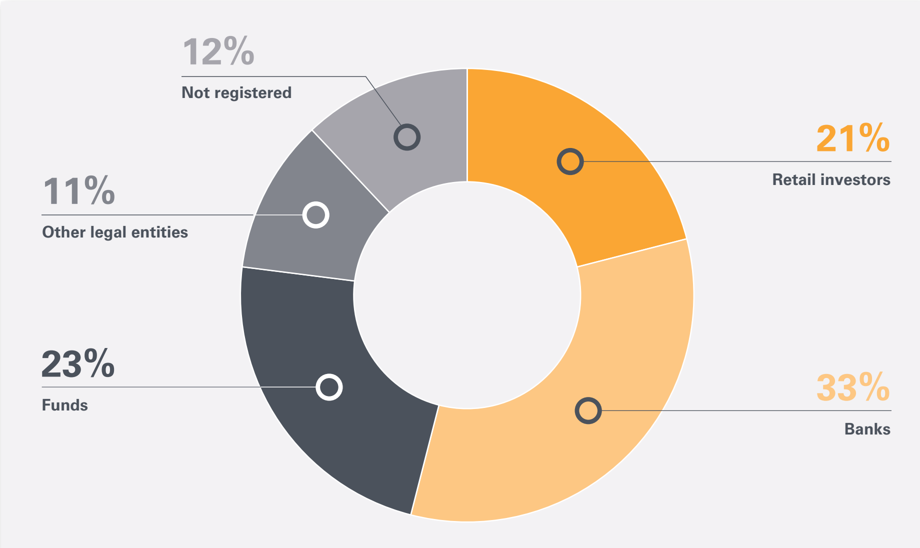
The shareholders' pre-emptive rights are granted in principle. To enable price stabilisation measures in the context of a capital increase, the Board of Directors may exclude the pre-emptive rights for the purpose of granting an overallotment option to the underwriting banks for up to 15% of the base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

Conditional capital
The Company's share capital may be increased by a maximum aggregate amount of CHF 1,000,000 corresponding to around 5% of the share capital of Leonteq. The share capital may be increased through the issuance of a maximum of 1,000,000 registered shares, fully paid-in with a nominal value of CHF 1.00 per share, upon the exercise of option rights or in connection with similar rights relating to employee shares (including existing or future Restricted Stock Units, RSU) granted to employees, directors and other officers of the Company and its subsidiaries, according to the regulations prescribed by the Board of Directors. The pre-emptive rights and advance subscription rights of shareholders are excluded. The acquisition of registered shares and every subsequent transfer of these registered shares will be subject to transfer restrictions in accordance with the Articles of Association.

Conditions for the allocation and exercise of option rights and similar rights are determined by the Board of Directors. The shares may be issued at a price below the market price. Further information about the RSU programme is provided in the Compensation Report page 91.

Shareholder structure

Leonteq's shareholder structure comprises a total of 4,531 shareholders, who are entered in Leonteq's share register, representing 88% of voting rights. As of 31 December 2019, 4,294 retail shareholders hold 21% of the total outstanding shares while 237 legal entities account for 68% of share capital. 12% of voting rights are held by shareholders who are not registered. The distribution of Leonteq shareholdings by investor type as entered in the Group's share register is shown as follows:



Significant shareholders

Under the Swiss Federal Act on Financial Market Infrastructure and Market Conduct in Securities and Derivative Trading ('FMIA'), anyone holding shares in a company listed on SIX Swiss Exchange is required to notify the company and SIX Exchange Regulation if their shareholding reaches, falls below or exceeds the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 33⅓%, 50% or 66⅔% of the voting rights entered into the commercial register, whether or not the voting rights can be exercised (that is, notifications must also include certain derivative holdings such as options or similar instruments). Following receipt of such notification, Leonteq publishes each individual report through the Disclosure Office publication platform of SIX Exchange Regulation. In addition, Leonteq has an obligation to inform the public should such notification be of share price sensitive nature. For notifications of significant shareholders received and individual reports of significant shareholders published during 2019 by, reference is made to the Disclosure Office publication platform of SIX Exchange Regulation:
https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

The following provides an overview of the holdings of our significant shareholders based on the most recent disclosure notifications. In line with the FMIA requirements, the percentages indicated below were calculated in relation to the share capital reflected in the commercial register at the time of the disclosure notification. As shareholders are only required to notify the company and SIX Exchange Regulation if their holding reaches, falls below or exceeds the thresholds listed above, the percentage holdings of our significant shareholders may vary at any given time compared to the date of submission of the most recent notification for these respective shareholders. Whenever available, Leonteq publishes shareholding of its significant shareholders as per its share register at the end of each reporting period or confirmation received from shareholders.

	31.12.2019		31.12.2018	
	Number of shares held	Voting rights in %	Number of shares held	Voting rights in %
Raiffeisen Switzerland Cooperative	5,495,157	29.02%	5,495,157	29.02%
Lukas Ruflin family interests[1,2]	1,543,756	8.15%	1,543,756	8.15%
Sandro Dorigo	463,317	2.45%	463,317	2.45%
Subtotal shareholders' agreement	**7,502,230**	**39.62%**	**7,502,230**	**39.62%**
Rainer-Marc Frey[3]	2,784,000	14.70%	2,201,081	11.63%
Directors and executives[4]	178,322	0.94%	157,523	0.83%
Total significant shareholders	**10,464,552**	**55.26%**	**9,860,834**	**52.08%**

1 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.

2 In addition, Lukas Ruflin family interests holds 462,325 call options issued by Raiffeisen subject to the following conditions: Strike price 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.

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

4 Excluding shareholdings of Lukas T. Ruflin.

As of 31 December 2019, the shareholder group, consisting of the Raiffeisen Switzerland Cooperative, Lukas Ruflin (acting in his own capacity), Sandro Dorigo and Lukas Ruflin family interests, holds 7,502,230 shares, or 39.62% voting rights, in Leonteq. The representative of and main contact for this group of shareholders is Raiffeisen.

Cross-shareholdings

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

Shareholder information

Shareholder engagement

The Group engages regularly with its shareholders and proxy advisors. The purpose of such engagements is to understand the perspectives of its shareholders, and to exchange views about the Group's strategy, financial performance, corporate governance and compensation and other matters of importance to the Group or its shareholders. Shareholder engagement meetings may be attended by the Chairman of the Board, the Chairman of the Nomination and Remuneration Committee, the CEO, the CFO and senior management. The Investor Relations department is responsible for Leonteq's engagement activities and aims to ensure that all shareholders receive the relevant information they need to make informed decisions.

Information policy

Leonteq is committed to an open and fair information policy with its shareholders and other stakeholders. The Investor Relations department is responsible for addressing all the inquiries it receives. It can be contacted via email at investorrelations@leonteq.com, via telephone at +41 58 800 18 55 or by post at Leonteq AG, Investor Relations, Europaallee 39, 8005 Zurich.

Leonteq provides information to its shareholders and other stakeholders each year by means of the annual and half-year reports, together with press releases, presentations and brochures as required. Interested parties can subscribe to the e-mail distribution service to receive free and timely notification of potentially price-sensitive information. The Company maintains a regular updated schedule of important publication and event dates, updated information on matters of corporate governance, such as the current composition of its Board of Directors and its Executive Committee, as well as the latest version of its Articles of Association. All these reports and information are accessible to the public on the Investor Relations section of the Company's website at: www.leonteq.com/investors. The annual report is also available in printed form.

Notices required under Swiss law

Notices to shareholders required under Swiss law are published in the Swiss Official Gazette of Commerce. The Board may designate further means of communication for publishing notices to shareholders. Ad hoc notices required under the listing rules of SIX Exchange Regulation are published on the Company's website and simultaneously distributed via press releases to all interested parties, to at least two Swiss newspapers of national importance, to at least two electronic information systems and to SIX Exchange Regulation.

Shareholder rights

Voting rights

Any person entered in the share register is deemed to be a shareholder. No statutory voting right restrictions apply regarding registered shareholders, statutory group clauses or rules on granting exceptions. Each share carries an entitlement to one vote.

In line with the legal provisions, any shareholder with a voting right may have their share represented at any General Meeting by another person authorised in writing or by corporate bodies, independent proxies or proxies for deposed shares. Such representatives are not required to be shareholders. The statutory rules on participation in the General Meeting do not differ from applicable legal provisions.

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

The Board of Directors ensures that shareholders may tender their proxies and instructions to the independent proxy electronically. The independent proxy is obliged to vote according to the voting instructions received from shareholders. In the absence of instructions, the independent proxy shall abstain from voting.

Transfer of shares

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

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

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

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

General Meetings

Leonteq encourages its shareholders to participate at its Annual General Meetings which are held every year within four months of the end of the financial year. In line with Swiss law and the provisions of the Articles of Association, General Meetings are convened at least 20 days before the date of the meeting by means of a notice published in the Swiss Official Gazette of Commerce, and by letter sent to the addresses of the shareholders entered in the share register. The notice of the meeting shall include information on the items of business to be discussed and the motions proposed by the Board of Directors and any shareholders who have requested that such a General Meeting be held or that an item of business be placed on the agenda.

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

Inclusion of an item on the agenda

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

Registration in the share register

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

Statutory quora

Resolutions and elections generally require the approval of a majority of the votes represented at the meeting, except as otherwise stipulated by Swiss law.

Say on pay

In accordance with the Swiss Code of Best Practice for Corporate Governance, the Group submitted the Compensation Report for a consultative vote by shareholders at the Annual General Meeting 2019. In accordance with the Ordinance against Excessive Compensation pertaining to Listed Stock Corporations ('Compensation Ordinance'), the Group will submit the following Board and Executive Committee compensation recommendations for binding votes by shareholders at the Annual General Meeting 2020:

- Total compensation of members of the Board of Directors for the period from the Annual General Meeting 2020 to the Annual General Meeting 2021;
- Fixed compensation for members of the Executive Committee for the financial year 2021;
- Short-term incentive plan amount for members of the Executive Committee for the financial year 2019;
- Long-term incentive plan grant amount of members of the Executive Committee for the financial year 2021.

Granting of discharge to the Board of Directors and the Executive Committee

In accordance with Swiss law, the General Meeting has the power to grant discharge to the members of the Board of Directors and the Executive Committee. At the Annual General Meeting 2019, shareholders granted discharge to all members of the Board of Directors and the Executive Committee for the financial year 2018.

Duty to make an offer

The Company's Articles of Association include an "opting out" clause with regard to mandatory public takeover offers, as defined in the FMIA. Hence, the obligation that anyone who, directly or indirectly or acting in concert with third parties, acquires 33⅓% or more of the voting rights of Leonteq, whether or not such rights are exercisable, must submit a public takeover offer, is set aside.

Clauses on change of control

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

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

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

Board of Directors

General information

Board memberships and elections

According to Leonteq's Articles of Association, the Board of Directors consists of five or more members. Each member of the Board is individually elected by the Annual General Meeting for a term of one year. Members of the Board may be re-elected with no limitation on the number of terms. The term of office ends upon the completion of the Annual General Meeting following their election.

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

Currently, the Board of Directors consists of eight non-executive members. No member of the Board of Directors of Leonteq exercised any operational management functions for the Company or any of its subsidiaries in the year under review. No member of the Board of Directors has held a management position in Leonteq or any of its Group companies over the last three years.

The composition of the Board and its committees are shown in the following table.

Members of the Board of Directors	Member since	Independence	Audit Committee	Risk Committee	Nomination and Remuneration Committee
Christopher M. Chambers (Chairman)	2017	Independent			
Hans Isler (Vice-Chairman)	2012	Independent	● Chair	●	●
Jörg Behrens	2012	Independent	●	● Chair	
Patrick de Figueiredo	2010	Representative of founding partners		●	
Susana Gomez Smith	2019 (AGM)	Independent			●
Richard A. Laxer	2018	Independent			● Chair
Thomas R. Meier	2017	Independent	●	●	
Dominik Schärer	2019 (EGM)	Representative of Raiffeisen Switzerland			

Independence

The Board has applied the independence criteria in excess of the SIX Swiss Exchange Directive on Information relating to Corporate Governance, the FINMA Circular on Corporate Governance and the Swiss Code of Best Practice for Corporate Governance.

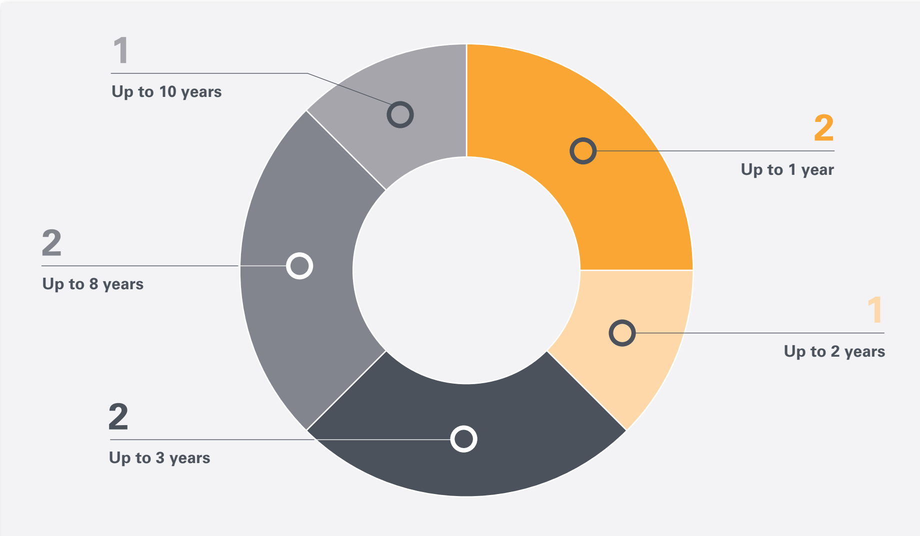
Leonteq's non-executive members of the Board of Directors are deemed independent if they:

- Are not currently, and have not in the previous three years, been employed in some other function within the Company;
- Have not been employed in the previous two years by Leonteq's audit firm as a lead auditor (of the regulatory audit);
- Have no commercial links with the Company which, in view of their nature and scope, would lead to a conflict of interests (including directorships on the Board of a commercial partner);
- Are not significant shareholders of Leonteq (shareholding of 10% or more) and are not representatives of individual shareholders (private or institutional) or a specific group of shareholders.

As of 31 December 2019, six out of eight members of the Board of Directors of Leonteq met the independence criteria. The independent members of the Board of Directors are: Jörg Behrens, Christopher Chambers, Susana Gomez Smith, Hans Isler, Richard Laxer and Thomas Meier. Dominik Schärer acts as representative of Raiffeisen and Patrick de Figueiredo acts as representative of the founding partners.

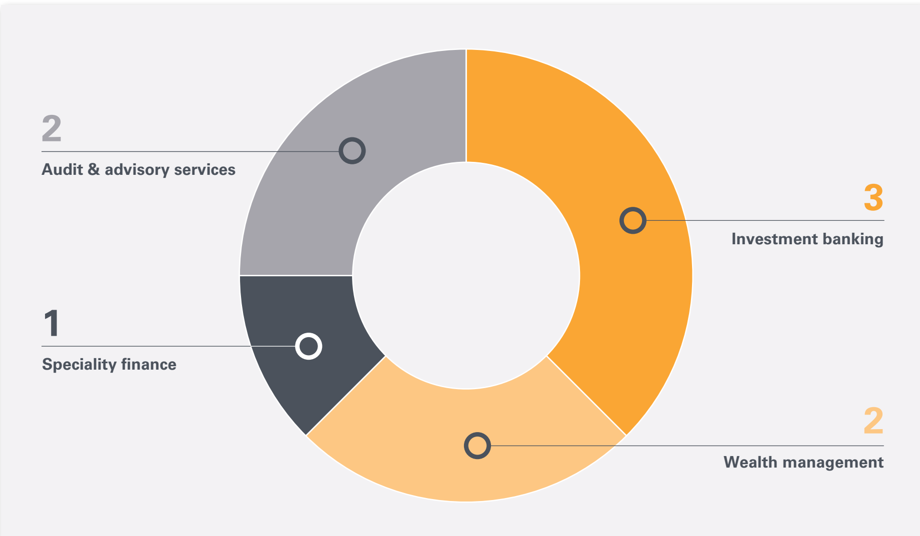
Composition of the Board of Directors and succession planning
The Board of Directors manages its composition through a formal rotation of its members, as well as background and skill mapping, to achieve an optimal structure over time. The Nomination and Remuneration Committee regularly considers the composition of the Board as a whole and the composition of its Committees. The Nomination and Remuneration Committee takes into account skills, management experience, independence and diversity when recruiting and evaluating candidates for Board membership. It also considers the other activities and commitments of potential candidates to ensure that they can devote sufficient time to a Board position at Leonteq.

Tenure



The background, skills and experience of Leonteq's Board members are diverse and include prior experience as senior executive positions at financial services companies in Switzerland and abroad. The Board is composed of individuals with wide-ranging professional expertise in investment banking, wealth management, specialty finance, and audit & advisory services. Diversity of culture, experience and opinion, as well as gender diversity, are important criteria that are considered in the composition of Leonteq's Board. While the ratio of female-to-male Board members currently is below 20%, the Board is committed to increase its gender balance over the long term.

Industry experience



Board meetings

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

Notice of meetings of the Board of Directors is given at least five days in advance, and contain the agenda and the necessary documentation to enable members to prepare for the meeting. If all Board members are present and agree, deviations from these formal requirements are permitted; in particular, decisions can be taken on items that are not listed on the agenda. In urgent cases, the Chairman may convene a meeting without observing the five-day notice period, and without the need to distribute the agenda or the necessary documentation to prepare for the meeting in advance.

Meetings of the Board of Directors are chaired by the Chairman or, if he is unable to attend, by the Vice-Chairman or another member of the Board of Directors. By way of exceptions, meetings may also be conducted by telephone or video conference or an equivalent means of instant communication. In such cases, the participating members shall be deemed to be present. In general, meetings shall be held in person. The General Counsel serves as Secretary to the Board of Directors. Unless the Chairman decides otherwise, the CEO and the Chief Financial Officer ('CFO') may attend each Board meeting as guests in an advisory capacity. The Chairman determines which other individuals may attend Board meetings as guests. Such individuals do not have any voting rights.

A quorum is constituted when at least two-thirds of the members of the Board of Directors are present. No quorum is required if the sole purpose of the meeting is to record the implementation of a capital increase and the approval of the corresponding amendments of the Articles of Association. A Board member who abstains from voting shall be deemed to be present. The Board of Directors passes its resolutions with the majority of votes cast. In the event of a tied vote, the Chairman of the meeting has the casting vote. All resolutions are recorded in writing. The Secretary is responsible for writing the minutes, which are signed by the member who chaired the meeting and the Secretary, and must be approved by the Board of Directors. No member of the Board of Directors shall participate in or vote on any matter that gives rise to a personal conflict of interests.

Resolutions of the Board of Directors may also be taken by means of circular resolutions, provided that no Board member requests oral deliberation within the decision period and at least two thirds of the Board members vote by means of such circular resolution. The circular resolution, signed by the Board members and the Secretary, serves as the minutes. The Board of Directors passes circular resolutions unanimously.

In 2019, the Board of Directors held eight meetings, including a two-day strategy offsite meeting. The total attendance rate for all members of the Board of Directors was an average of 98% in 2019. Each of the committees met five times and the attendance rate for all committee members was 100%. The total duration of Board and committee meetings was 87 hours, or 11 meeting days.

Attendance of Board and Board Committees meetings in 2019	Board meetings	Audit Committee	Risk Committee	Nomination and Remuneration Committee
Total number of meetings held	8	5	5	5
Meeting attendance in %	98%	100%	100%	100%
Total length of meetings	47 hours	15 hours	15 hours	10 hours

Attendance of meetings in 2019 Individual Board members[1]	95%-99%	100%
Christopher M. Chambers		●
Hans Isler	●	
Jörg Behrens		●
Vince Chandler		●
Patrick de Figueiredo		●
Susana Gomez Smith		●
Richard A. Laxer		●
Thomas R. Meier		●
Dominik Schärer		●

1 Paulo Brügger resigned from the Board on 4 February 2019; no meeting was scheduled before that date

Mandates

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

Type of mandate	Limit
Legal entities[1]	No more than 10 mandates
of which listed companies[1]	No more than 4 mandates
Charitable legal entities[2]	No more than 10 mandates

1 Mandates for which remuneration is received, whereby multiple mandates in various companies that belong to the same group of companies count as one.

2 Mandates for which no remuneration is received.

No Board member holds mandates in excess of these restrictions. Mandates exercised by a member of the Board of Directors at the request of the Company are exempt from these restrictions.

Members of the Board shall inform the Chairman of the Board of all external business activities, irrespective of whether or not they are remunerated. Before accepting or committing to new external business activities, approval must be sought by the Chairman of the Board who considers a number of additional factors in excess of the restrictions listed above. Generally, external business activities are prohibited if they create any potential conflicts of interest or adversely impact the Board member's performance or his/her regular work.

Board leadership

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

The responsibilities and powers of the Board of Directors are derived from applicable legal and supervisory regulations and the Company's Organisational and Management Regulations. The Board of Directors is responsible for the strategic direction of the Group and for determining and implementing the principles of organisation, management and monitoring. The Board is also responsible for providing the resources required to achieve the defined objectives, and it bears ultimate responsibility for the overall results. The Board supervises the running of the Group as a whole, and it coordinates and oversees all activities carried out by and in the name of the Group.

Responsibilities of the Board of Directors

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

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

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

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

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

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

Board oversight
To control the business activities of the Group, the Board of Directors has formed the Audit Committee, the Risk Committee and the Nomination and Remuneration Committee. The Chairman of each Committee is in regular contact with the Executive Committee and senior management and provides the Board of Directors with regular updates on the current activities of the Committee and important Committee matters. Minutes of Committee meetings are made available to the entire Board of Directors. Conference calls are held between Board and Committee meetings in order to obtain updates on current topics and initiatives, to exchange views and opinions, and to decide upon more urgent matters.

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

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

At least once a quarter, the Board receives:

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

On a monthly basis, the Board receives:

- From the CEO: The monthly CEO update, which provides summary information on financials, capital, projects, people and other relevant business matters;
- From the CRO: The monthly risk report, which provides in-depth information on risk exposures, profit and loss, the investment portfolio, limit monitoring results, market risk (including sensitivities, VaR, and stress testing), counterparty risks with the highest exposures, operational risk, liquidity and risk profiles of business units;
- From Risk Control: A daily breakdown of economic revenues.

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

On a quarterly basis, the Board Audit Committee receives:

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

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

On a quarterly basis, the Board Risk Committee receives:

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

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

Procedures in the event of conflicts of interests

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

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

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

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

Board evaluation

The Board of Directors performs a self-assessment once a year, where it reviews its own performance against the responsibilities listed in the Organisational Management Regulations, including the adequate execution of its monitoring and control function, and the further development of the Group's strategy. Furthermore, it assesses the interaction with the Executive Committee as well as with the External and Internal Audit.

Board changes

Paulo Brügger stepped down from the Board of Directors with effect from 4 February 2019. Susana Gomez Smith was elected as new member of the Board of Directors at the Annual General Meeting on 27 March 2019. In addition, Richard A. Laxer succeeded Vince Chandler as Chairman of the Nomination and Remuneration Committee, who did not stand for re-election as a member of the Board of Directors at the Annual General Meeting on 27 March 2019. Following the proposal by Raiffeisen Switzerland and the nomination by the Board of Directors, Dominik Schärer was elected as new member of the Board of Directors at the Extraordinary General Meeting on 19 September 2019.

Board Committees

The Board of Directors has delegated certain resolutions, their preparation and implementation, and the supervision of the business of the Company and the Group to the Board Committees. The Board has three standing committees: The Audit Committee, the Risk Committee and the Nomination and Remuneration Committee. The Board Committees inform the Board in a timely manner of their findings and actions. Each Board Committee has the power to retain independent legal, accounting, financial and other advisors and consultants as it may deem necessary, at the expense of the Company and without the need to obtain the approval of the full Board of Directors in advance.

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

Each Board member has the right to attend all Board Committee meetings as a guest without voting rights and to receive all information provided to members of the Board Committees. If Board Committee members conclude that their presence may have an influence on independent decision-making by the Committee, they may decide to deny this right to attend and to call for the Committee to hold a private session. The Chairman of the Board is not permitted to attend Audit Committee meetings. The Chairman of each Board Committee shall determine which members of the Executive Committee or other individuals may attend the meetings as guests. Such guests do not have voting rights. The Board Committees may reach their decisions in private meetings. The Board Committees pass resolutions and adopt proposals with the majority of votes cast. In the event of a tied vote, the Chairman of the Board Committee has the casting vote. The Board Committees may take decisions in private meetings.

The term of membership of a Board Committee is one year upon appointment. Re-election is possible. The constitution of the Audit Committee and the Risk Committee falls within the remit of the Board of Directors. Members of the Nomination and Remuneration Committee are elected individually by the Annual General Meeting, pursuant to provisions of the Compensation Ordinance.

Audit Committee

The Audit Committee consists of a Chairman and a minimum of one other member of the Board and shall comprise a majority of independent members. On 31 December 2019, the Audit Committee comprised three Board members: Hans Isler chaired the Committee, with Jörg Behrens and Thomas Meier as members. All three members are independent.

The Audit Committee meets at least four times per year. Meetings are usually attended by the CFO and managers responsible for the areas supervised by the Audit Committee.

The Audit Committee supports the Board of Directors in its supervision of financial controls by maintaining a direct link to the internal and external auditors. The Audit Committee's main duties include:

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

Activities of the Audit Committee in 2019

During 2019, the Audit Committee focused on several key areas, including but not limited to:

- The review of specific accounting and reporting matters, such as the new IFRS 16 accounting standard, the other comprehensive income and hedge accounting method to recognise bond investments, and US dollar as functional currency for its Guernsey Finance branch;
- The review and renewal process for directors and officers' liability and professional Indemnity insurances;
- The regular review of legal, tax and compliance cases throughout the Group.

Internal Audit

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

External Audit

The Audit Committee monitors the qualification, independence and performance of the Group's auditors and the lead partner. The Audit Committee confers with Leonteq's auditors concerning the effectiveness of the internal control systems in view of Leonteq's risk profile. The external auditor provides timely reports to the Audit Committee on critical accounting policies and practices employed, alternative treatments of financial information discussed with management, and other material written communication between the external auditor and management.

The Audit Committee meets the lead partner of the external auditor on a regular basis. At least once a year, the Chairman of the Audit Committee discusses the audit work performed with the lead partner of the external auditor, together with the main findings and any critical issues that may have arisen during the audit. The Chairman of the Audit Committee reports back to the Board of Directors on the contacts and discussions with the external auditor. The external auditor has direct access to the Audit Committee at all times.

Risk Committee

The Risk Committee consists of a Chairman and a minimum of one other member of the Board and shall comprise a majority of independent members. On 31 December 2019, the Risk Committee comprised four Board members: Jörg Behrens chaired the Committee, with Patrick de Figueiredo, Hans Isler and Thomas Meier as additional members. On 31 December 2019, three out of the four members were independent.

The Risk Committee meets at least four times per year. Meetings are usually attended by the CRO and managers responsible for the areas supervised by the Risk Committee. In addition, the Risk Committee holds an annual risk workshop, which lasts half a day and focuses on topics such as liquidity frameworks, forthcoming regulatory developments and the impact of the market environment on the risk management of issued structured products.

The Risk Committee monitors:

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

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

Activities of the Risk Committee in 2019

During 2019, the Risk Committee focused on several key areas, including but not limited to the following activities:

- The review and endorsement of the risk appetite framework for 2020, including the risk appetite statement for the Group, based on an integrated risk and financial planning process;
- Monitoring of aspects of the Group's risk management framework, e.g. with respect to liquidity risk, stress testing and the control framework;
- The review of the limit framework in order to match business needs and with the Board of Directors' risk appetite;
- The review, assessment and approval of strategic initiatives, e.g. with respect to changes to the investment portfolio.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of a Chairman and a minimum of one other member of the Board and shall comprise a majority of independent members. On 31 December 2019, the Nomination and Remuneration Committee comprised three members: Richard Laxer (Chairman), Susana Gomez Smith and Hans Isler. In accordance with the provisions of the Compensation ordinance, all members of the Nomination and Remuneration Committee were elected individually for a term of one year by the Annual General Meeting 2019. All three members are independent.

The Nomination and Remuneration Committee meets at least four times per year. Meetings are usually attended by the CEO, the CFO and management responsible for compensation reporting and controlling. Any members of the Executive Committee who attend the meeting withdraw when their own compensation, performance or potential promotion are discussed.

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

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

The Nomination and Remuneration Committee is additionally responsible for:

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

Activities of the Nomination and Remuneration Committee in 2019

During 2019, the Nomination and Remuneration Committee focused on several key areas, including but not limited to:

- Implementation of a new compensation model for the Executive Committee, including performance assessment of short-term incentive plan criteria against targets for each member of the Executive Committee;
- Assessment of the Group's performance with consideration of the quality of the results, the progress towards strategic targets and other factors, and reviewed of proposed variable compensation amounts for all employees, in line with regulatory guidelines, the Group's compensation policy, and taking into account the Group's risk and control functions;
- Review and approval of the Compensation Report 2019, focusing on a comprehensive and transparent disclosure of the Group's compensation.

Biographies of the Board members

Christopher M. Chambers
Born 1961
Swiss and British Citizen
Member since 2017
Chairman

Christopher Chambers began his career in investment banking in 1990, when he joined Barclays de Zote Wedd Ltd., UK. In 1997, he moved to Credit Suisse First Boston, UK, where he served as Head European Equity Capital Markets until 2002. From 2002 until 2005, he was CEO of Man Investments Ltd., and from 2007–2009, he served as Chairman of the Board of Jelmoli Ltd., Switzerland. From 2009 to 2011, Christopher Chambers was also a member of the Board of Evolution Group Plc, UK. He was a member of the Supervisory Board of Cembra Money Bank Ltd., Switzerland, from 2010 until 2016, and Vice-Chairman of its Board between 2013 and 2016. He subsequently served as Chairman of the Board of Moneta Money Bank, Czech Republic, until 2017. From 2012 to 2019 he served as a member of the Supervisory Board of Berenberg Bank (Schweiz) AG, and from 2017 to 2019 he served as the Chairman of the Board of Pendragon Plc, UK. He is currently member of the Board of Swiss Prime Site AG, Switzerland (since 2009). Furthermore, he serves as an Executive Chairman of the Board of Lonrho Limited, UK (since 2013) and Chairman of the Board of Oxford Sciences Innovation Plc, UK (since 2015). Christopher Chambers completed his education in the UK. He is a fellow of the Royal Society of Arts (FRSA) and holds a diploma in German Language from the London Chamber of Commerce.

Hans Isler
Born 1953
Swiss Citizen
Member since 2012
Vice-Chairman, Chairman of the Audit Committee

Hans Isler started his career in 1978 as a Delegate of the International Committee of the Red Cross. He then joined Arthur Andersen and was a partner from 1994 until 2002. He was a Partner and member of the Board of Directors of Ernst & Young, Switzerland, from 2002 to 2011. He was a member of the Geneva Court of Audit from 2013 to 2018. He is currently Chairman of the Board of Directors of Banque Thaler SA and Valcourt SA and serves as a member of the Boards of Banque Pictet & Cie SA, Pictet & Cie Group SCA, Banque du Léman SA, MKS (Switzerland) SA, PAMP SA and MMTC PAMP India Pvt Ltd, India. In addition, he is a member of the Finance Commission of MSF (Médecins Sans Frontières) and a member of the Board of Trustees of Geneva Call. Hans Isler holds a master's degree in Economics from the University of St. Gallen (lic. oec. HSG) and he is a Swiss chartered accountant.

Jörg Behrens
Born 1964
Swiss Citizen
Member since 2012
Chairman of the Risk Committee

Jörg Behrens began his finance career in 1994 at UBS AG, spending seven years with the firm in Zurich and London. He moved to Arthur Andersen in 2000 and was a Partner at Ernst & Young, Switzerland, from to 2002 to 2009. During this time, he served as Head of Financial Risk Management Central Europe and Global Head of Risk Analytics. He was a member of the Board of Directors of Mathfinance AG, Germany, from 2010 to 2019.

He is currently the Managing Partner and Vice Chairman of the Board of Directors of the risk consultancy firm Fintegral AG, Switzerland, which he founded in 2009. Since June 2001, he has been Vice-Chairman of Stiftung Buechweid, Russikon.

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

Patrick de Figueiredo
Born 1950
Swiss Citizen
Member since 2010

Patrick de Figueiredo started his career in the credit business at UBS AG, Switzerland, in 1976 and he remained with the company until 1983. From 1984 to 1989, he worked at BSI Group, Switzerland. In 1989, he joined EFG Group, Switzerland, as Head of Credit and subsequently held the position of Chief Risk Officer from 1997 to 2014. He served as a member of the Management Committee of EFG Bank European Financial Group SA, Switzerland, from 1989 until 2014. Since 2015, he has served as member of the Board of Directors of EFG Bank European Financial Group SA, Switzerland. Patrick de Figueiredo holds a master's degree in Management Studies from the University of Fribourg, Switzerland.

Susana Gomez Smith
Born 1973
Portuguese and British Citizen
Member since 2019

Susana Gomez Smith served as a Managing Director at Santander, UK from 2013 to 2018 and as an advisor to the CEO and the Executive Committee at Banco Nacional Ultramarino, Macau from 2012 to 2013. Prior to that, she was Asia Pacific Head of Structuring and Business Manager for Emerging Markets Credit Trading at Citigroup, Hong Kong from 2007 to 2012, and Manager and Public Affairs Officer of Citigroup, Portugal from 2002 to 2007. She is currently a member of the Board of Directors of Banco CTT, Portugal and an Ambassador for the INSEAD directors' network. Susana Gomez Smith holds an MSc in Economics from the Technical University of Lisbon and a BSc in Economics from the Nova University of Lisbon. In addition, she has completed a number of Non-Executive Directors Programmes, including at INSEAD and CASS Business School, London.

Richard A. Laxer
Born 1961
American and British Citizen
Member since 2018
Chairman of the Nomination and Remuneration Committee

Richard Laxer began his career in 1984 at General Electric. From 2006 to 2008, he was CEO of GE Capital Solutions and later became CEO of GE Capital International in 2013. In 2016, he was appointed Chairman and CEO of GE Capital where he worked until March 2018. He was also a member of General Electric's Corporate Executive Council from 2006 to 2018. Richard Laxer was a member of the Board of Directors of Cembra Money Bank (2015 – 2016), Moneta Money Bank (2016 – 2017) and Pendragon Plc, UK (2018-2019). He currently serves as a Chairman of the Board of Directors of Aion SA, Belgium and as a member of the Board of Directors of Vodeno IT, Warsaw. Richard Laxer holds a BSc (Hons) in Business with a minor in Economics from Skidmore College, USA.

Thomas R. Meier
Born 1962
Swiss Citizen
Member since 2017

Thomas Meier began his career at Credit Suisse Group and served as a relationship manager from 1988 to 1993. He subsequently held various senior positions in the Asia Region from 1993 to 1999 before being appointed CEO North Asia and Branch Manager of the Hong Kong office of Credit Suisse from 2000 to 2004. He became Head of Private Wealth Management and served as a member of the Management Board of Deutsche Bank (Luxembourg) from 2004 to 2005. He then joined Bank Julius Baer, where he served as CEO Asia from 2005 to 2015 and as member of the Executive Board from 2007 to 2015. After his return to Switzerland, he was Head of Corporate Sustainability at Bank Julius Baer from 2015 to 2017 and Chairman of the Julius Baer Foundation from 2016 to June 2018. Thomas Meier is currently a Managing Director and member of the Board of TRM Consulting AG and a member of the Board of Directors of VP Bank AG, Liechtenstein. Furthermore, he is a member of the Advisory Board of CCB Trust, Beijing. Thomas Meier holds a doctorate in Law from the University of Zurich, and he completed the Advanced Management Program at the University of Pennsylvania, USA.

Dominik Schärer
Born 1965
Swiss Citizen
Member since 2019

Dominik Schärer began his career as an equity trader at Bank Sarasin in 1987. In 1992, he joined Merrill Lynch Capital Markets, Zurich, where he spent 15 years in various roles, including as Head of Derivatives Trading, Head of Equities and Derivatives, and as Derivative Sales to institutional clients, pension funds and insurance companies. He was a member of the Executive Committee of Merrill Lynch Capital Markets, Zurich, from 1996 to 2001, and CEO from 2001 to 2007. He also served as a member of the Board of Directors of Merrill Lynch Capital Markets, Zurich, from 2007 to 2011 and as its Chairman from 2011 to 2016.

Dominik Schärer is the founder and member of the Board of Directors of PK Advisory, Basel, since 2015 and a partner and member of the Board of Directors of JBV Vermögensverwaltung, Olten, since 2007. Dominik Schärer holds a number of trading certificates and a degree in Economics and Business Administration from the Kaderschule Zurich.

Executive Committee

Executive Committee memberships and appointments

According to Leonteq's Organisational Management Regulations, the Executive Committee consists of at least five members. The members of the Executive Committee are appointed by the Board of Directors following proposal by the Nomination and Remuneration Committee.

The Executive Committee comprises seven members as of 31 December 2019. Its individual members are listed below.

Name	Appointed in	Function
Lukas Ruflin	May 2018	Chief Executive Officer
Marco Amato	September 2016	Deputy CEO and Chief Financial Officer
Jochen Kühn	January 2017	Head Insurance & Wealth Planning Solutions
Manish Patnaik	March 2014	Chief Operating Officer
Reto Quadroni	October 2017	Chief Risk Officer
David Schmid	January 2016	Head of Investment Solutions
Ingrid Silveri	October 2017	General Counsel

Mandates

In accordance with the Group's Articles of Association, members of the Executive Committee are not permitted to hold or exercise more than the following number of additional mandates in the executive or administrative bodies of other legal entities that are required to be registered in the commercial register or a comparable foreign registry, and that are not controlled or held directly or indirectly by the Company:

Type of mandate	Limit
Legal entities[1]	No more than 2 mandates
of which listed companies[1]	No mandate is permitted
Charitable entities[2]	No more than 5 mandates

1 Mandates for which remuneration is received, whereby multiple mandates in various companies that belong to the same group of companies count as one.

2 Mandates for which no remuneration is received

No Executive Committee member holds mandates that exceed these restrictions. Mandates exercised by a member of the Executive Committee at the request of the Company are exempt from these restrictions.

Before accepting or committing to new external business activities, Executive Committee members must seek approval from the Board of Directors which considers a number of factors in addition to the restrictions listed above. Generally, external business activities are prohibited if they create any potential conflicts of interest or adversely impact the Executive Committee member's performance or his/her regular work.

Responsibilities of the Executive Committee

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

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

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

The appointment or dismissal of members of the Committees of the Executive Committee and the approval of the appointment of members of the governing bodies of Group companies fall within the remit of the Executive Committee.

Committees of the Executive Committee

The Executive Committee has several standing committees, which are chaired by an Executive Committee member and meet periodically throughout the year and/or as often as required. These committees are:

- The Risk Committee, which is responsible for the determination and monitoring of liquidity risks, market risk limits, counterparty limits and country-specific limits within the scope defined by the Board of Directors. It established permissible hedging instruments within the scope defined by the Board, approves eligible issuers and stress scenarios, and issues guidelines on the general handling of legal and regulatory risks. The Risk Committee further decides on the initiation of lawsuits, the withdrawal from lawsuits or other legal proceedings and the conclusion of settlements if the committed amount is below a certain threshold. The Risk Committee is composed of both members of the Executive Committee and employees responsible for risk control, trading and treasury.
- The Product Approval Committee, which is responsible for approving new types of financial products before they are issued and new services before they are launched. The Product Approval Committee is composed of both members of the Executive Committee and employees responsible for risk control, trading and treasury.
- The Service Line Committee, which is responsible for an effective management of resources, its infrastructure and its processes in Service line areas. It reviews and approves requests for replacements and new positions and prepares all relevant decisions around its operations and IT infrastructure. The Service Line Committee consists of the CFO, the COO and the General Counsel; its meetings are attended by management responsible for human resources.

Professional background, education and other activities

Lukas T. Ruflin
Born 1975
Swiss Citizen
Appointed in May 2018

Lukas Ruflin started his career at PricewaterhouseCoopers in 1998. He joined J.P. Morgan in 1999, and moved to Lehman Brothers in 2000. He joined EFG Bank/EFG International in 2004 and held various management positions at the company, including Deputy CFO from 2004 to 2007, CEO of EFG Bank in 2010 and Deputy CEO of EFG International from 2009 to 2012. He was one of Leonteq's four founding partners in 2007. He has served as a member of Leonteq's Board of Directors since 2009 and was Vice-Chairman from 2015 to March 2018. Lukas Ruflin was appointed CEO and a member of the Executive Committee of Leonteq in May 2018. Lukas Ruflin holds a master's degree in Economics from the University of St. Gallen and a CEMS Master's degree in International Management from the University of St. Gallen.

Marco Amato
Born 1981
Italian and Swiss Citizen
Appointed in September 2016

Marco Amato started his career at Ernst & Young, Switzerland, in 2006. In 2014, he became a partner in the Assurance Financial Services organisation, where he was a member of the leadership team. As a client service partner, he gained vast experience in auditing financial statements in accordance with both Swiss and international accounting standards. He has in-depth knowledge of the front-, middle-, and back-office operations of financial institutions, and he has acted as an advisor on finance transformation, regulatory, and risk management matters. In September 2016, he joined Leonteq as Chief Financial Officer, and additionally served as Chief Risk Officer between November 2016 and October 2017. In October 2017, Marco Amato was appointed CEO ad interim. Since May 2015 he has served as Deputy CEO and CFO of Leonteq. He holds an advanced master's degree in International Business Law (LL.M.) from the University of Zurich and a master's degree in Business and Economics from the University of Basel. Marco Amato is a Swiss Certified Public Accountant.

Jochen Kühn
Born 1977
German Citizen
Appointed in January 2017

Jochen Kühn started his career at McKinsey & Company, Switzerland, in 2006 and became a partner in 2013. He was responsible for client acquisition and client projects focusing on international insurance groups and local European insurers. He was also leader of McKinsey's European Insurance Risk Practice and an expert for life insurance and pension fund topics across the value chain for client projects globally. In January 2017, he joined Leonteq as Head of Insurance & Wealth Planning Solutions and a member of the Executive Committee. He holds a doctorate in Finance (Dr. oec. publ.) from the University of Zurich and an MBA (Diplom-Kaufmann) from the University of Tübingen, Germany.

Manish Patnaik
Born 1973
German Citizen
Appointed in March 2014

Manish Patnaik began his career at Tata Infotech Ltd., India, as a Senior Software Engineer in 1997. In 1999, he joined Société Générale, Singapore, as a Business Analyst and Delivery Manager. From 2000 to 2011, he worked at Commerzbank, Germany, where he became Group Leader for equity derivatives, cash equity and research. He joined Leonteq in 2011 as Head of Front Office IT and became Chief Information Officer in 2012, before being appointed Chief Operating Officer and a member of the Executive Committee in March 2014. Manish Patnaik holds a bachelor's degree in Technology (Electronics & Communication) from R.E.C. (Regional Engineering College), Kurukshetra, India, and a master's degree in Business Administration (Finance) from ICFAI Business School, India.

Reto Quadroni
Born 1963
Swiss Citizen
Appointed in October 2017

Reto Quadroni started his career at UBS AG, Switzerland, in 1994, working in the area of IT Development and Quantitative Risk Management. In 1999, he joined Systor AG, Switzerland, as a Senior Financial Engineer. Between 2000 and 2003, he worked in the Credit Risk Control and the Product Control Departments of Swiss Re, Switzerland, before returning to UBS AG, Switzerland, as a Risk Specialist in 2003. As a member of the Group Risk Division, he focused on quantitative risk methodologies and regulatory and statistical analysis. He joined Leonteq in 2009 and was later appointed Head of Risk Control, a position he held until 2014. After a period of two years, during which he led a team focusing on strategic and regulatory related projects, he resumed his responsibility for Risk Control and became a member of the Executive Committee in October 2017. Reto Quadroni studied Theoretical Physics at ETH Zurich and holds a doctorate in Natural Sciences.

David Schmid
Born 1982
Swiss Citizen
Appointed in January 2016

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

Ingrid Silveri
Born 1976
Italian and Venezuelan Citizen
Appointed in October 2017

Ingrid Silveri started her career as a lawyer in Venezuela. After her PhD she worked in the debt capital markets groups of two international law firms, Clifford Chance (2006 – 2008) and Simmons & Simmons (2008 – 2011), in Frankfurt am Main. Ingrid Silveri joined Leonteq as a Legal Counsel in 2011, with a focus on European financial and securities regulations and corporate law. She was appointed Head Legal in July 2014 and became General Counsel and a member of the Executive Committee in October 2017. Ingrid Silveri holds postgraduate degrees (Dr. iur. and LL.M) from the Ludwig Maximilian University of Munich, Germany, and a law degree from the Andrés Bello Catholic University in Caracas, Venezuela.

Additional information

External Audit

External Audit forms an integral part of Leonteq's corporate governance framework and plays a key role by providing an independent assessment of operations and the internal control framework.

The Annual General Meeting elects the external auditor annually. The Group's statutory auditor is PricewaterhouseCoopers AG ('PwC'), Zurich, Switzerland. The mandate was first given to PwC on 29 November 2007 when the Company was incorporated. The lead audit partners are subject to periodic rotation requirements. The current lead audit partner is Andrin Bernet (since 2018) who succeeded Rolf Birrer (2014 – 2018).

Mandates assigned to the auditor for additional audit, audit-related and permitted non-audit work are subject to prior approval by the Audit Committee.

Fees paid to the External Auditor

CHF million	2019	2018	Change y-o-y
Audit services	0.5	1.0	(50%)
Tax, accounting and advisory related services	0.3	0.2	50%

PwC attends all the meetings of the Audit Committee and reports on the findings of its audit and/or interim review work. The Audit Committee reviews PwC's audit plan on an annual basis and evaluates the performance of PwC and its lead partners in fulfilling their mandate. The Audit Committee reviews the annual written statement submitted by the external auditor to verify its independence. In addition, the Audit Committee recommends to the Board of Directors the appointment or replacement of the external auditor, subject to shareholder approval as required by Swiss law.

Transactions with related parties

Compensation, shareholdings and loans

Detailed information on the compensation of the Executive Committee can be found in the Compensation Report on pages 89 to 93 and 95 to 98. The total compensation of the Board of Directors is disclosed in the Compensation Report on pages 93 and 100. Information on the shareholdings of Leonteq's Executive Committee and Board of Directors can be found in the Compensation Report on page 99 and 101.

Management contracts

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

Compliance with rules and regulations

As a publicly listed Swiss company, Leonteq is subject to and complies with the Corporate Governance Directive of SIX Swiss Exchange that entered into force on 1 September 2014, as well as with the revised version of the Guideline on the Corporate Governance Directive which entered into force 1 May 2018 and the guidelines and recommendations contained in the Swiss Code of Best Practice for Corporate Governance issued by the Swiss business federation economiesuisse dated 29 February 2016, taking into account the respective provisions of the Swiss law, which entered into force on 1 January 2007 and addresses transparency requirements concerning the compensation of members of the Board of Directors and the Executive Committee.

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

COMPENSATION REPORT

Richard A. Laxer
Chairman of the Nomination and Remuneration Committee

Letter from the Chairman of the Nomination and Remuneration Committee

Dear shareholders, employees and other stakeholders,

As Chairman of the Nomination and Remuneration Committee, I am pleased to present the Compensation Report 2019 of Leonteq AG.

During the year, we implemented the new compensation system for the Executive Committee which was approved by shareholders at the Annual General Meeting 2019. This report provides an overview of the compensation design, followed by transparent disclosures of performance assessment and resulting compensation outcomes for members of the Executive Committee, members of the Board of Directors and Leonteq's Group employees.

Performance highlights
Leonteq delivered a solid financial performance in a challenging market environment in 2019. Total operating income decreased by 9% to CHF 256.2 million in 2019 driven by relatively stable net fee income of CHF 264.9 million (down 3% from 2018) and the absence of contributions from hedging activities. The cost base was CHF 191.2 million reflecting disciplined cost management despite increasing headcount to 508 full-time equivalents. In line with market expectations, group net profit was CHF 62.7 million in 2019, compared to CHF 91.5 million in the prior year.

The Executive Committee achieved further significant progress with its key strategic initiatives defined in mid-2018 to transform Leonteq's business model with a focus on delivering enhanced scalability and further growth, achieving optimised capital usage, and renewing the investment experience for clients and partners.

Compensation decisions
The total compensation for the Executive Committee decreased by 13% to CHF 8.53 million in 2019. Fixed compensation increased by 9% to CHF 5.53 million primarily as a result of pro rata compensation of the CEO in 2018. Variable compensation decreased by 36% to CHF 3.00 million reflecting a short-term incentive award of CHF 1.24 million (45% of maximum opportunity) and a long-term incentive award at fair value of CHF 1.57 million (36% of maximum opportunity).

No changes were made to the Board's compensation framework for 2019, which continues to be based on a fixed fee structure with pre-defined fees for Board membership and committee chairs. The total compensation for the members of the Board of Directors declined by 1% to CHF 1.61 million in 2019.

Compensation related votes
With the new compensation system for members of the Executive Committee, shareholders also approved a change in voting regime on compensation amounts. Shareholders will vote prospectively on the fixed compensation and the long-term incentive plan grant for the financial year following the year of the Annual General Meeting and retrospectively on the short-term incentive plan award for the reporting year. This will allow shareholders to take a fully informed decision based on the Company's performance in the reporting year when voting.

On behalf of the Nomination and Remuneration Committee, I would like to thank all our employees for their continued commitment and strong performance, and all our stakeholders for their trust and their commitment to Leonteq. We are confident that our compensation programmes will foster the long-term success of Leonteq.

Richard A. Laxer
Chairman of the Nomination and
Remuneration Committee

Compensation governance

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of a Chairman and a minimum of one other member of the Board and shall comprise a majority of independent members. On 31 December 2019, the Nomination and Remuneration Committee comprised three members: Richard Laxer (Chairman), Hans Isler and Susana Gomez Smith. In accordance with the provisions of the Compensation ordinance, all members of the Nomination and Remuneration Committee were elected individually for a term of one year by the Annual General Meeting 2019. All three members are independent.

The Nomination and Remuneration Committee meets at least four times per year. Meetings are usually attended by the CEO, the CFO and management responsible for compensation reporting and controlling. Any members of the Executive Committee who attend the meeting withdraw when their own compensation, performance or potential promotion are discussed.

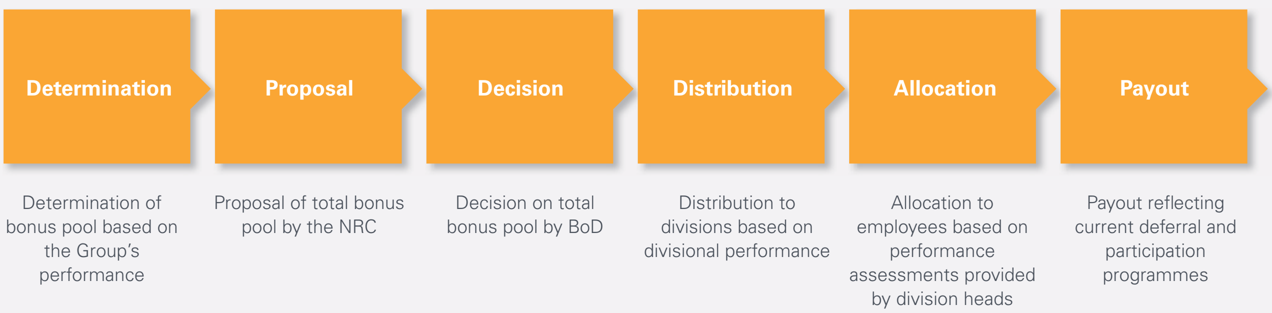
The Nomination and Remuneration Committee regularly reviews and oversees the Company's compensation policies and models. It is responsible for conducting a formal evaluation process and prepares the basis for the decisions of the Board of Directors regarding the total compensation of the members of the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

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

The Nomination and Remuneration Committee is additionally responsible for:

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

Governance process for variable compensation



Activities of the Nomination and Remuneration Committee in 2019

During 2019, the Nomination and Remuneration Committee met five times and focused on several key areas, including but not limited to the following:

- Reviewed the organisational structure, ensured a proper succession planning for all Board and Executive Committee members and other key functions, and strengthened the organisation through replacements and /or new deputies;
- Proposed to the Board the appointment of new Board members to complement the existing Board skill sets and to support a smooth succession planning;
- Reviewed the Group's compensation framework and aligned it with the Group's overall compensation objectives based on benchmarking and peer comparisons;
- Implemented a new compensation model for the Executive Committee;
- Reviewed and submitted for approval to the Board, the target achievement for the financial year of the Executive Committee remuneration model reflecting the Group's strategic and financial goals and set respective goals for the next year;
- Defined and proposed to the Board of Directors, the goals and objectives for the Executive Committee;
- Assessed the Group's performance with consideration of the quality of the results, the progress towards strategic targets and other factors, and reviewed and submitted for approval to the Board the proposed variable compensation amounts for the reporting year for all employees, in line with regulatory guidelines, the Group's compensation policy, and taking into account the Group's risk and control functions;
- Proposed to the Board the overall annual salary increase pool for employees;
- Reviewed and approved the Compensation Report 2019 focusing on a comprehensive and transparent disclosure of the Group's compensation.

In addition, the Nomination and Remuneration Committee was active in the following areas:

- Prepared a skill matrix for the Board of Directors to identify potential new board members which would complement, enhance or cover skill sets of the Board with regards to, among others, professional expertise, experience and diversity;
- Supported the definition of new corporate values and leadership initiatives like 360° reviews and advanced team building and leadership trainings for management.

Annual General Meeting

As specified in the Articles of Association, the Annual General Meeting has the inalienable power to approve the compensation of members of the Board of Directors and the Executive Committee. On an annual basis, and upon proposal by the Board of Directors, the Annual General Meeting approves separately (i) the maximum total compensation of members of the Board of Directors for the period until the next Annual General Meeting, (ii) the maximum total amount of fixed compensation and the maximum total amount of variable compensation for the long-term incentive plan of members of the Executive Committee for the financial year following the Annual General Meeting (prospective vote) and (iii) the total amount of variable compensation for the short-term incentive plan of members of the Executive Committee for the financial year preceding the Annual General Meeting (retrospective vote). The resolutions by the Annual General Meeting are binding. In the following year, the Board reports to the Annual General Meeting in the Compensation Report about the use of the approved fix remuneration and the long-term incentive award, and explains the short-term incentive award proposed with respect to the previous business year. The retrospective vote on the short-term incentive plan amount allows shareholders to take a fully informed decision based on the Group's performance in the reporting year when voting. If the Annual General Meeting opposes a requested amount of compensation proposed, the Board of Directors shall prepare an alternative proposal and shall convene another General Meeting within a period of three months.

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

Annual General Meeting 2020

The Board will submit the following proposals in respect of compensation matters to Leonteq's shareholders at the Annual General Meeting 2020:

- Non-binding vote on the Compensation Report 2019;
- Binding prospective vote on the maximum total compensation of members of the Board of Directors for the period from the Annual General Meeting 2020 to the Annual General Meeting 2021;
- Binding retrospective vote on the variable compensation for the short-term incentive plan of members of the Executive Committee for the financial year 2019;
- Binding prospective vote on maximum fixed compensation of members of the Executive Committee for the financial year 2021;
- Binding prospective vote on maximum variable compensation for the long-term incentive plan of members of the Executive Committee for the financial year 2021.

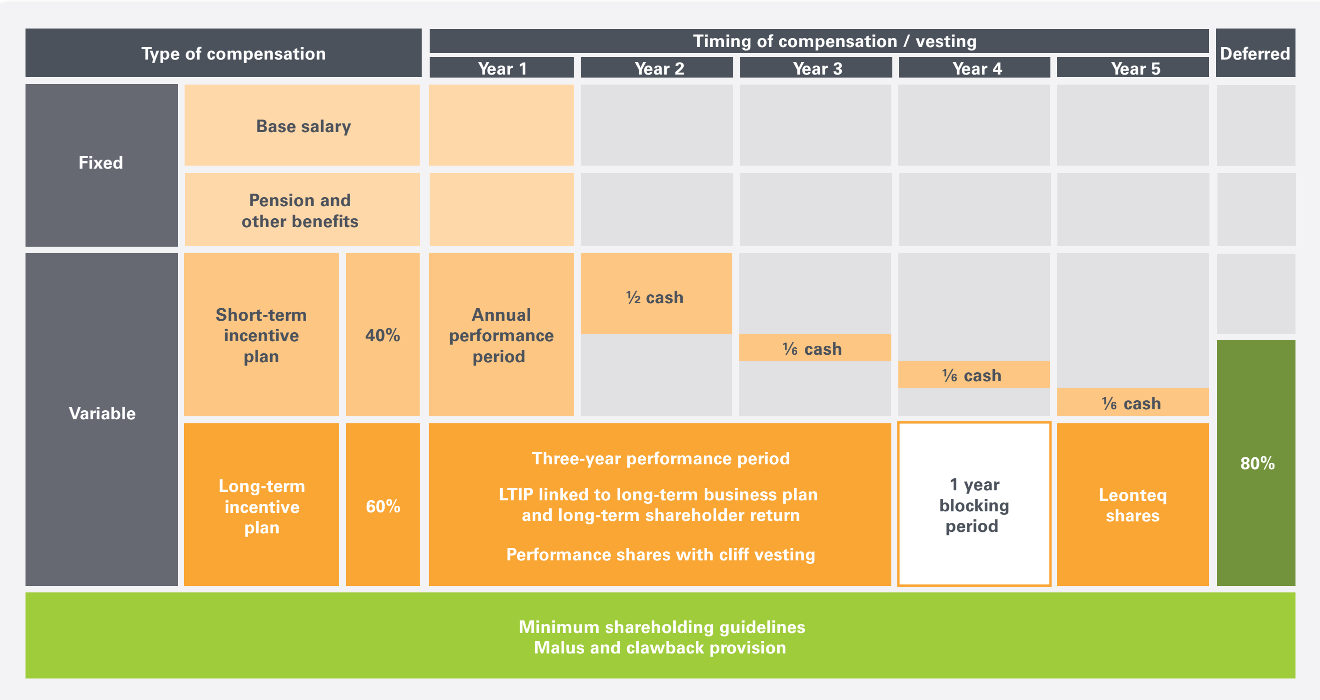
Compensation design for 2019

Compensation model for the Executive Committee

The Company introduced a new compensation model for members of the Executive Committee for the financial year 2019. The new model is designed to be transparent and easy to understand and is based on clearly defined performance metrics. Additionally, it strengthens the alignment between compensation and strategic priorities, and more closely aligns the interests of the Executive Committee with the long-term interests of shareholders. The Annual General Meeting 2019 approved the proposed amendments of the Articles of Association with respect to certain compensation principles outlined in this section of the Compensation Report.

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

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



Compensation structure

The members of the Executive Committee receive appropriate compensation, in line with market conditions. Members of the Executive Committee receive a base salary in cash, together with variable compensation for a one-year performance period in cash (short-term incentive plan, 'STIP') and variable compensation for a three-year performance period awarded in performance shares (long-term incentive plan, 'LTIP'). The base salary is assessed annually based on the recipient's level of responsibility and experience, and it is adjusted if required. The STIP award of each member of the Executive Committee depends on financial and non-financial targets that are aligned with the overall economic success and strategic development of the Company. The STIP award may be adjusted downwards if certain qualitative mandatory targets are not met. The vesting criteria for an Executive Committee member's LTIP award depend on the achievement of financial targets that are aligned with the long-term success and profitability of the Company and shareholder interests. The targets for members of the Executive Committee are approved at the beginning of the performance period by the Board of Directors and the achievement of the defined personal objectives is assessed at the end of each performance period by the Board of Directors.

Employment contracts for members of the Executive Committee are agreed for an indefinite period with a notice period of a maximum of 6 months. Contracts include malus and clawback provisions that are linked to the qualitative, mandatory targets. In addition, members of the Executive Committee are bound by minimum shareholding guidelines.

The total compensation of members of the Executive Committee is periodically benchmarked with the support of external compensation consulting services. The Group uses executive or senior management compensation of comparable peers which are financial institutions with similar business activities considering differences in size, geographic reach and client bases. Where more appropriate and relevant, compensation is compared with competing talent hiring markets, for example in the IT, consulting or audit industry.

Base salary

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

Short-term incentive plan

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

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

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

The STIP comprises clearly defined performance criteria that reflect the Company's short-term strategic targets and are grouped into financial and non-financial criteria. These metrics and the corresponding performance target levels are aligned with the annual budget and related initiatives approved by the Board of Directors and ensure continuous progress towards strategic targets. Short-term key performance indicators ('KPIs') are measured at Group or (where applicable) on an individual level for all members of the Executive Committee for a one-year performance period. The STIP performance target levels are approved at the beginning of the performance period and the achievement of set objectives is assessed annually by the Nomination and Remuneration Committee. In addition, qualitative KPIs comprise targets covering predominantly ethical and behavioural aspects and represent mandatory criteria that may only lead to downward adjustments.

Long-term incentive plan

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

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

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

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

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

Pension benefits and other compensation

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

Members of the Executive Committee participate in the occupational pension fund and receive benefits under the terms of its pension plans, including non-mandatory benefits. The Company may pay employer contributions to the occupational pension fund. In the case of illness or accident affecting a member of the Executive Committee, the Company may continue to pay the individual's salary under the terms of a plan implemented by the Board of Directors as part of the provision of insurance benefits. In cases of early retirement, the Company may provide bridging benefits to the insured or additional contributions to the occupational pension up to a maximum of 50% of the fixed compensation of the recipient.

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

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

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

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

Loans and credit granted
The Company may grant loans or credit to members of the Executive Committee at market conditions. Any such loans or credit may not exceed 50% of the annual fixed compensation of the individual concerned. However, it is the Company's current policy not to grant any loans and credit to members of the Executive Committee. The advancement of legal, court or similar costs for the defence of potential professional liability claims does not constitute either a loan or credit.

Maximum opportunity levels

The table below shows the opportunity multiples for the CEO and the range of opportunity multiples for the members of the Executive Committee (excluding the CEO) and maximum compensation amount for the seven members of the Executive Committee for the financial year 2019.

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

Compensation principles for Board of Directors and its committees

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

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

Directors' fee

The table below shows the director's fee for each individual function, approved by the Annual General Meetings 2019 and 2018, respectively. The directors' fees remained unchanged for the period from the Annual General Meeting 2019 to the Annual General Meeting 2020 compared to the prior term of office.

CHF thousand	AGM 2019 - AGM 2020	AGM 2018 - AGM 2019
Function		
Each member of the Board of Directors	150	150
In addition for the Chairman of the Board of Directors	200	200
In addition for the Vice-Chairman of the Board of Directors	50	50
In addition for the Committee Chairs	40	40

Loans and credit granted

The Company may grant loans or credit to members of the Board at market conditions. Any such loans or credit may not exceed 50% of the annual director's fee of the individual concerned. However, it is the Company's current policy not to grant any loans and credit to members of the Board. The advancement of legal, court or similar costs for the defence of potential professional liability claims does not constitute either a loan or credit.

Compensation model for employees

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

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

The Company applies a total compensation approach based on fixed and variable compensation components.

Fixed compensation for employees

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

Variable compensation for employees

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

Variable compensation exceeding a threshold of CHF 50,000 is deferred. Each year, the Nomination and Remuneration Committee defines the applicable deferral rate and the applicable split between cash and equity instruments by taking into account the risk profile of the employee function. Non-deferred variable compensation is paid in cash and recognised in the year in which variable compensation is granted. Deferred variable compensation is paid in cash over a three-year period, in equal instalments, for deferred variable compensation of CHF 60,000 or less. Deferred variable compensation of more than CHF 60,000 is paid two-thirds in cash over a three-year period, in equal instalments, and one-third in RSUs over a vesting period of three years (stage vesting). Compensation expenses incurred in cash are recognised with one-third of the expense in each year that it is earned using a straight-line allocation model. Compensation expenses incurred in shares or RSUs are recognised over the respective vesting period based on the grant value of RSUs.

Compensation for 2019

Compensation of the Executive Committee for 2019

STIP awards 2019

The STIP is designed to reward the achievement of annual targets based on performance in 2019. The STIP payout is determined based on pre-defined financial criteria and performance levels which are linked to Leonteq's strategic plan, as well as measurable non-financial criteria related to topics such as revenue diversification, turnover generated on SHIP, project implementation, governance and controls and leadership. The individual weighting of performance criteria for each member of the Executive Committee is outlined in the table below.

STIP performance criteria	Weight					
	CEO	Deputy CEO & CFO	Business line heads	COO	CRO	General Counsel
Total operating income (CHFm)	35%	25%	35% [1]	20%	10%	10%
Cost/income ratio (%)	25%	35%	25%	20%	10%	20%
Total capital ratio (%)	10%	10%	10%	10%	20%	10%
Total financial KPIs	**70%**	**70%**	**70%**	**50%**	**40%**	**40%**
Total non-financial KPIs	**30%**	**30%**	**30%**	**50%**	**60%**	**60%**

[1] Business line heads are measured against their respective segment result.

Taking into account the results of the achievements against the target performance levels, as well as the assessment of the non-financial KPIs outlined further in this section, the Nomination and Remuneration Committee recommended a total STIP award amount of CHF 1,244,000 for the Executive Committee. This amount represents 45% of the maximum variable compensation under the short-term incentive plan set for members of the Executive Committee. In line with the amended Articles of Association, the STIP compensation will be submitted (for the first time) for shareholder approval at the Annual General Meeting 2020.

Performance assessment against financial criteria

Financial short-term KPIs were defined on the basis of total operating income, the cost/income ratio, and the total capital ratio, each measured at Group level for all members of the Executive Committee, with the exception of the segments' total operating income attributed to the respective business line heads.

The targets for the financial KPIs and corresponding results for 2019 are outlined in the below table:

Short-term incentive plan	Performance levels			Results	Payout
	Threshold (25.0%)	Target (66.7%)	Cap (100.0%)		
Group financial KPIs					
Total operating income (CHF m)	235.0	280.0	325.0	256.2	45%
Cost/income ratio (%)	76.0%	72.0%	68.0%	74.6%	40%
Total capital ratio (%)	16.0%	21.0%	24.0%	21.1%	68%
Segment financial KPIs					
Investment Solutions: total operating income (CHFm)	205.0	244.0	283.0	205.6	26%
Insurance & Wealth Planning Solutions: total operating income (CHFm)	30.0	36.0	42.0	48.3	100%

Performance assessment against non-financial criteria
Non-financial short-term KPIs comprised non-GAAP and project-related targets that are quantifiable and measurable. The Executive Committees non-financial performance evaluation was based on pre-defined criteria according to the following six categories: revenue diversification across issuance partners, turnover generated on SHIP, gross impact of operational losses, governance and controls, project implementation and leadership.

The Nomination and Remuneration Committee noted that Leonteq further improved operational efficiency and enhanced level of automation for Leonteq's issuance partners. The Group added new functionalities and features to the white-labelling platforms of Raiffeisen, Cornèr Bank and Crédit Agricole CIB and launched an upgraded white-labelling platform for EFG International that enables automated pricing, trading and execution processes. However, the relative revenue contribution from new partnerships (excluding Raiffeisen, EFG International and Helvetia) was below the ambitious target set.

The Nomination and Remuneration Committee also noted that under the leadership of the Executive Committee, Leonteq advanced its SHIP project and connected five additional hedging counterparties in 2019. At the end of 2019, a total of six counterparties were providing external quotes for around 11% of all daily automated transactions. During the performance period, more than 2,600 trades ran through SHIP with a notional of CHF 1.0 billion. Given the fact that the majority was still hedged by Leonteq, members of the Executive Committee scored below the target set.

Leonteq also strengthened its operational risk framework through the introduction of operational risk event reporting training, operational risk workshops and operational risk delegates. However, whilst the gross impact of all operational risk events was less than 1% of the Group's total operating income, it was below the target set for members of the Executive Committee.

The Nomination and Remuneration Committee also noted the high standard of the Company's internal control system framework and that audit points were resolved in a timely manner.

In addition to the progress made with regards to Leonteq's platform partner business and the SHIP project, the Nomination and Remuneration Committee noted that Leonteq's management team successfully implemented its key strategic initiatives, including the launch of first modules of its new digital marketplace, called LynQs, and the redesigned web-based tool for actively managed certificates.

Leonteq's Executive Committee, further rolled-out a new corporate culture framework under the leadership of the CEO. included in this was the creation of a corporate culture committee and the implementation of a group-wide 360° review process aimed at strengthening leadership skills. Staff turnover rates reduced to 19% in 2019 (from 20% in 2018 and 30% in 2017).

Taking into account all these factors, the Nomination and Remuneration Committee concluded that the members of the Executive Committee, on average, achieved 41% of the maximum opportunity with respect to the non-financial targets set for 2019.

Performance assessment against qualitative criteria
Qualitative KPIs comprised targets covering predominantly ethical and behavioural aspects and represented mandatory criteria that can only lead to downward adjustments. The Nomination and Remuneration Committee concluded that no downward adjustments were warranted for the Executive Committee for 2019.

LTIP awards 2019

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

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

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

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

The LTIP awards for 2019 approved by shareholders at the Annual General Meeting 2019 have a total maximum opportunity of CHF 4,129,500. Based on the grant price of CHF 45.82, a maximum number of 90,119 shares may be awarded if all the maximum performance levels are achieved. Performance will be measured and disclosed at the end of the three-year performance period.

Total Executive Committee compensation for 2019 (audited)

Fixed compensation of the Executive Committee increased by 9% to CHF 5,527,000 in 2019, primarily as a result of pro rata compensation for the CEO in 2018. Variable compensation decreased by 36% to CHF 2,999,000, reflecting an STIP award of CHF 1,244,000 representing 45% of the maximum opportunity of CHF 2,753,000 and an LTIP award with a maximum opportunity of CHF 4,129,500 and a fair value of CHF 1,559,000 at the reporting date.

CHF thousand	Fixed compensation		Variable compensation				Total compensation
	Base salary[2]	Pension and other benefits[3]	STIP awards (non-deferred)	STIP awards (deferred)	LTIP awards fair value (deferred)[4]	Social security contributions	
2019							
7 members	4,966	561	622	622	1,559	196	**8,526**
of which highest paid earner: L. Ruflin (CEO)	1,000	100	173	173	453	56	**1,955**

[2] Representative allowance of CHF 20,400 for each member of the Executive Committee is included in the base salary; contributions to the voluntary pension plan are reflected within the base salary (previously disclosed within pension contributions; CHF 246 thousand in 2018).

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

[4] The awards have a threshold opportunity of CHF 1.03 million and a total maximum opportunity of CHF 4.13 million for 2019. The value for the performance criteria ROE was estimated at CHF 1,478 thousand at the measurement date. The fair value for the performance criteria TSR was estimated to be 5.9% equalling CHF 81 thousand at the measurement date. The fair value has been determined using a Monte Carlo pricing model. Leonteq has chosen to value the market condition internally given its in-house valuation capabilities. To provide an independent check, Internal Audit has then reviewed whether the respective valuation model applied adequately reflects the market condition's fair value.

CHF thousand	Fixed compensation		Variable compensation				Total compensation
	Base salary[5]	Pension and other benefits[6]	Cash	Deferred cash	Deferred RSUs	Social security contributions	
2018							
7 members	4,335	752	829	1,244	2,290	305	**9,755**
of which highest paid earner: D. Schmid (Head Investment Solutions)	865	170	220	330	600	80	**2,265**
of which: L. Ruflin (CEO)[7]	667	66	145	218	398	53	**1,547**

[5] Representative allowance of CHF 20,400 for each member of the Executive Committee is included in the base salary.

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

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

In line with the Compensation Ordinance, and as specified in the Articles of Association, if new members join the Executive Committee or members of the Executive Committee are promoted during a period for which compensation has already been approved by shareholders, a further 30% of the aggregate amounts already approved may be used for the compensation of such members. No such additional amount was required in 2019.

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

Additional compensation elements

No additional payments or other benefits were received by members of the Executive Committee in the reporting period. In particular, no compensation was received by members of the Executive Committee in the form of:

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

Former members of the Executive Committee (audited)

During 2019 and 2018, no former member of the Executive Committee received any compensation for services they continued to perform after they stepped down from the Executive Committee.

Shareholdings of members of the Executive Committee (audited)
Detailed information on the number of shares held by individual members of the Executive Committee as of 31 December 2019 and 31 December 2018 is provided below:

Executive Committee	31.12.2019		31.12.2018	
	Shares	Restricted Stock Units[8]	Shares	Restricted Stock Units[8]
Lukas T. Ruflin[9, 10]	12,380	—	12,380	—
Marco Amato	30,432	5,908	27,000	8,330
Jochen Kühn	29,038	18,261	16,734	35,563
Manish Patnaik	5,122	1,587	4,550	2,159
Reto Quadroni	5,488	936	4,889	1,535
David Schmid	22,870	3,714	20,926	5,658
Ingrid Silveri	1,108	783	683	1,208
Total	**106,438**	**31,189**	**87,162**	**54,453**

[8] Balance of unvested stock units granted for prior year variable compensation or contractually agreed with vesting periods 2018 – 2022.

[9] This excludes 1,531,376 shares as of 31 December 2019 and as of 31 December 2018 held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Ruflin.

[10] Excluding 462,325 call options as of 31 December 2019 and as of 31 December 2018 held by Thabatseka LP; call options are subject to the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

Unvested shares originating from LTIP awards that have not reached the end of the three-year performance period are calculated on the basis of maximum opportunity, given that the actual achievement level and associated number of unvested shares cannot be determined until the end of the performance period. Detailed information on the number of unvested performance shares originating from LTIP awards for 2019 is outlined in the table below.

Executive Committee	Performance Share Units (at maximum opportunity)	Performance Share Units (at target opportunity)
Lukas T. Ruflin	26,188	17,458
Marco Amato	11,490	7,660
Jochen Kühn	11,130	7,420
Manish Patnaik	8,380	5,586
Reto Quadroni	5,892	3,928
David Schmid	21,147	14,098
Ingrid Silveri	5,892	3,928
Total	**90,119**	**60,078**

Loans and credit granted to members of the Executive Committee (audited)
The Company did not grant any loans or guarantee commitments to members of the Executive Committee.

Board of Directors compensation for 2019

The Board's total compensation for the period from the Annual General Meeting 2019 to the Annual General Meeting 2020 decreased by 1% to CHF 1,613,000 and was 13% below the total maximum amount of CHF 1,850,000 approved by the Annual General Meeting 2019. Effective reimbursement of expenses is not classed as compensation and is not included in the below figures.

Total Board of Directors compensation from AGM 2019 to AGM 2020 (audited)

CHF thousand	BoD	AC	RC	NRC	Board fee	Chair fee	Total director's fee	Post-employment benefits[11]	Total compen-sation	Of which awarded in shares[12]
Christopher M. Chambers	C				150	200	350	44	394	245
Hans Isler	VC	C			150	90	240	12	252	192
Jörg Behrens			C		150	40	190	12	202	95
Patrick de Figueiredo					150		150	7	157	75
Susana Gomez Smith[13]					150		150	11	161	60
Richard A. Laxer				C	150	40	190	12	202	138
Thomas R. Meier					150		150	10	160	75
Dominik Schärer[14]					150		80	5	85	52
Total							**1,500**	**113**	**1,613**	**932**

[11] These charges comprise the employer's social security contributions.
[12] These share-based payment amounts reflect the market value of the shares at time of grant.
[13] Susana Gomez Smith was elected to the Board of Directors at the Annual General Meeting on 27 March 2019.
[14] Dominik Schärer was elected to the Board of Directors at the Extraordinary General Meeting on 19 September 2019.

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

CHF thousand	BoD	AC	RC	NRC	Board fee	Chair fee	Total director's fee	Post-employment benefits[15]	Total compen-sation	Of which awarded in shares[16]
Christopher M. Chambers	C				150	200	350	—	350	175
Hans Isler	VC	C			150	90	240	16	256	192
Jörg Behrens			C		150	40	190	14	204	133
Paulo Brügger[17, 18]					150		125	—	125	50
Vince Chandler[19]				C	150	40	190	9	199	76
Patrick de Figueiredo					150		150	12	162	75
Richard A. Laxer					150		150	12	162	98
Thomas R. Meier					150		150	15	165	75
Total							**1,545**	**78**	**1,623**	**874**

[15] These charges comprise the employer's social security contributions.
[16] These share-based payment amounts reflect the market value of the shares at time of grant.
[17] The director's fee for Paulo Brügger was paid directly to Raiffeisen Switzerland.
[18] On 2 February 2019, Paulo Brügger resigned from Leonteq's Board of Directors with immediate effect. Compensation amounts are reported until this date.
[19] Vince Chandler did not stand for re-election at the Annual General Meeting on 27 March 2019.

Shareholdings of members of the Board of Directors (audited)

Detailed information on the number of shares held by individual members of the Board of Directors as of 31 December 2019 and 31 December 2018 is provided below:

Board of Directors	31.12.2019	31.12.2018
Christopher M. Chambers	25,019	18,419
Hans Isler	21,172	19,000
Jörg Behrens	14,361	11,802
Paulo Brügger[20]	N/A	—
Vince Chandler[21]	N/A	20,741
Patrick de Figueiredo	10,866	8,846
Susana Gomez Smith[23]	1,616	N/A
Richard A. Laxer	5,502	1,797
Thomas R. Meier	4,156	2,136
Dominik Schärer[24]	1,572	N/A
Total	**84,264**	**82,741**
whereof locked shares	50,295	34,293

[20] Paulo Brügger resigned from Leonteq's Board of Directors on 2 February 2019 with immediate effect.

[21] Vince Chandler did not stand for re-election at the Annual General Meeting on 27 March 2019.

[22] Susana Gomez Smith joined Leonteq's Board of Directors on 27 March 2019.

[23] Dominik Schärer joined Leonteq's Board of Directors on 19 September 2019.

Loans and credit granted to members of the Board of Directors (audited)

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

Employee compensation for 2019

Total employee compensation for 2019 (excluding Executive Committee and Board of Directors; audited)

CHF thousand	2019	2018
Fixed compensation[24]	59,313	58,115
Variable compensation[25]	37,770	42,813
Other compensation and personnel expenses[26]	12,242	14,793
Total committed personnel expenses	**109,325**	**115,721**
of which variable compensation recognised in the reporting year	25,015	26,009
of which variable compensation recognised in future periods	12,755	16,804
Average FTEs	490	450
Committed personnel expenses per average FTEs	223	257

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

[25] Variable compensation charges include bonuses and performance-related benefits.

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

Outlook on compensation design for 2020

The overall compensation structure and design for the Executive Committee in 2020 builds upon the new framework introduced in 2019. The threshold, target and maximum performance levels for the STIP and LTIP awards for 2020 are determined by the Nomination and Remuneration Committee at the beginning of the performance period, taking into account the Group's strategic targets, prior year performance, analyst expectations and any publicly stated targets, in order to set performance levels which are challenging and motivating for the Executive Committee.

STIP performance criteria

Financial performance criteria continue to include total operating income and cost-income ratio. Total capital ratio will be replaced with shareholders' equity in consideration of the new regulatory framework (Swiss Financial Institutions Act) applicable since 1 January 2020. Performance targets for the financial KPIs will be disclosed retrospectively due to the commercial sensitivity of these targets. Non-financial KPIs continue to include revenue diversification across issuance partners, turnover generated on SHIP and product organisation. In addition, the assessment of individual goals and objectives for each member of the Executive Committee will be newly introduced, which will replace operational losses, governance and controls and leadership.

The weightings of STIP performance criteria for each individual member of the Executive Committee are adjusted for 2020 and summarised in the following table.

STIP performance criteria	Weight						
	CEO	Deputy CEO & CFO	Head Investment Solutions	Head IWPS	COO	CRO	General Counsel
Total operating income (CHFm)	25%	20%	40% [27]	40% [27]	10%	10%	5%
Cost/income ratio (%)	20%	25%	10%	20%	15%	10%	10%
Shareholders' equity (CHFm)	10%	10%	10%	5%	5%	10%	5%
Total financial KPIs	**55%**	**55%**	**60%**	**65%**	**30%**	**30%**	**20%**
Total non-financial KPIs	**45%**	**45%**	**40%**	**35%**	**70%**	**70%**	**80%**

[27] Business line heads are measured against their respective segment result.

LTIP performance criteria

LTIP performance criteria and their weighting remain unchanged for 2020. Performance targets for ROE are adjusted for 2020 and disclosed in the following table. Performance targets for TSR remain unchanged for 2020.

LTIP performance criteria	Weight	Performance targets		
		Threshold (25.0%)	Target (66.7%)	Cap (100.0%)
Three-year average reported return on equity	66.7%	6.0%	10.0%	14.0%
Three-year total shareholder return compared to benchmark	33.3%	0.0% cumulative + TSR > 0	10.0% cumulative + TSR > 0	20.0% cumulative + TSR > 0

Maximum opportunity levels

The opportunity multiples and the maximum opportunity levels for each member of the Executive Committee remain unchanged for the financial year 2020. Please refer to page 92 for an overview of the opportunity multiples for the CEO and the range of opportunity multiples for the members of the Executive Committee (excluding the CEO) and maximum compensation amount for the seven members of the Executive Committee. The maximum opportunity levels for fixed compensation and LTIP awards are below the maximum compensation amounts of CHF 6.33 million and CHF 5.19 million, respectively, approved at the Annual General Meeting 2019.

Report of the statutory auditor

to the General Meeting of Leonteq AG

Zurich

We have audited the compensation report of Leonteq AG (pages 85 to 102) for the year ended 31 December 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labelled 'audited' on pages 98 to101 of the compensation report.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the compensation report of Leonteq AG for the year ended 31 December 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Andrin Bernet	Dominik Töngi
Audit expert Auditor in charge	Audit expert

Zurich, 12 February 2020

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CONSOLIDATED FINANCIAL STATEMENTS

CONTENT

Leonteq AG

Consolidated income statement for the years ended 31 December 2019 and 2018

CHF thousand	Note	2019	2018
Fee income from securities trading and investment activities		270,815	276,101
Fee expense		(5,908)	(3,592)
Net fee income	8	**264,907**	**272,509**
Result from trading activities and the fair value option	9	**(3,203)**	**21,383**
Interest and discount income		9,645	5,891
Interest expense		(19,747)	(19,122)
Changes in value adjustments for default risks and losses from interest operations		1,824	(1,640)
Net result from interest operations	10	**(8,278)**	**(14,871)**
Other ordinary income	11	2,798	3,396
Total operating income		**256,224**	**282,417**
Personnel expenses	12	(116,952)	(115,697)
Other operating expenses	13	(40,806)	(53,203)
Depreciation of long-lived assets	29	(30,096)	(16,680)
Changes to provisions and other value adjustments, and losses	34	(3,305)	(3,503)
Total operating expenses		**(191,159)**	**(189,083)**
Result from operating activities		**65,065**	**93,334**
Taxes	14	(2,333)	(1,842)
Group net profit		**62,732**	**91,492**
of which allocated to shareholders of Leonteq AG		62,732	91,492
Share information			
Basic earnings per share (CHF)	15	3.35	5.40
Diluted earnings per share (CHF)	15	3.30	5.33

Consolidated statement of other comprehensive income for the years ended 31 December 2019 and 2018

CHF thousand	Note	2019	2018
Group net profit		**62,732**	**91,492**
Other comprehensive income/(loss) that will not be reclassified to the income statement			
Remeasurement of the defined benefit plan	32	(4,750)	(1,559)
Income tax on items that will not be reclassified	14	866	330
Total other comprehensive income/(loss) that will not be reclassified to the income statement		**(3,884)**	**(1,229)**
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	27	5,214	—
Expected credit loss changes on debt instruments measured at fair value through other comprehensive income	33	847	—
Currency translation adjustments	16	(10,315)	(546)
Income tax on items that may be reclassified	14	2	—
Total other comprehensive income/(loss) that may be reclassified to the income statement		**(4,252)**	**(546)**
Total other comprehensive income/(loss)		**(8,136)**	**(1,775)**
Total comprehensive income		**54,596**	**89,717**
of which allocated to shareholders of Leonteq AG		54,596	89,717

The notes on pages 112 to 173 are an integral part of these consolidated financial statements.

Leonteq AG

Consolidated statement of financial position as of 31 December 2019 and 2018

CHF thousand	Note	31.12.2019	31.12.2018
Assets			
Liquid assets	19	130,891	—
Amounts due from banks	20	515,826	1,375,066
Amounts due from securities financing transactions	22	48,883	84,076
Amounts due from customers	21	394,938	214,291
Trading financial assets	23	2,155,040	2,026,581
Trading inventories	24	26,661	16,221
Positive replacement values of derivative financial instruments	25	2,991,746	4,948,893
Other financial assets designated at fair value through profit or loss	26	1,521,992	1,913,507
Financial investments measured at fair value through other comprehensive income	27	1,122,302	—
Accrued income and prepaid expenses	28	23,596	15,849
Current tax assets	14	918	964
Deferred tax assets	14	3,230	3,252
Long-lived assets	29	121,120	54,497
Other assets	30	19,626	37,027
Total assets		**9,076,769**	**10,690,224**
Total subordinated claims		11,612	4,809
of which subject to mandatory conversion and/or debt waiver		—	—
Liabilities			
Amounts due to banks	20	232,210	924,049
Liabilities from securities financing transactions	22	259,319	428,901
Amounts due to customers	21	591,304	1,375,104
Trading financial liabilities	23	433,907	360,432
Negative replacement values of derivative financial instruments	25	2,527,075	3,688,353
Other financial liabilities designated at fair value through profit or loss	26	4,092,490	3,123,856
Accrued expenses and deferred income	28	178,712	146,573
Current tax liabilities	14	2,270	2,292
Deferred tax liabilities	14	90	179
Other liabilities	30	80,139	18,294
Expected credit loss provision	33	279	2,950
Provisions	34	16,462	11,585
Total liabilities		**8,414,257**	**10,082,568**
Equity			
Share capital	35	18,934	18,934
Share premium		288,532	288,532
Retained earnings[1]		380,880	317,720
Accumulated other comprehensive income/(loss)	16	(12,525)	(4,389)
Own shares	35	(13,309)	(13,141)
Total shareholders' equity		**662,512**	**607,656**
Total liabilities and equity		**9,076,769**	**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 2019 and the period ended 31 December 2018, respectively.

The notes on pages 112 to 173 are an integral part of these consolidated financial statements.

Leonteq AG

Consolidated statement of changes in equity for the years ended 31 December 2019 and 2018

CHF thousand	Note	Share capital	Share premium	Retained earnings
Balance as of 31 December 2017		**15,945**	**172,532**	**247,858**
Impact of change in accounting principle	6	—	—	(20,690)
Balance as of 1 January 2018		**15,945**	**172,532**	**227,168**
Employee participation schemes	12	—	—	60
Capital increase/(decrease)	35	2,989	116,000	(1,000)
Net disposal/(purchase) of own shares	35	—	—	—
Dividends and other distributions	35	—	—	—
Other allocations to/(transfers from) other comprehensive income	16	—	—	—
Group net profit		—	—	91,492
Balance as of 31 December 2018		**18,934**	**288,532**	**317,720**

CHF thousand	Note	Share capital	Share premium	Retained earnings
Balance as of 31 December 2018		**18,934**	**288,532**	**317,720**
Impact of change in accounting principle	6	—	—	479
Balance as of 1 January 2019		**18,934**	**288,532**	**318,199**
Employee participation schemes	12	—	—	489
Capital increase/(decrease)	35	—	—	—
Net disposal/(purchase) of own shares	35	—	—	(540)
Dividends and other distributions	35	—	—	—
Other allocations to/(transfers from) other comprehensive income		—	—	—
Group net profit		—	—	62,732
Balance as of 31 December 2019		**18,934**	**288,532**	**380,880**

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**
—	—	—	—	—	—	60
—	—	—	—	—	—	117,989
—	—	—	—	—	2,194	2,194
—	—	—	—	—	—	—
(1,229)	—	—	—	(546)	—	(1,775)
—	—	—	—	—	—	91,492
(3,750)	**—**	**—**	**—**	**(639)**	**(13,141)**	**607,656**

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**
—	—	—	—	—	—	489
—	—	—	—	—	—	—
—	—	—	—	—	(168)	(708)
—	—	—	—	—	—	—
(3,884)	—	5,216	847	(10,315)	—	(8,136)
—	—	—	—	—	—	62,732
(7,634)	**—**	**5,216**	**847**	**(10,954)**	**(13,309)**	**662,512**

The notes on pages 112 to 173 are an integral part of these consolidated financial statements.

Leonteq AG

Consolidated statement of cash flows for the years ended 31 December 2019 and 2018

CHF thousand	Note	2019	2018
Cash flow from operating activities			
Group net profit		62,732	91,492
Reconciliation to net cash flows from operating activities			
Non-cash positions in Group net profit			
Depreciation	29	30,096	16,680
Deferred tax expense/(benefit)	14	(208)	(945)
Change in expected credit loss provision	33	(1,824)	1,640
Change in general provision	34	3,299	3,498
Share-based benefit programmes	12	6,179	5,554
Other non-cash income and expenses		(11,114)	(1,775)
Net (increase)/decrease in assets related to operating activities			
Amounts due from banks	20	760,836	(517,279)
Amounts due from securities financing transactions	22	35,193	(70,543)
Amounts due from customers	21	(180,647)	(106,243)
Trading financial assets	23	(186,070)	248,681
Trading inventories	24	(10,440)	72,741
Positive replacement values of derivative financial instruments	25	1,957,147	(3,319,176)
Other financial assets designated at fair value through profit or loss	26	391,515	(771,905)
Net (investment)/disposal of financial investments measured at fair value through other comprehensive income	27	(1,122,302)	—
Accrued income and prepaid expenses	28	(7,747)	2,156
Other assets	30	17,401	9,894
Net increase/(decrease) in liabilities related to operating activities			
Amounts due to banks	20	(528,543)	322,838
Liabilities from securities financing transactions	22	(169,582)	51,504
Amounts due to customers	21	(783,800)	1,206,995
Trading financial liabilities	23	73,475	259,186
Negative replacement values of derivative financial instruments	25	(1,161,278)	2,125,337
Other financial liabilities designated at fair value through profit or loss	26	968,634	83,325
Accrued expenses and deferred income	28	36,345	10,029
Other liabilities	30	6,008	949
Utilisation of general provision	34	(1,969)	(730)
Dividends received		57,611	69,148
Interest received		9,546	5,759
Interest paid		(8,619)	(18,179)
Current taxes, non-cash adjustment	14	1,165	2,473
Current taxes paid	14	(1,141)	(1,309)
Cash flow from operating activities		**241,898**	**(218,205)**
Cash flow from investing activities			
Purchases of long-lived assets	29	(28,232)	(18,903)
Proceeds from long-lived assets	29	230	161
Cash flow from investing activities		**(28,002)**	**(18,742)**

CHF thousand	Note	2019	2018
Cash flow from financing activities			
Lease payments (excl. short term/low-value leases)	29	(10,712)	—
Gross proceeds from capital increase	35	—	124,398
Costs incurred from capital increase	35	—	(6,409)
Purchases of own shares	35	(6,397)	(3,300)
Cash flow from financing activities		**(17,109)**	**114,689**
Exchange rate differences		(77)	(57)
Net (decrease)/increase in cash and cash equivalents		**196,710**	**(122,315)**
Cash and cash equivalents, beginning of the year		131,665	253,980
Cash and cash equivalents at the balance sheet date		**328,375**	**131,665**
Cash and cash equivalents			
Liquid assets		130,891	—
Due from banks on demand[2]		203,053	300,530
Due to banks on demand		(5,569)	(168,865)
Net cash and cash equivalents at the balance sheet date		**328,375**	**131,665**

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

Cash and cash equivalents include liquid assets and receivables due from banks on demand (including clearing balances at recognised clearing centres and clearing banks). Bank overdrafts, if applicable, are shown within amounts due to banks. Cash as defined for the purpose of the statement of cash flows comprises cash and cash equivalents. For significant non-cash transactions refer to Note 6 which explains the impact of the first-time adoption of IFRS 16.

The notes on pages 112 to 173 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

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

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

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

Disclosures provided in the "Risk and Control" section of this report (pages 35 to 53) that are marked as audited form an integral part of the Financial Statements. These disclosures relate to requirements under IFRS 7, Financial Instruments: Disclosures and IAS 1, Presentation of Financial Statements, and are not in this section.

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

These consolidated financial statements were approved for publication by the Board of Directors on 11 February 2020.

2 Basis of presentation

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

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

3 Principal accounting policies

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

Subsidiaries

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

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

Foreign currency translation

The presentation currency of the Group is Swiss franc (CHF). The Group used the following main FX rates:

	Spot rate 31.12.2019	Spot rate 31.12.2018	Average rate 2019	Average rate 2018
EUR / CHF	1.0854	1.1253	1.1125	1.1552
USD / CHF	0.9676	0.9816	0.9937	0.9787
GBP / CHF	1.2819	1.2519	1.2696	1.3058
JPY / CHF	0.0089	0.0090	0.0091	0.0089
HKD / CHF	0.1242	0.1253	0.1268	0.1249
SGD / CHF	0.7192	0.7201	0.7273	0.7270

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

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

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

Initial recognition and derecognition

The Group uses trade date accounting to recognise financial transactions. The Group recognises a financial asset or financial liability at the transaction date (i.e. trade date) at fair value of the consideration given or received. Costs that are directly attributable to the transaction are recognised in the consolidated statement of financial position. At the date on which the Group enters into a sales contract for financial assets and the conditions for derecognition are met, the relevant financial instrument is derecognised from the statement of financial position. Recognition or derecognition is mainly associated to the transfer of the contractual rights to receive cash as well as the respective risks and rewards (market risk).

Financial assets and financial liabilities

Financial assets are allocated to the following categories based on type, solely payments of principal and interest (SPPI) and business model test: Fair value through profit or loss, amortised cost and fair value through other comprehensive income. Financial liabilities are allocated based on type and designation to the fair value option into the following categories based on type and designation: Fair value through profit or loss and amortised cost.

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

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

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

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

4 Critical accounting estimates and judgments in applying accounting policies

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

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

The most relevant areas in which the Group exercises judgment include the application of the Group's assumptions with respect to: revenue recognition as well as the deferral period applied to fee income (Note 8); fair value of financial instruments and trading inventory – especially levels 2 and 3, including own credit (Note 17); depreciation period and testing for impairments of long-lived assets (Note 29); provisions and expected credit loss provisions (Note 34 and 33); share-based payments (Note 12); and retirement benefit obligations (Note 32).

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

5 Changes to critical accounting estimates

No changes in critical accounting estimates were applied compared to 31 December 2018.

6 Changes in accounting policies and presentation

New or revised standards and interpretations adopted

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

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

First-time adoption of IFRS 16 "Leases"

The Group adopted IFRS 16 "Leases" on its mandatory effective date as of 1 January 2019. 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. 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 of 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.

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 thousand	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

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 amounted to CHF 67,244 thousand. The difference is attributable to the following reconciled items:

CHF thousand	Balance
Commitments arising from operating leases as of 31 December 2018	61,884
Addition of extension options	9,475
Short-term and low-value leases	(142)
Effect of discounting	(3,973)
Lease liability as of 1 January 2019	**67,244**

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

For further information on the accounting for leases refer to Note 29.

New standards and interpretations not yet adopted
Various other new and revised standards and interpretations must be applied with effect from 1 January 2020 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, and, based on this assessment, the Group expects that none of them will have a significant impact on the Group's consolidated financial statements.

7 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 investment 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 leads the product offering with interest rates as underlying for structured products.

Corporate Centre
Costs related to corporate functions such as Finance, Human Resources, Information Technology, Investor Relations & Communications, Legal & Compliance, Marketing, 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 thousand	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total 2019
Net fee income	229,739	35,168	—	264,907
Net trading income/(loss)	(15,728)	12,525	—	(3,203)
Net interest income/(expense)	(8,743)	575	(110)	(8,278)
Other ordinary income	337	—	2,461	2,798
Total operating income	**205,605**	**48,268**	**2,351**	**256,224**
Personnel expenses	(95,432)	(9,658)	(11,862)	(116,952)
Other operating expenses	(31,839)	(2,139)	(6,828)	(40,806)
Depreciation of long-lived assets	(22,294)	(3,575)	(4,227)	(30,096)
Changes to provisions and other value adjustments, and losses	—	—	(3,305)	(3,305)
Total operating expenses	**(149,565)**	**(15,372)**	**(26,222)**	**(191,159)**
Result from operating activities	**56,040**	**32,896**	**(23,871)**	**65,065**

CHF thousand	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total 2018
Net fee income	246,736	25,773	—	272,509
Net trading income/(loss)	18,087	3,296	—	21,383
Net interest income/(expense)	(15,499)	628	—	(14,871)
Other ordinary income	850	—	2,546	3,396
Total operating income	**250,174**	**29,697**	**2,546**	**282,417**
Personnel expenses	(97,331)	(8,323)	(10,043)	(115,697)
Other operating expenses	(41,248)	(2,349)	(9,606)	(53,203)
Depreciation of long-lived assets	(13,936)	(1,022)	(1,722)	(16,680)
Changes to provisions and other value adjustments, and losses	(1,756)	—	(1,747)	(3,503)
Total operating expenses	**(154,271)**	**(11,694)**	**(23,118)**	**(189,083)**
Result from operating activities	**95,903**	**18,003**	**(20,572)**	**93,334**

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 17.0 million to CHF 229.7 million mainly due to a reduction in net fee income margin from 86 bps to 76 bps. The business line's net trading loss of CHF 15.7 million (compared to a net trading income of CHF 18.1 million 2018) is mainly a result of reduced hedging contributions in the year under review (CHF -3.1 million in 2019 compared to CHF 39.7 million in 2018). The net interest result in Investment Solutions improved from CHF -15.5 million in 2018 to CHF -8.7 million in 2019 mainly due to increased interest income on margin accounts and lower credit facility expenses.

The Insurance & Wealth Planning Solutions business line saw total operating income increase by 63% to CHF 48.3 million in 2019 driven by both growth in net fee income of CHF 9.4 million and net trading income of CHF 9.2 million. The growth in net fee income was driven by non-recurring effects in relation to a change in future service obligations (refer to Note 8). The growth in net trading income was primarily driven by historically low long-term interest rates and high realised volatilities.

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

The first-time adoption of IFRS 16 "Leases" led to a shift of around CHF 10 million from other operating expenses (reduction compared to previous period) to depreciation of long lived-assets (increase compared to previous period). Adjusting this effect, the remaining cost base in Investment Solutions and Corporate Centre remained stable compared to the previous period. Total operating expenses in the segment Insurance & Wealth Planning Solutions have increased compared to the previous period due to additional investments in IT infrastructure and higher project related expenses.

Information by geographic location

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total 2019
Net fee income	111,699	125,006	28,202	264,907
Net trading income/(loss)	6,968	(6,587)	(3,584)	(3,203)
Net interest income/(expense)	(2,512)	(5,737)	(29)	(8,278)
Other ordinary income	2,754	44	—	2,798
Total operating income	**118,909**	**112,726**	**24,589**	**256,224**

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2019
Accrued income and prepaid expenses	6,578	16,575	443	23,596
Current tax assets	574	134	210	918
Deferred tax assets	2,719	145	366	3,230
Long-lived assets	108,246	3,141	9,733	121,120
Other assets	18,593	905	128	19,626

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total 2018
Net fee income	115,274	125,374	31,861	272,509
Net trading income/(loss)	10,128	8,295	2,960	21,383
Net interest income/(expense)	(5,571)	(7,730)	(1,570)	(14,871)
Other ordinary income	3,234	162	—	3,396
Total operating income	**123,065**	**126,101**	**33,251**	**282,417**

CHF thousand	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 Group 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. In 2019 and 2018, around 20% of the Group's total operating income was generated by the office in Monaco each year and around 17% and 16%, respectively, by the office in London.

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

8 Net fee income

Fees earned are allocated to Leonteq's main service offerings (service obligations). In the Investment Solutions division, these include: product design and launch; issuance, settlement and order management; risk management; lifecycle management; product documentation and reporting; risk, regulatory and financial reporting and other services. Similarly, the main services offered in the Insurance & Wealth Planning Solutions division include the issuance, design and management of structured certificates or variable annuity products, as well as the respective hedge strategy and platform management. These services are provided either when a product is issued or over the lifetime of a product. Consequently, part of the fee is deemed earned when a product is issued, while the remaining portion is deemed earned over the effective lifetime of products issued. The effective lifetime of Leonteq's products is defined on a product-by-product basis in the Insurance & Wealth Planning Solutions division, where the respective fee is collected when a product is issued and again when certain conditions are met during the lifetime of a product. A portfolio approach is applied to determine the average effective lifetime of products issued in the Investment Solutions divisions. Generally, fees generated in the Investment Solutions division are collected when the product is issued or repurchased. The allocation of the total fee to the individual service obligation, as well as the determination of when these service obligations are satisfied, involve the exercising of judgement. The average effective lifetime of products issued in the Investment Solutions divisions is determined based on the historical effective lifetime of expired products and the expected effective lifetime of existing products at the balance sheet date. The calculation only excludes products or product categories that show a unique revenue recognition profile that differs significantly from the majority of issued products. As of 31 December 2019, the average effective lifetime is estimated to be 12 months (31 December 2018: 12 months). The fee received is allocated to the individual service obligations based on the estimated share of the total effort required (input method) over the lifetime of a product as it best reflects the compensation for services provided. Material and customised contracts in the Investment Solutions division are accounted for to best reflect the actual patterns of the agreement which can be substantially differ from the portfolio approach described above.

In the Insurance & Wealth Planning Solutions division, the satisfaction of previously unsatisfied service obligations can be determined on a product-by-product basis. The fee is generally collected once the service obligation is expected to be satisfied. In cases where the fee is collected before the satisfaction of the respective service obligation, the fee is deferred until services are rendered.

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

CHF thousand	2019	2018
Fee income from Leonteq sales distribution	195,268	207,545
Fee income from platform partner distribution	67,748	62,656
Other fee income	7,799	5,900
Total fee income from securities trading and investment activities	**270,815**	**276,101**
Fee expense	(5,908)	(3,592)
Total fee expense	**(5,908)**	**(3,592)**
Net fee income	**264,907**	**272,509**

Net fee income decreased by 3% compared to 2018. Contributions from Leonteq sales distribution were 6% lower than in 2018 and fee income from platform partner distribution increased by 8% compared to 2018 in line with Leonteq strategy to leverage on partner distribution networks. Large ticket transactions (defined as transactions where Leonteq earns a fee of CHF 0.5 million or more) amounted to CHF 17.5 million and accounted for 7% of net fee income in 2019, down from 8% (or CHF 22.0 million) in 2018.

Other fee income and fee expenses comprised primarily commission for securities lending transactions and increased by 32% and 64% respectively.

For a breakdown of revenues, please refer to Note 7 where revenue from contracts was allocated to the operating segments as well as geographic locations.

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

CHF thousand	2019	2018
Balance of deferred fees as of 31 December 2017	**–**	**45,553**
Adjustment due to the first-time adoption of IFRS 15	N/A	20,690
Balance of deferred fees as of 1 January	**75,745**	**66,243**
Recognition of deferred fees in the income statement	(94,741)	(92,610)
Deferral of fees collected	125,895	102,112
Balance of deferred fees as of 31 December	**106,899**	**75,745**
of which recognised within the next 12 months	42,911	39,988
of which recognised after 12 months	63,988	35,757

Deferred fees are included in "accrued expenses and deferred income" in the consolidated statement of financial position. The balance of deferred fees will be recognised as fee income in the income statement when the respective service obligations are satisfied.

In the Investment Solutions divisions, service obligations that are not satisfied upon issuance of the product are deemed to be satisfied over the average effective lifetime of issued products which is estimated to be 12 months as of 31 December 2019. Consequently, an amount of CHF 35.1 million is expected to be recognised as fee income over a period of 12 months. Due to the long-term nature of the pension business, service obligations in the Insurance & Wealth Planning Solutions division are satisfied over a period of up to 48 years. CHF 23.3 million are expected to be recognised as fee income over the next 5 years, CHF 35.9 million between 6 and 20 years and CHF 12.6 million after 20 years.

In 2019, Leonteq agreed to amend with one of its platform partners certain services in relation to hedging future cashflows. In this context, Leonteq unwound hedge positions and, at the same time, derecognised derivative financial instruments. As a result, an amount of CHF 32.7 million was recognised as deferred income for future service obligations. Additionally, an amount of CHF 9.7 million was recognised as fee income for services without ongoing service obligations.

9 Result from trading activities and the fair value option

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

CHF thousand	2019	2018
Debt securities (incl. funds)	31,135	(4,935)
of which effective interest income from debt instruments at FVOCI	10,472	—
Equity securities (incl. funds)	(2,963)	32,911
Forex	16,283	6,393
Precious metals / commodities / crypto-currencies	(23,052)	8,711
Trading related costs	(24,606)	(21,697)
Result from trading activities and the fair value option	**(3,203)**	**21,383**
of which result due to financial assets designated at fair value	46,831	23,923
of which result due to financial liabilities designated at fair value	(272,536)	(287,799)

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

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

The decrease in the result from trading activities and the fair value option is primarily due to the decrease in volatility levels in 2019 compared to 2018.

10 Net result from interest operations

CHF thousand	2019	2018
Interest income from assets at fair value	9,645	5,891
Total interest and discount income	**9,645**	**5,891**
Interest expense from financial liabilities at fair value	(19,747)	(19,122)
Total interest expense	**(19,747)**	**(19,122)**
Gross result from interest operations	**(10,102)**	**(13,231)**
Changes in value adjustments for default risks and losses from interest operations	1,824	(1,640)
Net result from interest operations	**(8,278)**	**(14,871)**

The increase in interest income is due to higher collateral balances in connection with increased US dollar interest rates.

For further information on changes in value adjustments for default risks and losses from interest operations refer to Note 33.

11 Other ordinary income

CHF thousand	2019	2018
Rental income	2,298	2,396
Other fee income from platform partners	162	850
Other	338	150
Total other ordinary income	**2,798**	**3,396**

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

12 Personnel expenses

Variable compensation plans for employees

The Group implemented variable compensation plans for its employees. A portion of variable compensation equal to or greater than CHF 50 thousand is deferred. Depending on the function of each employee and the individual variable compensation amount, the proportion of variable compensation deferred ranges from 20% to 80%.

Non-deferred variable compensation is paid in cash and recognised as personnel expenses in the income statement during the performance period.

Deferred variable compensation is paid in cash over a three-year period, in three equal instalments for deferred variable compensation in the amount of CHF 60 thousand or less. Deferred variable compensation is generally paid two third in cash over a three-year period, in three equal instalments, and one third in shares or restricted stock units (RSUs) over a vesting period of three years (stage vesting), for deferred variable compensation of more than CHF 60 thousand.

Deferred variable compensation expenses incurred in cash are recognised as personnel expenses in the income statement with a third of the expense in each year using a straight-line attribution model. Deferred variable compensation expenses incurred in shares or RSUs are recognised as personnel expenses in the income statement over the respective vesting period corresponding to the grant value of shares or RSUs.

The awards are subject to the condition that the recipient remains in an employment relationship with the Company at the payment or vesting date, respectively.

Short- and long-term incentive plans for members of the Executive Committee (new compensation model)

In 2019, the Group implemented a new short- and long-term incentive plan for the members of the Executive Committee.

Variable compensation for the short-term incentive plan (STIP) is cash-settled and deferred with a rate of 50%. The non-deferred variable compensation of the STIP plan is recognised in the income statement in the year for which the variable compensation is committed (performance period). The deferred variable compensation element is paid in cash over a three-year period in three equal instalments (stage vesting). Variable compensation expenses incurred from deferred cash incentive plans are recognised as personnel expenses in the income statement with a third of the expense in each year straight-line.

Variable compensation for the long-term incentive plan (LTIP) is granted in performance share units (PSUs). The number of PSUs is calculated as a multiple of the annual base salary for each member of the Executive Committee applying as grant price the volume-weighted average share price from the last quarter prior to the start of the three-year performance period. PSUs allocated will vest after a period of three years (cliff vesting) and convert into Leonteq AG shares. The number of shares to vest will depend on the level of achievement of the performance criteria and will become freely tradeable after an additional blocking period of one year. Two thirds of the performance target is measured against the Group's return on shareholder's equity (RoE) target whereas one third is measured against the total shareholder return (TSR) compared with the performance of a basket of equity indices.

Compensation expense arising from the LTIP performance condition RoE is recognised over the service period based on the estimated number of shares expected to vest. The number of shares and the related expense recognition are adjusted over the three-year performance period to reflect the anticipated actual outcome. Compensation expense arising from the LTIP performance condition TSR is determined based on its fair value at grant date and recognised over the vesting period, even if vesting awards may change or forfeit. Share-based compensation arising from the performance condition TSR is therefore not re-measured unless the conditions' terms would be modified such that the fair value after modification exceeds the fair value prior to modification.

CHF thousand	2019	2018
Salaries and bonuses	105,094	101,340
of which share-based compensation	6,652	5,115
Social contributions	8,892	8,096
Pension plan expenses	1,016	5,278
Other personnel expenses	1,950	983
Total personnel expenses	**116,952**	**115,697**

Personnel expenses amounted to CHF 116,952 thousand in 2019, an increase of 1% compared to CHF 115,697 thousand in 2018. Pension plan expenses decreased by CHF 4.3 million in 2019 mainly impacted by the change of conversion rates and the replacement of parts of the current Swiss defined benefit plan through a newly introduced 1e plan. For further information refer to Note 32.

Personnel expenses include deferred benefits granted in prior years under the employee variable compensation plans. Future commitments arising from deferred compensation awards amounted to CHF 27.5 million for the year ending 31 December 2019 (2018: CHF 29.2 million).

The Group employed 519 and 493 employees as of 31 December 2019 and 2018, respectively. It had 508 and 486 full-time equivalents as of 31 December 2019 and 2018, respectively.

Personnel expenses include the impact of the three types of equity-settled compensation plans operated by the Group.

Restricted stock unit (RSU) plans

The Group operates RSU plans for certain Leonteq employees. Part of the deferred compensation of participating employees is paid in the form of RSUs that are converted into Leonteq AG shares, whereby one RSU is the equivalent to the entitlement of one Leonteq AG share. RSU plans align the deferred variable compensation of such employees with the long-term performance of the Group. The number of RSUs granted is determined by the amount of deferred variable compensation awarded to the employee, as well as the fair value of Leonteq AG shares at the grant date. Allocations made under this plan are based on deferred compensation for services rendered in the financial year ending 31 December prior to the grant date. Eligible employees will earn the RSUs over the pre-defined vesting period (stage vesting), provided the employee fulfils the vesting conditions in March of each of the following years. Up until the financial year 2018, the members of the Executive Committee participated in separate RSU plans in which parts of the remuneration of the long-term incentive plan were only earned at the end of a three-year vesting period (cliff vesting), if vesting conditions are fulfilled.

Number of RSUs	Employees	Executive Committee	Total 2019
Unvested committed RSUs at the beginning of the year	163,236	54,453	217,689
Allotted RSUs and transfers (additions) in the year under review	106,406	53,812	160,218
Forfeited RSUs and transfers (reductions) in the year under review	(15,972)	—	(15,972)
Settlement of RSUs by Leonteq AG shares	(58,021)	(23,224)	(81,245)
Unvested committed RSUs at the balance sheet date	**195,649**	**85,041**	**280,690**

CHF	
Average grant price of unvested committed RSUs (programme 2016 to 2022)	44.44

CHF thousand	Employees	Executive Committee	Total 2019
Personnel expenses recognised over the vesting period for RSUs	20,761	5,349	26,110
Market value of RSUs on the allocation date	20,761	5,349	26,110
Charged as personnel expenses in the year under review	3,599	1,543	5,142
Cumulative charges recognised as personnel expenses up to the balance sheet date	16,232	3,826	20,058
Estimated personnel expenses for the remaining vesting periods without future terminations	2,851	1,523	4,374

Number of RSUs	Employees	Executive Committee	Total 2018
Unvested committed RSUs at the beginning of the year	172,246	56,995	229,241
Allotted RSUs and transfers (additions) in the year under review	36,248	15,517	51,765
Forfeited RSUs and transfers (reductions) in the year under review	(2,475)	—	(2,475)
Settlement of RSUs by Leonteq AG shares	(42,783)	(18,059)	(60,842)
Unvested committed RSUs at the balance sheet date	**163,236**	**54,453**	**217,689**

CHF	
Average grant price of unvested committed RSUs (programme 2016 to 2022)	55.56

CHF thousand	Employees	Executive Committee	Total 2018
Personnel expenses recognised over the vesting period for RSUs	16,303	3,059	19,362
Market value of RSUs on the allocation date	16,303	3,059	19,362
Charged as personnel expenses in the year under review	3,109	1,023	4,132
Cumulative charges recognised as personnel expenses up to the balance sheet date	12,633	2,283	14,916
Estimated personnel expenses for the remaining vesting periods without future terminations	2,593	776	3,369

Share-based compensation plan

The Group operated a share-based compensation plan for certain Leonteq employees. Part of the deferred variable compensation of participating employees is paid in the form of Leonteq AG shares. The share-based compensation plan aligns the deferred variable compensation of such employees with the long-term performance of the Group. The number of shares granted is determined by the amount of deferred compensation awarded to the employee, as well as the fair value of Leonteq AG shares at the grant date. Allocations made under this plan are based on deferred variable compensation for services rendered in the financial year ending 31 December prior to the grant date. Eligible employees will earn one third of the shares over the next three years (stage vesting), depending on the plan, provided the employee fulfils the vesting conditions in March of each of the following years.

Number of shares	Employees	Executive Committee	Total 2019
Unvested committed Leonteq AG shares at the beginning of the year	236	—	236
Allotted rights and transfers (additions) in the year under review	—	—	—
Forfeited rights and transfers (reductions) in the year under review	—	—	—
Settlement by Leonteq AG shares	(236)	—	(236)
Unvested committed Leonteq AG shares at the balance sheet date	**—**	**—**	**—**

CHF	
Average grant price of unvested committed shares (programme 2015 to 2019)	N/A

CHF thousand	Employees	Executive Committee	Total 2019
Personnel expenses recognised over the vesting period for shares	3,969	428	4,397
Market value of shares on the allocation date	3,969	428	4,397
Charged as personnel expense in the year under review	3	—	3
Cumulative charges recognised as personnel expenses up to the balance sheet date	3,584	428	4,012
Estimated personnel expenses for the remaining vesting periods without future terminations	—	—	—

Number of shares	Employees	Executive Committee	Total 2018
Unvested committed Leonteq AG shares at the beginning of the year	5,417	1,064	6,481
Allotted rights and transfers (additions) in the year under review	—	—	—
Forfeited rights and transfers (reductions) in the year under review	(82)	—	(82)
Settlement by Leonteq AG shares	(5,099)	(1,064)	(6,163)
Unvested committed Leonteq AG shares at the balance sheet date	**236**	**—**	**236**

CHF	
Average grant price of unvested committed shares (programme 2015 to 2019)	103.98

CHF thousand	Employees	Executive Committee	Total 2018
Personnel expenses recognised over the vesting period for shares	3,969	428	4,397
Market value of shares on the allocation date	3,969	428	4,397
Charged as personnel expense in the year under review	61	11	72
Cumulative charges recognised as personnel expenses up to the balance sheet date	3,581	428	4,009
Estimated personnel expenses for the remaining vesting periods without future terminations	3	—	3

Deferred performance share units granted to the Executive Committee

From the financial year of 2019, the members of the Executive Committee participate in a long-term incentive plan (LTIP) which comprises forward-looking incentives for a three-year performance period. The LTIP is allocated in the form of performance share units (PSUs) and settled in Leonteq AG shares.

As of 31 December 2019, estimated LTIP financial impacts amounted to CHF 1,743 thousand for the three-year period. An amount of CHF 581 thousand was recognised for the financial year 2019. The fair value of each share award granted reflects the volume-weighted average share price from the last quarter prior to the start of the three-year performance period.

	2019	2018
Maximum number of share units granted for compensation year	90,119	—
Fair value of each share unit at grant date (in CHF)	45.82	—
Anticipated expense recognition arising from share units granted over vesting period (in CHF thousand)	1,743	—
Estimated fair value of share units granted over vesting period (in CHF thousand)	1,559	—

The anticipated expense recognition arising from share awards granted for the KPI return on shareholders' equity reflects the estimated number of shares to vest over the three-year performance period applying the grant price. For the KPI target linked to the total shareholder return (TSR), the expense recognition is determined based on the fair value at grant date. The fair value for the performance criteria TSR has been determined using a Monte Carlo pricing model and was estimated to be 19.23%, equalling CHF 265 thousand at the measurement date. Leonteq chose to value the market condition internally given our valuation capabilities. To provide an independent check, Internal Audit subsequently reviewed whether the respective valuation model applied adequately reflects the market conditions' fair value.

13 Other operating expenses

CHF thousand	2019	2018
Rent and accommodation	1,813	10,895
Information and communication technology	20,958	21,629
Vehicles, equipment, furniture and other accommodation expenses	64	—
Audit fees	1,007	1,677
of which for financial and regulatory audit	650	1,399
of which for other services	357	278
Other administrative expenses	16,964	19,002
of which for professional services other than audit fees	7,435	5,806
Total other operating expenses	**40,806**	**53,203**

With the first-time adoption of IFRS 16, the rent and accommodation expenses decreased by 83.36% compared to previous year. For further information refer to Note 29.

14 Taxes

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

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

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

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

Income taxes

CHF thousand	2019	2018
Income tax expense		
Switzerland	388	—
Foreign	1,288	2,464
Current income tax expense	1,676	2,464
Switzerland	695	(242)
Foreign	(38)	(380)
Deferred income tax (benefit)/expense	657	(622)
Total income tax expense	**2,333**	**1,842**
Profit before tax	**65,065**	**93,334**
Income tax expense computed at the Swiss statutory tax rate	13,760	19,739
Explanations for higher/(lower) tax expense		
Participation income tax relief	(5,892)	(2,893)
Tax rate differential	(11,627)	(9,891)
Impact due to IFRS 16 lease accounting	(71)	—
Transfer pricing adjustments	775	683
Addition/(Utilisation) of unrecognised tax losses carried forward	5,461	(2,529)
Impact of first-time adoption of IFRS15 recognised through equity	—	(2,760)
Costs relating to capital increase recognised through equity	—	(635)
Adjustments related to prior years	39	113
Other impacts	(112)	15
Total income tax expense	**2,333**	**1,842**
Capital tax expense	497	691
Corporate tax expense	**2,830**	**2,533**

The statutory tax rate of the Group's main operating entity, Leonteq Securities AG Zurich, was 21.15% and 21.15% for the years ended 31 December 2019 and 2018, respectively. Any income generated by Leonteq AG is generally taxed in accordance with preferential holding company tax rules in Switzerland. The Group's foreign operations are taxed at varying rates. The tax rate differential presented relates primarily to the income of the Group's Guernsey Branch, which is taxed at the Guernsey company standard rate of 0%.

The main operating entity Leonteq Securities AG, Zurich, applied for participation income tax relief in line with the applicable Swiss tax legislation. The resulting impact was CHF 5,721 thousand for the tax period 2019 and CHF 2,893 thousand for the tax period 2018. The size of the benefit of the participation income tax relief is directly linked to the taxable profits of the Leonteq Securities AG, among other factors. Additionally, Leonteq AG also benefits from the participation income tax relief in the amount of CHF 171 thousand in the financial year 2019. Leonteq's position remains unchanged regarding the assessments issued by the Zurich tax authority for the years 2013, 2014 and 2015 (additional potential tax liability of CHF 12 million) where the tax authority is applying a different method of calculating the participation relief (Beteiligungsabzug) of Leonteq Securities AG, Zurich. Leonteq filed an objection against the assessment and a decision is still outstanding to date. If contrary to management's expectations, the courts were to decide in favour of the tax authority, such outcome would have a significant negative impact on the overall profitability of the Group.

The adjustments in transfer pricing mainly relate to interest rate adjustments (including corresponding adjustments) to the Contingent Convertible Loan issued by Leonteq Securities AG and currently fully owned by the holding company Leonteq AG.

In 2019, CHF 5.4 million (2018: CHF -2.5 million) of the impact of tax losses not recognised is incurred by entities abroad.

Current tax assets and current tax liabilities reported as of the date of the statement of financial position, and the resulting current tax expenses for the periods presented, are partly based on estimates and assumptions and may differ from the amounts determined by tax authorities in the future.

On 1 September 2019, the Swiss public accepted the proposed tax reform in the Canton of Zurich including a change in the income tax rate at the cantonal level. The combined statutory tax rate (for federal and cantonal purposes) will decrease from 21.15% to 19.70% as of 2021 and a potential further decrease could lead to 18.19% as of 2023. The effects of change in tax rates have been adjusted in the closing balances of deferred taxes accordingly.

At the end of year 2018, Leonteq Securities AG's ruling covering its branch activities with the Zurich Cantonal Tax Office expired. The Group continues to apply an OECD recognised transfer pricing standard to account for the income from its branches.

Deferred taxes

CHF thousand	Assets 31.12.2019	Assets 31.12.2018	Liabilities 31.12.2019	Liabilities 31.12.2018
Composition of deferred taxes				
Pension liability	2,790	2,690	—	—
Timing differences in recognition of long-lived assets	80	231	(90)	(179)
Short term timing differences	360	331	—	—
Total deferred taxes	**3,230**	**3,252**	**(90)**	**(179)**

CHF thousand	Assets 2019	Assets 2018	Liabilities 2019	Liabilities 2018
Changes in deferred taxes				
Balance at the beginning of the year	3,252	2,362	(179)	(234)
Changes affecting the income statement	(746)	567	89	55
of which revaluation of share-based payment plans	—	—	—	—
of which movement in pension liability	(766)	241	—	—
of which other temporary differences	20	326	89	55
Changes recognised through equity related to first-time adoption of new accounting standards	(141)	—	—	—
Translation adjustment	(1)	(7)	—	—
Changes affecting the statement of other comprehensive income from pension liability	866	330	—	—
Balance at the end of the year	**3,230**	**3,252**	**(90)**	**(179)**

15 Earnings per share

	2019	2018
Group net profit (CHF thousand)	62,732	91,492
Weighted average number of shares outstanding - undiluted	18,723,166	16,943,068
Dilution effect number of shares	268,246	218,031
Weighted average number of shares outstanding - diluted	18,991,412	17,161,099
Basic earnings per share CHF	**3.35**	**5.40**
Diluted earnings per share CHF	**3.30**	**5.33**

The dilution effect (number of shares) includes the effects of employee share-based benefit plans as explained in Note 12.

16 Other comprehensive income

CHF thousand	Currency translation adjustments	Defined benefit cost	Debt instruments measured at FVOCI	ECL changes on debt instruments measured at FVOCI	Income taxes	Accumulated other comprehensive income/(loss)
Balance as of 31 December 2017	**(93)**	**(3,199)**	**—**	**—**	**678**	**(2,614)**
Increase/(decrease)	(546)	(1,559)	—	—	330	(1,775)
Balance as of 31 December 2018	**(639)**	**(4,758)**	**—**	**—**	**1,008**	**(4,389)**
Increase/(decrease)	(10,315)	(4,750)	5,214	847	868	(8,136)
Balance as of 31 December 2019	**(10,954)**	**(9,508)**	**5,214**	**847**	**1,876**	**(12,525)**

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 10 million was recorded as of 31 December 2019.

Defined benefit cost

The discount rate applied by the Group was reduced to 0.1% compared to 1.0% as of year-end 2019. 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 fair value through other comprehensive income/ECL changes on debt instruments measured at fair value through other comprehensive income

The adoption of the fair value through other comprehensive income classification as well as the expected credit loss related to the bonds measured at fair value through other comprehensive income are outlined in Note 27 and 33.

Income taxes

Income taxes include the tax impact of income/losses recognised in other comprehensive income at locally applicable rates.

17 Fair values of financial instruments and trading inventories

Measurement methodologies

Derivative financial instruments, traded financial assets and liabilities, other financial assets designated at fair value, other financial liabilities designated at fair value and trading inventories are recognised at fair value in the statement of financial position. Changes in the fair values of these instruments are recognised in the income statement as the "result from trading activities and the fair value option". Financial investments measured at fair value through other comprehensive income are recognized in the statement of financial positions and changes in fair values 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".

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

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 for the period ending 31 December 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 financial position of the Group based on the valuation methods and assumptions explained below is the same as the book value. There is no deviation between fair value and book value.

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

Trading financial assets and liabilities, trading inventories, positive and negative replacement values of derivate financial instruments, 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
Leonteq determines its own credit spread regularly based on a model using observable market inputs such as market capitalisation, debt and product type-specific adjustments. Management compared the determined credit spread with observable and paid credit spreads for public distributed products of Leonteq to ensure that all available market information is reflected in the determined credit spread. No own credit spread adjustment was required in 2019 and 2018 respectively.

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

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

Level 1 instruments

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

Level 2 instruments

The fair value of level 2 instruments is based on quoted prices in markets that are not active or on a valuation method using significant input parameters that are directly or indirectly observable. Level 2 instruments comprise positive or negative replacement values of derivative instruments, issued structured products, debt securities with reduced market liquidity and investment funds that are not quoted. The Group uses valuation methods to determine the fair value of positive and negative replacement value of derivative instruments and issued structured products if there is no active market pursuant to the definition of IFRS 13 or if market liquidity varies significantly over time. For the valuation of derivative instruments, including option components of structured products, and the interest rate components of structured products, generally recognised option pricing models and generally recognised valuation methods – e.g. discounted cash flow models – are used. If quoted prices for instruments are available but low trading volumes indicate that there is no active market or quoted prices are not available, then the fair values of equity securities, debt securities, other securities and trading inventories are based on pricing information from counterparties, brokers or other pricing services. In the case of investment funds, published net asset values are used. The input parameters for the valuation models are contract-specific and include the market price of the underlying asset, foreign exchange rates, yield curves, default risk, dividend estimates and volatility. 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 during the year. An unrealised loss of CHF 6,334 thousand for fair value movements was recognised in "result from trading activities and the fair value option" for the year 2019. The closing balance of level 3 financial liabilities as of 31 December 2019 totalled CHF 21,105 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 thousand					Range of unobservable inputs				
					31.12.2019		31.12.2018		
	31.12.2019	31.12.2018	Valuation technique	Significant unobservable input	low	high	low	high	Unit
Negative replacement values of derivative financial instruments	**21,105**	18,383	Generic Replication Model[3]	Volatility of interest rates	**51**	**61**	62	72	basis points

[3] 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 un-observable input parameters used. These results show no significant impact on the Group's net profit, comprehensive income or shareholders' equity.

CHF thousand	31.12.2019	31.12.2018
Impact of shifts of unobservable input parameters on fair values		
Increase of volatility of interest rates (+5 bps)	31	(167)
Decrease of volatility of interest rates (-5 bps)	(31)	167

Day 1 result

According to IFRS 13, the transaction price represents the best indication of the fair value of financial instrument unless the fair value of the instrument can be better determined by comparing it with other observable current market transaction involving the same instrument (level 1 instrument) or is based on a valuation method using observable market data (level 2 instrument). For level 3 instruments, day 1 profit is deferred and is recognised as deferred income.

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

CHF thousand	Level 1	Level 2	Level 3	Total 31.12.2019
Financial assets				
Trading financial assets				
Debt securities (listed)	84,035	16,254	—	100,289
Equity securities	1,509,500	90,404	—	1,599,904
Funds	232,598	196,834	—	429,432
Other securities	—	25,415	—	25,415
of which hybrid financial instruments	—	25,415	—	25,415
Total trading financial assets	1,826,133	328,907	—	2,155,040
Positive replacement values of derivative instruments	1,949,731	1,042,015	—	2,991,746
Other financial assets designated at fair value through profit or loss	1,220,704	301,288	—	1,521,992
Financial investments measured at fair value through other comprehensive income	1,110,881	11,421	—	1,122,302
Total financial assets	**6,107,449**	**1,683,631**	**—**	**7,791,080**
Trading inventories	26,661	—	—	26,661
Total trading inventories	**26,661**	**—**	**—**	**26,661**
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	1,300	—	—	1,300
Equity securities	417,253	3	—	417,256
Funds	15,350	—	—	15,350
Other securities	—	1	—	1
of which hybrid financial instruments	—	1	—	1
Total trading financial liabilities	433,903	4	—	433,907
Negative replacement values of derivative instruments	1,372,807	1,133,163	21,105	2,527,075
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	429,662	—	429,662
Equities	—	3,529,714	—	3,529,714
Foreign currency	—	8,793	—	8,793
Commodities (incl. precious metals)	—	124,321	—	124,321
Total other financial liabilities designated at fair value through profit or loss	—	4,092,490	—	4,092,490
Total financial liabilities	**1,806,710**	**5,225,657**	**21,105**	**7,053,472**

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

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

Level 3 financial instruments

CHF thousand	31.12.2019	31.12.2018
Statement of financial position		
Balance at the beginning of the year	18,383	14,975
Additions	3,750	7,410
Disposals	(6,177)	(1,317)
Result recognised in the income statement	8,583	(298)
Result recognised in the statement of other comprehensive income	—	—
Reclassifications to level 3	—	—
Reclassifications from level 3	(3,434)	(2,387)
Translation differences	—	—
Total balance at the end of the year	**21,105**	**18,383**
Income in the period on holdings at balance sheet date		
Unrealised income/(loss) recognised in the trading income	(6,334)	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 is made based on changes in the observability of the significant input parameter "volatility of interest rates" for the valuation of financial instruments.

Based on the change in the observability of significant input parameters, CHF 3,434 thousand of level 3 financial instruments were reclassified to level 2 (CHF 2,387 thousand in 2018). No level 2 financial instruments were reclassified to level 3 in 2019 and 2018, respectively.

The result recognised in the income statement relates to trading (gains)/losses in connection with the substantial drop in long-term interest rates in 2019. The disposals mainly reflect derecognition of derivative financial instruments.

18 Hedge accounting

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 (increasing 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 (FVOCI)" business model, 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 FVOCI 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. The portfolios are managed dynamically and the hedging relationship is designated on a daily basis. 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. 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 the separate Risk section.

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

CHF thousand	31.12.2019	31.12.2018
Hedging instruments		
Positive replacement values of hedging instruments	4,014	—
Notional amount of derivative financial instruments used as hedging instruments	525,615	—
Negative replacement value of hedging instruments	9,696	—
Notional amount of derivative financial instruments used as hedging instruments	797,639	—

CHF thousand	31.12.2019	31.12.2018
Hedged item		
Carrying amount of financial investments measured at FVOCI	1,122,302	—
of which accumulated amount of fair value hedge gain/(loss) included in the carrying amount	620	—

CHF thousand	2019	2018
Hedge effectiveness		
Change in the fair value of the hedging instruments used as the basis for recognising hedge ineffectiveness	14	—
Change in the fair value of the hedged item used as the basis for recognising hedge ineffectiveness	620	—
Amount of hedge ineffectiveness recognised in the income statement	**634**	**–**

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 31 December 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.

19 Liquid assets

Liquid assets consist of sight deposit accounts held at the Swiss National Bank and are recognised at their nominal value.

20 Amounts due from/to banks

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

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

CHF thousand	31.12.2019	31.12.2018
Amounts due from banks		
Due from banks on demand (cash and cash equivalents)	203,053	300,530
Due from banks on demand (precious metals)	8,269	2,807
Cash collateral paid to banks or regulated financial institutions	275,280	849,289
Settlement receivables with banks or regulated financial institutions	19,672	220,993
Settlement receivables with platform partners – banks or regulated financial institutions	9,552	1,447
Total amounts due from banks	**515,826**	**1,375,066**
Amounts due to banks		
Cash overdrafts (cash and cash equivalents)	5,569	168,865
Cash collateral received from banks or regulated financial institutions	191,109	497,576
Settlement liabilities with banks or regulated financial institutions	34,181	254,968
Settlement liabilities with platform partners – banks or regulated financial institutions	1,351	2,640
Total amounts due to banks	**232,210**	**924,049**

Amounts due from banks decreased due to lower volatility levels at the end of 2019 resulting in lower negative replacement values. Amounts with related parties are reflected in Note 37.

21 Amounts due from/to customers

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

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

CHF thousand	31.12.2019	31.12.2018
Amounts due from customers		
Cash balances with financial market infrastructure entities	59,727	115,733
Cash collateral paid to non-banks	9,821	529
Settlement receivables with financial market infrastructure entities	232,093	14,275
Settlement receivables with platform partners – non-banks	83,532	74,434
Other amounts due from platform partners – non-banks	7,463	6,975
Other amounts due from customers	2,302	2,345
Total amounts due from customers	**394,938**	**214,291**
Amounts due to customers		
Cash balances with financial market infrastructure entities	55	22,438
Cash collateral received from non-banks	210,643	1,177,878
Settlement payables against financial market infrastructure entities	336,365	164,043
Settlement and other payables to platform partners – non-banks	43,820	10,310
Other fees payable	421	435
Total amounts due to customers	**591,304**	**1,375,104**

Amounts with related parties are reflected in Note 37. Amounts due to customers decreased due to lower collateral requirements on the back of lower volatility levels at the end of 2019 resulting in lower positive replacement values.

22 Securities financing transactions (assets and liabilities)

The Group generally enters into securities lending and securities borrowing transactions on a collateralised basis. In such transactions, the Group typically lends or borrows securities in exchange for securities or cash collateral. Additionally, the Group's lending and borrowing activities are done in exchange for a fee. The majority of securities lending and borrowing agreements involve shares, funds and bonds. The transactions are conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to the Group's normal credit risk control processes. The Group monitors the market value of the securities received or delivered on a daily basis and requests or provides additional collateral or returns, or recalls surplus collateral in accordance with the underlying agreements. Securities that have been transferred, whether in a lending/borrowing transaction or as collateral, are not recognised or derecognised in the statement of financial position unless the risks and rewards of ownership are also transferred. In such transactions where the Group transfers owned securities and where the borrower is granted the right to sell or repledge them, the securities are presented as "trading financial assets" or "other financial assets designated at fair value through profit or loss" of which pledged as collateral**.** Cash collateral received is recognised with a corresponding obligation to return it. Cash collateral received is disclosed in the line item "liabilities from securities financing transactions" Cash collateral delivered is derecognised with a corresponding receivable, reflecting the right to receive it back. The cash collateral delivered is disclosed in the line item "amounts due from securities refinancing transactions". Additionally, the sale of securities received in a lending or borrowing transaction triggers the recognition of a trading financial liability (short sale).

Consideration exchanged in such transactions (i.e. interest received or paid) is accrued in the period in which it incurred.

Repurchase and reverse repurchase agreements

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

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

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

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

CHF thousand	Book value of assets as reported on balance sheet	Cash collateral received	Securities lent or used for collaterali-sation[4]	Total Net amount
Amounts due from securities financing transactions	48,883	—	—	48,883
Trading portfolio	2,155,040	259,319	(1,306,959)	1,107,400
Other financial instruments at fair value	1,521,992	—	(992,860)	529,132
Total as of 31 December 2019	**3,725,915**	**259,319**	**(2,299,819)**	**1,685,415**
With unrestricted right to resell or repledge	—	—	(28,269)	(28,269)

CHF thousand	Book value of liabilities as reported on balance sheet	Cash collateral paid	Securities borrowed or received for collateralisa-tion	Total Net amount
Amounts due in respect of securities financing transactions	259,319	—	—	259,319
Trading portfolio	433,907	48,883	(338,379)	144,411
Liabilities from other financial instruments at fair value	4,092,490	—	—	4,092,490
Total as of 31 December 2019	**4,785,716**	**48,883**	**(338,379)**	**4,496,220**
of which repledged	—	—	—	—
of which resold	—	—	—	—

CHF thousand	Book value of assets as reported on balance sheet	Cash collateral received	Securities lent or used for collaterali-sation[4]	Total Net amount
Amounts due from securities financing transactions	84,076	—	—	84,076
Trading portfolio	2,026,581	428,901	(1,588,298)	867,184
Other financial instruments at fair value	1,913,507	—	(1,224,804)	688,703
Total as of 31 December 2018	**4,024,164**	**428,901**	**(2,813,102)**	**1,639,963**
With unrestricted right to resell or repledge	—	—	(145,737)	(145,737)

CHF thousand	Book value of liabilities as reported on balance sheet	Cash collateral paid	Securities borrowed or received for collateralisa-tion	Total Net amount
Amounts due in respect of securities financing transactions	428,901	—	—	428,901
Trading portfolio	360,432	84,076	(419,710)	24,798
Liabilities from other financial instruments at fair value	3,123,856	—	—	3,123,856
Total as of 31 December 2018	**3,913,189**	**84,076**	**(419,710)**	**3,577,555**
of which repledged	—	—	—	—
of which resold	—	—	—	—

[4] Securities lent or used for collateralisation of securities financing transactions are equal to the amounts of collateral received or paid (taking haircuts into account). The remaining amount is used as collateral for other purposes (i.e. initial margin for ETDs or add-ons).

23 Trading financial assets and liabilities

CHF thousand	31.12.2019	31.12.2018
Trading financial assets		
Debt securities (listed)	100,289	65,889
of which pledged as collateral	25,380	33,850
Equity securities	1,599,903	1,586,037
of which pledged as collateral	951,969	1,103,096
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	26,169	140,050
Funds	429,433	349,689
of which pledged as collateral	301,341	305,615
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	2,100	5,687
Other securities	25,415	24,966
of which hybrid financial instruments	25,415	24,966
Total trading financial assets	**2,155,040**	**2,026,581**
of which based on valuation-model (see Note 17)	328,907	238,351
of which repo-eligible securities	—	1,894
Trading financial liabilities		
Debt securities (listed)	1,300	1,242
Equity securities	417,256	343,617
Funds	15,350	15,573
Other securities	1	—
Total trading financial liabilities	**433,907**	**360,432**
of which based on valuation-model (see Note 17)	4	73

Trading financial assets are purchased to offset the economic exposures arising from the non-host debt component of the Group's issued products or other financial liabilities.

24 Trading inventories

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

Leonteq is issuing certificates that replicate the performance of cryptocurrencies. To hedge the exposure resulting from the issuance of these certificates, Leonteq purchases or sells the respective underlying. At year-end 2019, Leonteq issued products with Bitcoin, Bitcoin Cash, Ether, Litecoin and Ripple as underlyings. As the characteristics of a cryptocurrency do not match the existing classification criteria, IAS 8.10 is applicable. IAS 8.10 requires management to use its own judgement when developing and applying an accounting policy. Management must consider IFRS' approach to similar topics and accepted industry practices, among other factors. Based on the assessment performed, management decided to classify cryptocurrencies held as an asset as "trading inventories" and to apply the commodity broker-trader exemption (IAS 2.3) and therefore measure cryptocurrencies at fair value less costs to sell. The changes in fair value are recognised in the line item "result from trading activities and the fair value option".

25 Replacement values of derivative instruments

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

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

In certain circumstances, the Group uses derivative financial instruments to hedge risks associated with foreign exchange movements. At the inception of the transaction, the Group documents the relationship between the hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking the hedging transactions. At inception and on an ongoing basis, the Group documents the effectiveness of the hedge. For the hedge of fixed foreign currency denominated costs, the associated derivatives may be designated as cash flow hedges. Effective unrealised gains or losses on these instruments are recognised within the hedge accounting reserve in other comprehensive income. The Group transfers the hedge accounting reserves into the statement of other comprehensive income when the hedged cash flows occur or when hedge accounting is terminated.

For derivative financial instruments used for hedge accounting in accordance with IFRS 9, refer to Note 18.

CHF thousand	Trading instruments			Hedging instruments		
	Positive RV	Negative RV	Contract volume	Positive RV	Negative RV	Contract volume
Interest rate instruments						
Forward contracts incl. FRAs	—	—	—	—	—	—
Swaps	173,204	132,696	14,596,357	4,014	9,696	1,323,254
Futures	—	—	6,432,984	—	—	—
Options (OTC)	58,687	157,560	18,331,534	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Foreign currencies/precious metals						
Forward contracts	37,039	16,774	2,696,188	—	—	—
Swaps	8,849	6,663	1,178,260	—	—	—
Futures	—	—	—	—	—	—
Options (OTC)	27,302	25,810	2,293,988	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Precious metals						
Forward contracts	—	—	—	—	—	—
Swaps	102	296	10,447	—	—	—
Futures	—	—	91,829	—	—	—
Options (OTC)	3,142	2,921	51,148	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Equities/indices						
Forward contracts	—	—	—	—	—	—
Swaps	474,615	122,359	8,997,247	—	—	—
Futures	—	—	1,138,343	—	—	—
Options (OTC)	134,381	467,354	8,605,688	—	—	—
Options (exchange traded)	1,972,436	1,493,528	33,771,210	—	—	—
Credit instruments						
Credit default swap	96,290	84,125	3,943,159	—	—	—
Total return swap	—	—	—	—	—	—
First to default swaps	—	—	—	—	—	—
Other credit derivatives	—	—	—	—	—	—
Other						
Forward contracts	—	—	—	—	—	—
Swaps	797	1,213	179,749	—	—	—
Futures	—	—	111,746	—	—	—
Options (OTC)	888	6,080	76,988	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Total before deduction of netting agreements (incl. cash collateral) as of 31 December 2019	**2,987,732**	**2,517,379**	**102,506,864**	**4,014**	**9,696**	**1,323,254**
of which based on valuation-model (see Note 17)	1,042,015	1,133,163		—	—	
Total after deduction of netting agreements (incl. cash collateral) as of 31 December 2019[5]	**566,359**	**195,643**				
of which balances against central clearing institutions	552,741	55,379		—	—	
of which balances against banks or securities dealers	6,467	10,647		—	—	
of which balances against other customers	7,151	129,617		—	—	

[5] Replacement value of derivative instruments includes both Trading and Hedging instruments.

CHF thousand	Trading instruments			Hedging instruments		
	Positive RV	Negative RV	Contract volume	Positive RV	Negative RV	Contract volume
Interest rate instruments						
Forward contracts incl. FRAs	—	—	—	—	—	—
Swaps	78,124	78,164	11,344,737	—	—	—
Futures	—	—	12,666,416	—	—	—
Options (OTC)	29,334	115,333	4,714,918	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Foreign currencies/precious metals						
Forward contracts	38,000	37,253	4,259,824	—	—	—
Swaps	13,106	799	1,116,297	—	—	—
Futures	—	—	—	—	—	—
Options (OTC)	36,641	60,233	4,046,200	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Precious metals						
Forward contracts	—	—	—	—	—	—
Swaps	36	39	4,619	—	—	—
Futures	—	—	77,724	—	—	—
Options (OTC)	1,341	1,201	26,383	—	—	—
Options (exchange traded)						
Equities/indices						
Forward contracts	—	—	—	—	—	—
Swaps	1,376,719	111,597	8,849,982	—	—	—
Futures	—	—	866,863	—	—	—
Options (OTC)	267,559	761,511	7,966,372	—	—	—
Options (exchange traded)	3,002,957	2,411,872	35,758,997	—	—	—
Credit instruments						
Credit default swap	89,042	106,360	2,844,506	—	—	—
Total return swap	—	—	—	—	—	—
First to default swaps	—	—	—	—	—	—
Other credit derivatives	—	—	—	—	—	—
Other						
Forward contracts	—	—	—	—	—	—
Swaps	13,349	3	77,616	—	—	—
Futures	—	—	158,880	—	—	—
Options (OTC)	2,685	3,988	76,489	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Total before deduction of netting agreements (incl. cash collaterals) as of 31 December 2018	**4,948,893**	**3,688,353**	**94,856,823**	**—**	**—**	**—**
of which based on valuation-model (see Note 17)	2,006,884	1,575,681		—	—	
Total after deduction of netting agreements (incl. cash collaterals) as of 31 December 2018	**751,589**	**237,145**		**—**	**—**	
of which balances against central clearing institutions	723,161	131,295		—	—	
of which balances against banks or securities dealers	23,216	9,185		—	—	
of which balances against other customers	5,212	96,665		—	—	

26 Other financial assets and liabilities designated at fair value through profit or loss

CHF thousand	31.12.2019	31.12.2018
Other financial assets designated at fair value through profit or loss		
Debt securities (listed)	1,220,704	1,723,656
of which pledged as collateral	987,949	1,154,783
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	4,911	70,021
Other securities	117,219	24,465
of which hybrid financial instruments	117,219	24,465
Receivables from Insurance & Wealth Planning Solutions counterparties	184,069	165,386
Total other financial assets designated at fair value through profit or loss	**1,521,992**	**1,913,507**
of which based on valuation-model (see Note 17)	301,288	190,451
of which repo-eligible securities	798,851	1,165,024
Other financial liabilities designated at fair value through profit or loss		
Interest rate instruments	429,662	501,498
with own debt component	429,662	501,498
without own debt component	—	—
Equities	3,529,714	2,538,007
with own debt component	3,510,068	2,511,547
without own debt component	19,646	26,460
Foreign currency	8,793	9,398
with own debt component	8,793	9,398
without own debt component	—	—
Commodities (incl. precious metals)	124,321	74,953
with own debt component	97,166	58,656
without own debt component	27,155	16,297
Total other financial liabilities designated at fair value through profit or loss	**4,092,490**	**3,123,856**
of which based on valuation-model (see Note 17)	4,092,490	3,123,856

Bonds are used to offset exposures to similar term components of the Group's issued products, principally the host debt component of structured products issued.

Receivables from Insurance & Wealth Planning Solutions counterparties relate to expenses incurred to purchase economic hedges for interest rate risks on behalf of Insurance & Wealth Planning Solutions counterparties prior to the inception of their specific client contracts. These expenses are reimbursed to the Group by the respective Insurance & Wealth Planning Solutions counterparty.

The maturities of financial assets designated at fair value through profit or loss range from 1 month to 15 years.

CHF thousand	31.12.2019	31.12.2018
Classification in accordance with SVSP Swiss Derivative Map		
Capital protection	222,113	288,175
Yield enhancement	2,674,073	2,032,774
Participation	1,139,196	754,200
Leverage	57,108	48,707
Total other financial liabilities designated at fair value through profit or loss[6]	**4,092,490**	**3,123,856**

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

27 Financial investments measured at fair value through other comprehensive income

In 2018, the Group began investing a certain portion of proceeds from own product issuances in mid-term high-quality bonds issued by corporates and financials. This investment portfolio increased further in 2019, leading to a new 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 a new business model was established which requires the recognition of the respective financial instruments at fair value through other comprehensive income (FVOCI). In relation with the newly introduced hedge accounting refer to Note 17.

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 16).

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 thousand	31.12.2019	31.12.2018
Government bonds	3,865	—
Supranational agency bonds	17,005	—
Corporate bonds	741,833	—
Financial institution bonds	359,599	—
Total debt financial instruments measured at FVOCI	**1,122,302**	**—**
of which listed	1,110,881	—
of which unlisted	11,421	—

28 Accrued income and prepaid expenses/ Accrued expenses and deferred income

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

CHF thousand	31.12.2019	31.12.2018
Accrued income and prepaid expenses		
Prepaid operating expenses	5,413	2,362
Accrued interest	17,856	13,484
Other	327	3
Total accrued income and prepaid expenses	**23,596**	**15,849**
Accrued expenses and deferred income		
Accrued operating expenses	55,420	57,968
Deferred fee income	106,899	75,745
Accrued interest	1,620	2,860
Other	14,773	10,000
Total accrued expenses and deferred income	**178,712**	**146,573**

Prepaid operating expenses relate to sublease, staff and other operating expense items. Accrued interest consists mainly of accrued interest from debt instruments held as an asset.

Accrued operating expenses include staff, audit fee and other operating expense items. For more details on the deferred fee income, refer to Note 8. Other accrued expenses consist of accrued capital tax, outstanding social security expense as well as accrued distribution fees.

29 Long-lived assets

Long-lived assets (furniture, equipment, leasehold improvements, internally developed and purchased software, as well as IT equipment) are stated at cost less accumulated depreciation and impairment losses. Due to refurbishment in different offices, a partial disposal of the fixed assets has been realised. Right-of-use assets are reported at the amount equivalent to the capitalised lease payments less accumulated depreciation. Long-lived assets are reviewed periodically for impairment, with any impairment charge being recognised in the income statement.

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

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

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

- Furniture and equipment: 5 to 10 years
- Leasehold improvements: 5 to 10 years
- Right-of-use assets: 2 to 15 years
- Internally developed software: 3 to 5 years
- Purchased IT software: 3 to 5 years
- IT equipment: 3 to 5 years

Impairment of non-financial assets

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

CHF thousand	Property and equipment			Total
	Furniture / equipment	Leasehold improvement	Right-of-use asset	31.12.2019
Historical cost				
Balance as of 1 January 2019	4,568	12,118	101,632	118,318
Additions	261	—	2,945	3,206
Disposals	(208)	(720)	(982)	(1,910)
Reclassifications	—	—	—	—
Other value adjustments/impairments	—	—	(86)	(86)
Translation adjustments	(15)	4	(56)	(67)
Balance as of 31 December 2019	**4,606**	**11,402**	**103,453**	**119,461**
Accumulated depreciation cost				
Balance as of 1 January 2019	2,899	3,678	34,778	41,355
Depreciation[7]	736	1,578	9,603	11,917
Disposals	(204)	(442)	(246)	(892)
Reclassifications	—	—	—	—
Other value adjustments/impairments	(5)	—	(8)	(13)
Translation adjustments	(17)	(4)	(55)	(76)
Balance as of 31 December 2019	**3,409**	**4,810**	**44,072**	**52,291**
Net book value as of 31 December 2019	**1,197**	**6,592**	**59,381**	**67,170**

[7] All internally developed and purchased software is currently depreciated over a period of five years.

CHF thousand	Property and equipment			Total
	Furniture / equipment	Leasehold improvement	Right-of-use asset	31.12.2018
Historical cost				
Balance as of 1 January 2018	4,513	12,021	—	16,534
Additions	78	748	—	826
Disposals	(2)	(634)	—	(636)
Reclassifications	—	—	—	—
Other value adjustments/impairments	—	—	—	—
Translation adjustments	(21)	(17)	—	(38)
Balance as of 31 December 2018	**4,568**	**12,118**	**—**	**16,686**
Accumulated depreciation cost				
Balance as of 1 January 2018	2,160	2,468	—	4,628
Depreciation[7]	727	1,850	—	2,577
Disposals	(2)	(634)	—	(636)
Reclassifications	—	—	—	—
Other value adjustments/impairments	30	2	—	32
Translation adjustments	(16)	(8)	—	(24)
Balance as of 31 December 2018	**2,899**	**3,678**	**—**	**6,577**
Net book value as of 31 December 2018	**1,669**	**8,440**	**—**	**10,109**

Leonteq's IT platform consists of different components: Leonteq developed proprietary front-end tools for product construction, product set-up and product documentation. The position management and risk management system is based on off-the-shelf software. Leonteq enhanced the software through the addition of specific functionalities such as in-built model libraries developed by Leonteq. The back-office tools used by Leonteq comprise standard software.

Information technology and systems			Total 31.12.2019	Total 31.12.2019
Internally developed software	Purchased software	IT equipment		
77,416	31,188	12,676	121,280	239,598
15,200	6,619	6,152	27,971	31,177
—	(687)	(123)	(810)	(2,720)
—	—	—	—	—
—	—	—	—	(86)
—	—	(5)	(5)	(72)
92,616	**37,120**	**18,700**	**148,436**	**267,897**
48,562	22,067	6,263	76,892	118,247
12,185	3,602	2,392	18,179	30,096
—	(687)	(123)	(810)	(1,702)
—	—	—	—	—
—	—	230	230	217
—	(1)	(4)	(5)	(81)
60,747	**24,981**	**8,758**	**94,486**	**146,777**
31,869	**12,139**	**9,942**	**53,950**	**121,120**

Information technology and systems			Total 31.12.2018	Total 31.12.2018
Internally developed software	Purchased software	IT equipment		
68,278	25,254	9,856	103,388	119,922
9,138	5,934	3,005	18,077	18,903
—	—	(175)	(175)	(811)
—	—	—	—	—
—	—	—	—	—
—	—	(10)	(10)	(48)
77,416	**31,188**	**12,676**	**121,280**	**137,966**
38,843	19,546	4,454	62,843	67,471
9,719	2,507	1,877	14,103	16,680
—	—	(77)	(77)	(713)
—	—	—	—	—
—	14	17	31	63
—	—	(8)	(8)	(32)
48,562	**22,067**	**6,263**	**76,892**	**83,469**
28,854	**9,121**	**6,413**	**44,388**	**54,497**

Leases

In the previous year, the group recognised leases under IAS 17 Leases. Leases that were classified as “operating leases” were not recognised on its balance sheet since the related ownership rights and obligations remained with the lessor. Expenses resulting from operating leasing were recognised in “other operating expenses”. The Group did not have any “finance leases” under IAS 17. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 6. The Group’s leasing activities mainly relate to office, data centre and equipment. 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 34). 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, unless it is determined to be subject to impairment according to IAS 36. Lease payments are deducted from the lease liability. The lease liability is measured at the present value of remaining lease payments, discounted at the interest rate determined at the commencement date or at the transition of the lease.

Upon the first-time adoption of IFRS 16 if new lease agreements are entered into, 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 are 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 31 December 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 26 million. In addition the Group has committed to a new lease contract which will result in an increase of CHF 2.9 million in the right-of use assets and lease liabilities as of 1 January 2020.

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 effect of IFRS 16 during the period 1 January to 31 December 2019:

CHF thousand	Office under lease
Right-of-use asset	
Balance as of 1 January 2019	66,854
Additions	2,945
Disposals	(737)
Effect of contract modifications	(78)
Amortisation	(9,603)
Currency translation adjustment	—
Balance as of 31 December 2019	**59,381**
Lease liability	
Balance as of 1 January 2019	67,244
Additions	2,208
Disposals	(6)
Effect of contract modifications	8
Interest expense	881
Payments	(10,712)
Currency translation adjustment	(59)
Balance as of 31 December 2019	**59,564**
Contractual liability (excluding short-term or low-value assets) as of 31 December 2019	63,181
of which due within 1 year	9,633
of which due within 2 and 5 years	31,808
of which due within 6 and 10 years	21,740
of which due after 10 years	—

During the period 1 January 2019 to 31 December 2019, CHF 75 thousand of expenses relating to short-term leases or leases of low value were accounted for as an other operating expense.

Commitments arising from operational leases

CHF thousand	31.12.2019	31.12.2018
Due within one year	43,886	9,527
Due between two and five years	74,287	27,511
Due later than five years	2,982	24,846
Commitments for minimum payments under operational leases	**121,155**	**61,884**

Commitments arising from operational sublease rental income

CHF thousand	31.12.2019	31.12.2018
Due within one year	2,381	2,611
Due between two and five years	3,121	5,785
Due later than five years	—	—
Commitments for minimum payments under operational leases	**5,502**	**8,396**

In 2018 and 2019, the Group sublet office space that it does not expect to be used in the coming years.

30 Other assets and liabilities

CHF thousand	31.12.2019	31.12.2018
Other assets		
Withholding and other tax receivables	19,619	37,008
Other assets	7	19
Total other assets	**19,626**	**37,027**
Other liabilities		
Other tax liabilities	3,206	5,428
Pension liability	14,155	12,715
Lease liability	59,564	—
Other liabilities	3,214	151
Total other liabilities	**80,139**	**18,294**

The derivative component of structured products with Swiss underlyings, are generally hedged with Swiss shares. Withholding taxes on dividends from such Swiss shares are included in Withholding tax receivables. In the period under review, Leonteq received a repayment of CHF 25.3 million from the Swiss Federal Tax Authority.

Refer to Note 32 for further information on the change in net pension liability.

As of 1 January 2019 IFRS 16 became effective. Due to the application of this standard the Group has recognised a lease liability which amounts to CHF 59.6 million as of 31 December 2019.

Other liabilities mainly represents unpaid supplier invoices which are due for payment in 2020.

31 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 thousand	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
Liquid assets	130,891	—	130,891	—	—	130,891
Amounts due from banks	515,826	—	515,826	—	(228,505)	287,321
Amounts due from securities borrowing	48,883	—	48,883	—	(48,883)	—
Amounts due from customers	394,938	—	394,938	(81,701)	(3,207)	310,030
Positive replacement values of derivative instruments	2,991,746	—	2,991,746	(2,113,826)	(401,752)	476,168
Other financial assets designated at fair value through profit or loss	1,521,992	—	1,521,992	(184,069)	—	1,337,923
Total as of 31 December 2019	**5,604,276**	**–**	**5,604,276**	**(2,379,596)**	**(682,347)**	**2,542,333**

CHF thousand	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
Liquid assets	—	—	—	—	—	—
Amounts due from banks	1,375,066	—	1,375,066	—	(519,195)	855,871
Amounts due from securities borrowing	84,076	—	84,076	—	(84,076)	—
Amounts due from customers	214,291	—	214,291	(44,974)	(529)	168,788
Positive replacement values of derivative instruments	4,948,893		4,948,893	(2,652,210)	(1,675,454)	621,229
Other financial assets designated at fair value through profit or loss	1,913,507	—	1,913,507	(165,386)	—	1,748,121
Total as of 31 December 2018	**8,535,833**	**–**	**8,535,833**	**(2,862,570)**	**(2,279,254)**	**3,394,009**

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 89,762 thousand for the year ended 31 December 2019 (2018: CHF 61,776 thousand).

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

CHF thousand	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amount of financial liabilities as reported in IFRS balance sheet	Effect of master netting agreements	Effect of collateral paid	Net amount
Amounts due to banks	232,210	—	232,210	—	(232,210)	—
Liabilities from securities financing transactions	259,319	—	259,319	—	(252,219)	7,100
Amounts due to customers	591,304	—	591,304	(81,701)	(350,125)	159,478
Negative replacement values of derivative instruments	2,527,075	—	2,527,075	(2,185,083)	(275,280)	66,712
Other financial liabilities designated at fair value through profit or loss	4,092,490	—	4,092,490	(112,812)	(853,050)	3,126,628
Total as of 31 December 2019	**7,702,398**	**—**	**7,702,398**	**(2,379,596)**	**(1,962,884)**	**3,359,918**

CHF thousand	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amount of financial liabilities as reported in IFRS balance sheet	Effect of master netting agreements	Effect of collateral paid	Net amount
Amounts due to banks	924,049	—	924,049	—	(873,880)	50,169
Liabilities from securities financing transactions	428,901	—	428,901	—	(428,901)	—
Amounts due to customers	1,375,104	—	1,375,104	(44,974)	(1,297,071)	33,059
Negative replacement values of derivative 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 financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial asset and financial liability when both parties elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting arrangement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

32 Retirement benefit obligations

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

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

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

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

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

Past service costs are recognised immediately in the income statement.

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

The Group also contributes to pension schemes on behalf of employees domiciled in other locations. These pension schemes qualify as defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The contributions are recognised as employee benefit expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions totalling CHF 1,288 thousand and CHF 1,007 thousand for the years ended 31 December 2019 and 2018, respectively, related to contribution plans in other jurisdictions, were also recognised in personnel expenses.

The pension plan is maintained by a foundation that is a separate legal entity. The plan provides cover against retirement, death and disability for all staff employed in Switzerland. The foundation is governed by a Board of Trustees and is supervised by the BVG und Stiftungsaufsicht (BVS) of the canton of Zurich. The pension scheme also includes the Leonteq Pension Committee, which has three employee and three employer representatives.

In 2019 a new service provider for the defined benefit plan was appointed. The collective foundation was maintained by Zürich Lebensversicherungs-Gesellschaft AG for the year ended 31 December 2018, and by Axa for the year ended 31 December 2019. It covers all actuarial and investment risks. The foundation has elected to fully insure death and disability insurance risks within the Swiss pension plan with a third-party insurance company. The insurance contract is renewable on an annual basis.

In addition to the above-mentioned risks, the pension plan is exposed to other risks such as asset volatility, changes in bond yields and changes in life expectancy. These risks have a significant impact on the pension plan: Asset volatility could increase or reduce the plan assets. Bond yields are the basis for the discount rate. Low yields (or discount rates) and a higher life expectancy lead to a higher plan obligation. The managers of the pension plan address these risks as part of their efforts to ensure the consistency and sustainability of the pension plan's assets and liabilities based on a diversified investment strategy that is aligned with the volatility and maturity of the pension obligation.

Simultaneously with the change in service provider, the group introduced a 1e plan which covers salary and bonus from CHF 150 thousand to CHF 400 thousand. The 1e plan is treated as a defined contribution plan. The switch from defined benefit to defined contribution plan resulted in a capital outflow of CHF 3 million and is recognised as a plan settlement in the following tables.

As of 31 December 2019, the characteristics of the defined benefit plan were as follows:

- Employees were insured up to a salary of CHF 150 thousand (prior year CHF 250 thousand)
- The benefits of the pension scheme are funded by the employer and employee as a fixed percentage of the insured salaries
- Conversion rate = 5.0% – 6.8% (increasing with retirement age)
- Total number of members: 356 (active members: 356/pensioners: 0)

The below table outlines where the Group's post-employment amounts related to the Swiss pension scheme are included in the financial statements.

CHF thousand	31.12.2019	31.12.2018
Reconciliation of the amount recognised in the statement of financial position		
Defined benefit obligation	58,073	54,106
Fair value of plan assets	(43,918)	(41,391)
Adjustment of asset ceiling	—	—
Net defined benefit liability/(asset)	**14,155**	**12,715**
of which recognised as separate (asset)	—	—
of which recognised as separate liability	14,155	12,715

CHF thousand	2019	2018
Components of defined benefit cost in profit or loss		
Current service cost (employer)	4,609	4,287
Past service cost	(4,497)	—
(Gain)/loss on settlement	—	—
Interest expense on defined benefit obligation	531	414
Interest (income) on plan assets	(422)	(329)
Interest expense/(income) on effect of asset ceiling	—	—
Interest (income) on reimbursement right	—	—
Administration cost (excl. cost for managing plan assets)	76	24
Others	—	—
Net expense recognised in the income statement	**297**	**4,396**
of which service and administration cost	188	4,312
of which net interest on the net defined benefit liability/(asset)	109	84

Past service cost of CHF (4,497) relate to impacts of decrease in future conversion rates and the mark up on the capital outflow due to implementation of the 1e solution.

CHF thousand	2019	2018
Components of defined benefit cost in OCI		
Actuarial (gain)/loss on defined benefit obligation	8,279	(972)
(Gain)/loss on plan assets (excl. interest income)	(3,529)	2,531
Change in effect of asset ceiling (excl. interest (income)/expense)	—	—
Return on reimbursement right (excl. interest income)	—	—
Others	—	—
Defined benefit cost/(income) recognised in OCI	**4,750**	**1,559**

The effect of the discount rate applied when determining the actuarial gains and losses is recognised in Actuarial (gain)/loss on defined benefit obligation through OCI. The interest rate applied decreased from 1.0% as of 31 December 2018 to 0.1% as of 31 December 2019 and resulted in a loss for 2019.

CHF thousand	2019	2018
Reconciliation in net defined benefit liability/(asset)		
Net defined benefit liability/(asset) as of 1 January	12,715	10,012
Defined benefit cost recognised in profit or loss	297	4,396
Defined benefit cost/(income) recognised in OCI	4,750	1,559
Contributions by the employer	(3,607)	(3,252)
Benefits paid directly by the entity	—	—
Effect of business combination and disposal	—	—
Effect of reimbursement right	—	—
Others	—	—
Net defined benefit liability/(asset) as of 31 December	**14,155**	**12,715**

CHF thousand	31.12.2019	31.12.2018
Reconciliation of defined benefit obligation		
Defined benefit obligation as of 1 January	54,106	48,778
Interest expense on defined benefit obligation	531	414
Current service cost employer	4,685	4,311
Contributions by plan participants	2,760	2,426
Benefits (paid)/deposited	(4,813)	(851)
Past service cost and plan settlement	(7,475)	—
(Gain)/loss on settlement	—	—
Effect of business combination and disposal	—	—
Others	—	—
Actuarial (gain)/loss on defined benefit obligation	8,279	(972)
Defined benefit obligation as of 31 December	**58,073**	**54,106**

Past service cost and plan settlement include effects from the transfer into the 1e plan.

CHF thousand	2019	2018
Components of actuarial (gain)/loss on defined benefit obligation		
Actuarial (gain)/loss arising from changes in financial assumptions	5,985	(1,089)
Actuarial (gain)/loss arising from changes in demographical assumptions	—	(991)
Actuarial (gain)/loss arising from experience adjustments	2,294	1,108
Actuarial (gain)/loss on defined benefit obligation	**8,279**	**(972)**

CHF thousand	31.12.2019	31.12.2018
Reconciliation of fair value of plan assets		
Fair value of plan assets as of 1 January	41,391	38,766
Interest income on plan assets	422	329
Contributions by employer	3,607	3,252
Contributions by plan participants	2,760	2,426
Benefits (paid)/deposited	(4,813)	(851)
Gain/(loss) on settlement	—	—
Effect of business combinations and disposal	—	—
Plan settlements	(2,978)	—
Gain/(loss) on plan assets (excl. interest income)	3,529	(2,531)
Fair value of plan assets as of 31 December	**43,918**	**41,391**

Plan settlements include the effects from the change into the 1e plan.

CHF thousand	2019	2018
Components of actual return on plan assets		
Interest income on plan assets	422	329
Gain/(loss) on plan assets (excl. interest income)	3,529	(2,531)
Actual return on plan assets	**3,951**	**(2,201)**

The significant actuarial assumptions were as follows:

CHF thousand	31.12.2019	31.12.2018
Significant actuarial assumptions		
Discount rate	0.10%	1.00%
Salary growth rate	1.00%	1.00%
Pension growth rate	0.00%	0.00%
Future inflation rate	1.00%	1.00%

Assumptions regarding future mortality as set forth below are based on Swiss BVG / LLP 2015 mortality tables, which include generational mortality rates allowing for future projections of increasing longevity.

CHF thousand	31.12.2019	31.12.2018
Assumptions regarding future mortality		
Longevity at age 65/64 (use plan retirement age) for current pensioners:		
male	22.6	22.6
female	25.6	24.5
Longevity at age 65/64 (use plan retirement age) for future pensioners (age 45):		
male	24.4	24.4
female	27.4	26.4
Weighted average duration of defined benefit obligation in years	**18.6**	**16.7**

	Change in assumption	DBO after increase in assumption (CHF thousand)	DBO after decrease in assumption (CHF thousand)
Sensitivity analysis			
Discount rate	0.25%	55,485	60,870
Salary growth rate	0.25%	58,394	57,745
Life expectancy	1 year	59,096	57,197

The above sensitivity analyses are based on a change in one assumption, while all other assumptions remain constant. In practice, this is unlikely to occur and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

On 01 January 2020, the Group's pension plan was transferred to the new service provider, Axa. The plan assets under the old pension plan amounted to CHF 43,915 as of 31 December 2019 and represent a receivable from the previous service provider, Zürich Lebensversicherungs-Gesellschaft AG.

CHF thousand	Quoted	Unquoted	Total
Plan assets are comprised as follows			
Cash and cash equivalents	6,613	204	6,817
Equity instruments	12,891	—	12,891
Debt instruments	17,043	—	17,043
Real Estate	3,584	—	3,584
Other	1,056	—	1,056
Total plan assets as of 31 December 2018	**41,187**	**204**	**41,391**

CHF thousand	31.12.2019	31.12.2018
Best estimate of contributions of next year		
Contributions by employer	3,450	3,325
Contributions by plan participants	2,400	2,532

33 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 measured 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".

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

- Stage 1, performing assets: At initial recognition, the 12-months expected credit loss is recognised for all assets.
- Stage 2, under-performing assets: If credit risk has increased significantly since initial recognition, the 12-month expected credit loss is increased to the life-time expected credit loss. In the case of a significant decrease in credit risk, the life-time expected credit loss is reduced to a 12-month expected credit loss and the assets are reclassified to stage 1.
- Stage 3, non-performing assets: If there is objective evidence of a loss event, an additional impairment adjustment is recognised.

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

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 derivatives instruments and/or securities financing transactions. Assets measured at fair value through other comprehensive income consists of bonds.

The credit quality of Leonteq's counterparties is monitored continuously: The Risk Committee of the Executive Committee approves the counterparties and allocates individual counterparty limits to them. Risk Control 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 exposure is 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 thousand	31.12.2019	31.12.2018
Balance at the beginning of the period	2,950	1,310
Change in 12-month expected credit loss	(1,824)	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	**1,126**	**2,950**
of which presented as a liability	279	2,950
of which presented in equity	847	—

Due to the short duration of financial assets measured at amortised cost or at fair value through other comprehensive income, no discounting of the ECL provision is needed.

The overall ECL provision decreased from CHF 2.95 million to CHF 1.13 million as of 31 December 2019. Given that more comparative information is available, the ECL model was revised for the first time since its introduction in 2016. The revised calculation model increases the ECL provision on financial assets measured at fair value through other comprehensive income but reduces the ECL provision on financial assets measured at amortised cost which overall resulted in a reduction.

The ECL allowance in connection with financial assets measured at fair value through other comprehensive income is recognised in the other comprehensive income (equity).

34 Provisions

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

CHF thousand			2019	2018
	Reinstatement cost provisions	Other provisions	Total provisions	Total provisions
Balance at the beginning of the period	—	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	(6)	(1,969)	(1,975)	(730)
Increase in provisions recognised in the income statement	51	3,818	3,869	4,016
Release of provisions recognised in the income statement	—	(564)	(564)	(518)
Translation differences	3	(69)	(66)	(73)
Balance at the end of the period	**3,661**	**12,801**	**16,462**	**11,585**
of which short-term provisions	—	3,665	3,665	2,922
of which long-term provisions	3,661	9,136	12,797	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 29 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 value added tax (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). Furthermore, the SFTA has not agreed with the factor applied by Leonteq Securities AG for input VAT recovery on intragroup services rendered. Leonteq has filed an appeal against the SFTA determination. In December 2019, the Swiss Federal Administrative Court decided in favour of Leonteq regarding the reverse charge but in favour of the SFTA regarding the factor. At closing of the financials of the year ended 31 December 2019, the decision of the Swiss Federal Administrative Court was however not yet final but subject to a potential appeal by the SFTA to the Swiss Federal Supreme Court. The full provision (covering the period from 2007 to 2019) related to the pending Swiss VAT litigation increased by CHF 0.4 million in 2019 and amounted to CHF 7.4 million as of 31 December 2019. Thereof, CHF 2.3 million related to the input factor and CHF 5.1 million related to the reverse charge.

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 built in 2019 for respective matters. A provision in the amount of CHF 850 thousand for legal fees was recognised as of 31 December 2019. For further potential disputes and litigations related to the main business activities of Leonteq, CHF 3,335 thousand (31 December 2018: CHF 3,326) are provisioned.

35 Shareholders' equity

Share capital

			31.12.2019			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
of which fully paid in	18,934,097	18,934,097	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**
Authorised capital	4,000,000	4,000,000	N/A	3,000,000	3,000,000	N/A
of which capital increase completed	—	—	N/A	2,989,593	2,989,593	N/A
Conditional share capital	1,000,000	1,000,000	N/A	100,000	100,000	N/A
of which capital increase completed	—	—	N/A	18,584	18,584	N/A

Authorised capital

On 27 March 2019, the Annual General Meeting approved the authorisation to increase share capital until 22 March 2021 up to an equal amount of CHF 4,000,000 by issuing 4,000,000 fully paid in registered shares with a nominal value of CHF 1.00 each.

Conditional share capital

Share capital may be increased by a maximum of CHF 1,000,000 by issuing 1,000,000 fully paid-in registered shares with a nominal value of CHF 1.00 each to cover potential exposures arising from RSUs granted to certain employees of the Group.

Own shares

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

			31.12.2019			31.12.2018
	Number of shares	Total purchase value (CHF thousand)	Average Price CHF	Number of shares	Total purchase value (CHF thousand)	Average Price CHF
Balance at the beginning of the period	224,421	13,141	59	250,231	15,335	61
Purchases	194,275	6,397	33	57,481	3,300	57
Disposals	(106,745)	(6,229)	58	(83,291)	(5,494)	66
Balance at the end of the period	**311,951**	**13,309**	**43**	**224,421**	**13,141**	**59**

Own shares are held in connection with the Group's share-based payment programmes. For further information refer to Note 12.

Profit and capital distribution

The Board of Directors plans to propose to the Annual General Meeting of Leonteq AG on 31 March 2020 that a distribution in total of CHF 9,467 thousands (CHF 0.50 per share) will be paid in equal amounts out of retained earnings (dividend) and out of reserves from capital contributions for the financial year 2019, and that the remaining accumulated profits as well as accumulated reserves from capital contributions be carried forward. No dividend out of retained earnings and no distribution from reserves from capital contributions were paid for the financial year 2018.

36 Significant shareholders

	31.12.2019		31.12.2018	
	Number of shares held	Voting rights in %	Number of shares held	Voting rights in %
Raiffeisen Switzerland Cooperative	5,495,157	29.02%	5,495,157	29.02%
Lukas Ruflin family interests[8, 9]	1,543,756	8.15%	1,543,756	8.15%
Sandro Dorigo	463,317	2.45%	463,317	2.45%
Subtotal shareholders' agreement	**7,502,230**	**39.62%**	**7,502,230**	**39.62%**
Rainer-Marc Frey[10]	2,784,000	14.70%	2,201,081	11.63%
Directors and executives[11]	178,322	0.94%	157,523	0.83%
Total significant shareholders	**10,464,552**	**55.26%**	**9,860,834**	**52.08%**

8 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.

9 In addition, Lukas Ruflin family interests holds 462,325 call options issued by Raiffeisen subject to the following conditions: Strike price 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.

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

11 Excluding shareholdings of Lukas T. Ruflin.

37 Related-party transactions

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

CHF thousand	Amounts due from 31.12.2019	Amounts due from 31.12.2018	Amounts due to 31.12.2019	Amounts due to 31.12.2018	Income from 2019	Income from 2018	Expense to 2019	Expense to 2018
Significant shareholders								
Raiffeisen Switzerland Cooperative								
Amounts due from banks	19,018	25,112	—	—	—	—	—	—
Positive replacement values of derivative instruments	65,427	186,462	—	—	—	—	—	—
Amounts due to banks	—	—	3,950	285,891	—	—	—	—
of which credit facility	—	—	—	98,160	—	—	—	—
Negative replacement values of derivative instruments	—	—	63,593	29,632	—	—	—	—
Accrued expenses and deferred income	—	—	276	555	—	—	—	—
Platform partner service fee income	—	—	—	—	7,443	11,952	—	—
Other fee income	—	—	—	—	—	—	—	—
Other fee expense	—	—	—	—	—	—	1,141	—
Interest income	—	—	—	—	482	298	—	—
Interest expense	—	—	—	—	—	—	2,642	4,951
Affiliated companies								
Raiffeisen Switzerland B.V. Amsterdam								
Amounts due from customers	13,903	31,331	—	—	—	—	—	—
Positive replacement values of derivative instruments	110,609	383,233	—	—	—	—	—	—
Accrued income and prepaid expenses	302	3	—	—	—	—	—	—
Amounts due to customers	—	—	84,360	377,581	—	—	—	—
Negative replacement values of derivative instruments	—	—	74,157	25,917	—	—	—	—
Platform partner service fee income	—	—	—	—	21,777	24,337	—	—
Other fee income	—	—	—	—	—	—	—	—
Other fee expense	—	—	—	—	—	—	3	—
Interest income	—	—	—	—	639	347	—	—
Interest expense	—	—	—	—	—	—	1,093	611

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

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

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.

Key management personnel compensation

The Group's key management personnel comprises the members of the Board of Directors and the Executive Committee. As of 31 December 2019, the Board consisted of eight members, all of whom are non-executive directors, and the Executive Committee consisted of seven members.

Compensation awarded to the Board of Directors and the Executive Committee is determined by the Group's Nomination & Remuneration Committee and is reviewed annually. The Nomination & Remuneration Committee provides the Board with recommendations on the remuneration of Board members and the Executive Committee and defines the basic principles for the establishment, amendment and implementation of incentive plans. Taking into account the maximum amount of remuneration for members of the Board of Directors and the members of the Executive Committee approved by the Annual General Meeting (AGM), the Board reaches its final decisions regarding remuneration.

Total compensation for the Board of Directors and the Executive Committee of the Group (together key management personnel) for the year ending 31 December 2019 are listed in the tables below. Additional information can be found in the Compensation Report starting on page 85.

Compensation for members of the Board of Directors

CHF thousand	Salaries and other short-term employee benefits	Share-based payments[12]	Total compensation 2019	Total compensation 2018
Christopher M. Chambers (Chairman since EGM 2017)	138	256	394	350
Hans Isler (Vice-Chairman since AGM 2018, Chairman AC since 2012)	50	202	252	242
Jörg Behrens (Chairman RC since 2012)	90	112	202	204
Paulo Brügger (Member until 2 February 2019)	8	5	13	150
Vince Chandler (Member until AGM 2019)	33	21	54	200
Patrick de Figueiredo (Member since 2010)	78	79	157	161
Susana Gomez Smith (Member since AGM 2019)	73	48	121	—
Richard A. Laxer (Chairman NRC since AGM 2019)	55	136	191	121
Thomas R. Meier (Member since EGM 2017)	80	80	160	164
Lukas T. Ruflin (Vice-Chairman until AGM 2018)	—	—	—	93
Dominik Schärer (Member since EGM 2019)	16	29	45	—
Total	**621**	**968**	**1,589**	**1,685**

[12] These share-based payment amounts reflect the fair value of the shares at time of grant (including corresponding social security contributions).

Compensation for members of the Executive Committee

CHF thousand	2019	2018
Short-term employee benefits	5,768	5,564
Post-employment benefits	424	410
Other long-term employee benefits	666	1,331
Share-based payments	1,668	2,450
Total	**8,526**	**9,755**
whereof recognised as personnel expenses in the year under review	9,154	7,487

The Group has not granted any loans or guarantee commitments to members of the Board of Directors or members of the Executive Committee.

38 Off-balance

CHF thousand	31.12.2019	31.12.2018
Off-balance sheet transactions		
Contingent liabilities	38,543	42,092
Irrevocable commitments	28	32
Obligations to pay up shares and make further contributions	—	—
Credit commitments	—	—

Contingent liabilities arise from deferred payments in relation to employee variable compensation plans. For further information refer to Note 12.

Irrevocable commitments relate to Swiss Deposit Insurance.

On 10 August 2015, Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017 the lease has been assigned to a third party. In connection with the transfer it was agreed that this deed of guarantee will remain with Leonteq AG. As of 31 December 2019, the total commitment relating to future rental payments under the original lease contract was GBP 8.4 million (CHF 10.7 million) (2018: GBP 9.9 million or CHF 12.4 million, respectively), excluding taxes.

On 11 December 2017, Leonteq AG provided a guarantee relating to the lease of the office premises of its newly established subsidiary Leonteq Securities (Japan) Ltd. As of 31 December 2019, the total commitment relating to future rental payments under this lease was JPY 32.3 million (CHF 0.3 million) (2018: JPY 54.7 million or CHF 0.5 million, respectively), excluding taxes.

39 Shares in subsidiary undertakings

The Group's subsidiaries as of 31 December 2019 are listed below:

Name	Line of business	Country of incorporation	Currency	Share capital	Share of votes and capital in %
Leonteq Securities AG[13]	Securities dealer	Switzerland	CHF	15,000,000	100
Leonteq Securities (Monaco) SAM	Financial services provider	Monaco	EUR	500,000	99.9
Leonteq Securities (Hong Kong) Ltd.	Financial services provider	Hong Kong	HKD	10,000,000	100
Leonteq Securities (Europe) GmbH[14]	Financial services provider	Germany	EUR	200,000	100
Leonteq Securities (Singapore) PTE Ltd.	Financial services provider	Singapore	SGD	1,000,000	100
Leonteq Securities (Japan) Ltd.[15]	Financial services provider	Japan	JPY	312,500,000	100

[13] Leonteq Securities AG has branches in Amsterdam and Guernsey.

[14] Leonteq Securities (Europe) GmbH has branches in London and Paris.

[15] In February 2019 the share capital was increased from JPY 250 million to JPY 312.5 million.

40 Post-balance sheet events

No events occurred after the balance sheet date which would materially affect the financial statements.

41 Statutory banking regulations

The Group's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). FINMA stipulates that banks or security dealers domiciled in Switzerland that report their financial statements according to US GAAP or IFRS must explain any material differences between Swiss accounting regulations for banks (Banking Ordinance and FINMA Circular 2015/1) and the reporting standard used. The most significant differences between IFRS and Swiss accounting regulations for banks that are of relevance to the Group are as follows:

Extraordinary profit
Under IFRS, all items of income and expense are allocated to ordinary operating activities. In accordance with Swiss accounting regulations for banks, income and expenses are classified as extraordinary if they are not recurring or not related to operational activities.

Pensions and post-retirement benefits
Under IFRS, the liability and related pension expense are determined based on the projected unit credit actuarial calculation of the benefit obligation. Under the Swiss accounting regulation for banks, the liability and related pension expense are determined primarily based on the pension plan valuation. A pension asset is recognised if a statutory overfunding of a pension plan leads to a future economic benefit, and a pension liability is recognised if a statutory underfunding of a pension plan leads to a future economic obligation. Pension expenses include the required contributions defined by the Swiss accounting regulation for banks, any additional contribution required by the pension fund trustees, and any change in the value of the pension asset or liability between two measurement dates, as determined on the basis of the annual year-end pension plan valuation.

Share based payments
The Swiss accounting regulations for banks allow the same accounting treatment for share-based payments as IFRS with the following exceptions: The expense for share-based payments is recognised in the income statement with a corresponding entry in accrued expenses and deferred income.

Lease accounting
IFRS 16 requires the Group to recognise a lease liability reflecting the present value of future lease payments and a corresponding right of use asset on the balance sheet. The right of use asset is reflected in the "long-lived assets" and the lease liability in "other liabilities". The right of use asset is amortised over the period of the lease on a straight-line-basis. Lease payments are deducted from the lease liability after applying the interest charge for the period. The Swiss accounting regulations for banks do not accept IFRS 16. Instead, lease payments made during the period are recognised as an operating expense.

Fair value through other comprehensive income
The Swiss accounting regulations for banks do not allow for financial instruments to be accounted for at fair value through other comprehensive income. Instruments held under this IFRS category are classified as other financial instruments at fair value under the Swiss accounting regulations for banks. The full mark-to-market effect is reflected in the income statement, instead. The corresponding adjustments to the expected credit loss provision is also eliminated.

Deferred taxes
The Swiss accounting regulations for banks generally do not recognise deferred tax assets. Deferred tax liabilities are recognised as provisions. Leonteq Securities AG does not recognise any deferred taxes for its stand-alone financial statement in accordance with the Swiss accounting regulations for banks.

Current taxes
The Swiss accounting regulations for banks recognise current tax assets (liabilities) for income taxes under accrued income and prepaid expenses (accrued expenses and deferred income).

Changes in own credit

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

Under Swiss accounting regulations for banks, the changes in own credit risk are recognised through the compensation account and amortised through the income statement over the same period as the sales fee income is deemed earned. Any fair value impact not related to changes in own credit risk is also recognised in the income statement.

Assets under management

CHF thousand	31.12.2019	31.12.2018
Type of managed assets		
Assets in collective investment schemes managed by the bank	—	—
Assets under discretionary asset management agreements	31,685	11,507
Other managed assets	—	—
Total managed assets (including double-counting)		
of which double-counted items	—	—
Total Assets under management (incl. double counted) at beginning of the period	11,507	10,297
+/- Net new money inflow/(outflow)	20,562	975
+/- effect of fair value movements, currency translation, interest	(384)	235
+/- other	—	—
Total assets under management at the end of the period	**31,685**	**11,507**

Assets are classified as "assets under management" if the Group provides investment advisory or discretionary portfolio management services in respect of those assets. In particular, this includes certain issued certificates where the Group offers such services. Structured products where no investment advice or discretionary portfolio management services are provided, including rule-based investment certificates, do not meet the Group's definition of assets under management.

Report of the statutory auditor

to the General Meeting of Leonteq AG, Zurich

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Leonteq AG and its subsidiaries (the Group), which comprise the consolidated statement of financial positions as at 31 December 2019, the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 106 to 173 and the audited sections of the risk and control report on pages 36 to 53) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

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

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Overview

Overall group materiality: CHF 3.25 million

- We conducted full scope audit work at two reporting units in Zurich, Switzerland: Leonteq AG and Leonteq Securities AG (including its branches in Amsterdam and Guernsey).
- The two reporting units where we performed full scope audits, accounted for 99% of the Group's total assets.
- In addition, we have performed analytical procedures over the remaining five reporting units in Frankfurt am Main (including its branches in London and Paris), Hong Kong, Monaco, Singapore and Japan. These subsidiaries are not considered material for consolidation purposes.

As key audit matters the following areas of focus have been identified:

- Valuation of financial instruments held at fair value
- Recognition of fee income
- Portfolio and risk management system

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	CHF 3.25 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark.

We agreed with the Board of Directors that we would report to them misstatements above CHF 160'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Report on key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of financial instruments held at fair value

Key audit matter	How our audit addressed the key audit matter
The Group exercises considerable judgement in valuing certain assets and liabilities at fair value where valuation models are used for the valuation of these assets and liabilities. These assets and liabilities are known as Level 2 or Level 3 financial instruments. For the Group, these financial instruments consist of issued structured products and derivative instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs such as the Group's own credit risk, implied volatility or correlations between different risk factors. Given the extent of judgement involved in valuing these financial instruments, we considered this to be a key audit matter. See Note 17 to the financial statements on pages 131 to 138.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 2 or Level 3 financial instruments, including controls over: - approval of new instruments, - approval and validation of models adopted, - daily analysis of profit and loss, and - accuracy of data feeds, inputs to models and the Group's independent price verification. For issued structured products and derivatives, we assessed a sample of valuations by considering the modelling approaches, inputs and valuation adjustments, assisted by PwC valuation experts. We have assessed the Group's own credit spread by critically reviewing the methods and calculations used in determining the own credit spread. We assessed the appropriateness of the Group's disclosure in the financial report.

Recognition of fee income

Key audit matter	How our audit addressed the key audit matter
The Group exercises considerable judgement in recognising revenue from fee income for services rendered over a specific period. Fees from these services include amongst others the initial margin earned upon the issuance of structured products as well as the service, management and hedge fees earned in connection with the issuance of super-contingents for unit-linked life insurance policies. Judgement is required in recognising fee income for these financial instruments in determining the service obligations, allocating the transaction price to service obligations and estimating the fulfilment of these performance obligations at a point in time or over time. Given the extent of judgement involved in recognising fee income for such services, we considered this to be a key audit matter. See Note 8 to the financial statements on pages 120 to 121.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the recognition of fee income, including controls over: - completeness of fee income received, and - accuracy of data and input for portfolio calculation to derive the average effective lifetime of structured investment products. For issued structured products and unit linked life insurance policies we reconciled and compared the amounts of fee income in the Group's IT system with the initial margin tool. We further tested the inputs in the fee deferral calculation against the Group's assumptions and we re-performed the deferred revenue calculation. We assessed the appropriateness of the Group's disclosure in the financial report.

Portfolio and risk management system

Key audit matter	How our audit addressed the key audit matter
We focussed on this area because the Group's financial accounting and reporting system is dependent on a complex system and there is a risk that the IT system architecture, the interfaces controls and business continuity measures used are not designed and operating effectively.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the Group's IT systems relating to financial reporting. The system's suitability was tested by means of inquiry with management and users and by considering the Group's IT strategy and its implementation status. We further tested logical and physical access restrictions in place.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report as of 31.12.2019 and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISA's and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Andrin Bernet	Dominik Töngi
Audit expert Auditor in charge	Audit expert

Zurich, 12 February 2020

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STATUTORY FINANCIAL STATEMENTS

CONTENT

Statutory financial statements

Notes to the statutory financial statements

Leonteq AG

Income statement for the years ended 31 December 2019 and 2018

CHF thousands	Note	2019	2018
Operating income			
Interest income from Leonteq Securities AG	6	7,055	6,731
Interest expense and cash overdrafts		(21)	(6)
Interest expense other		(1)	—
Total operating income		**7,033**	**6,725**
Operating expenses			
Personnel expenses	7	1,704	1,685
Other operating expenses	8	2,455	8,166
Total operating expenses		**4,159**	**9,851**
Profit/(loss) before taxes		**2,874**	**(3,126)**
Taxes	9	(155)	(286)
Net profit/(loss)		**2,719**	**(3,412)**

Leonteq AG

Balance sheet as of 31 December 2019 and 2018

Assets

CHF thousands	Note	31.12.2019	31.12.2018
Current assets			
Due from banks	1	3,341	5,152
Due from subsidiaries	2	785	—
Accrued income and prepaid expenses	3	2,449	2,370
Total current assets		**6,575**	**7,522**
Non-current assets			
Due from Leonteq Securities AG	2	25,500	25,500
Financial investments	4	100,000	100,000
Investments in subsidiaries	5	295,337	294,195
Total non-current assets		**420,837**	**419,695**
Total assets		**427,412**	**427,217**
of which subordinated in favour of Leonteq Securities AG		127,706	127,647

Liabilities and shareholders' equity

CHF thousands	Note	31.12.2019	31.12.2018
Short-term liabilities			
Due to subsidiaries	2	115	2,061
Due to other customers		8	57
Accrued expenses	3	1,300	1,121
Other liabilities		5	5
Total short-term liabilities		**1,428**	**3,244**
Total liabilities		**1,428**	**3,244**
Shareholders’ equity			
Share capital	13	18,934	18,934
Legal reserves		307,169	307,169
of which general legal reserves		3,189	3,189
of which reserves from capital contribution		303,980	303,980
Own shares	13	(13,309)	(13,141)
Profit carried forward		110,471	114,423
Net profit/(loss)		2,719	(3,412)
Total shareholders’ equity		**425,984**	**423,973**
Total liabilities and shareholders’ equity		**427,412**	**427,217**

Proposal to the Annual General Meeting

The Board of Directors plans to propose to the Annual General Meeting of Leonteq AG on 31 March 2020 that a distribution in total of CHF 9,467 thousands (CHF 0.50 per share) be paid out of retained earnings (dividend) and out of reserves from capital contributions for the financial year 2019, and that the remaining accumulated profits as well as accumulated reserves from capital contributions be carried forward.

Proposed appropriation of retained earnings

The Board of Directors plans to propose the following allocation of retained earnings.

CHF thousands	2019	2018
Net profit/(loss)	2,719	(3,412)
Profit carried forward	111,011	114,423
Loss on sale of own shares	(540)	—
Accumulated profit	**113,190**	**111,011**
Distribution of profit		
Dividend distribution	(4,733)	—
Allocation to general legal reserves	—	—
Allocation to other reserves	—	—
Accumulated profit to be carried forward	**108,457**	**111,011**

Proposed appropriation of reserves from capital contribution

The Board of Directors plans to propose the following allocation of reserves from capital contributions.

CHF thousands	31.12.2019	31.12.2018
Reserves from capital contributions		
Balance carried forward	303,980	182,572
Distribution of reserves from capital contributions on own shares relating to the prior year period	—	—
Proceeds from capital increase	—	121,408
Balance before distribution	**303,980**	**303,980**
of which confirmed by the tax authorities	285,806	168,997
Proposed distribution of reserves from capital contributions	(4,734)	—
Balance after distribution	**299,246**	**303,980**

NOTES TO THE STATUTORY FINANCIAL STATEMENT

Accounting policies and valuation principles

The financial statements of Leonteq AG, Zurich (Leonteq or "the Company"), have been prepared in accordance with the Swiss Code of Obligations. The most significant accounting policies are summarised below:

Recognition of transactions
All transactions are accounted for at the time of their contractual initiation. Spot and forward transactions are recorded as off-balance sheet items until their value date becomes effective.

Foreign currency transactions and translation
Assets and liabilities denominated in foreign currencies are converted at exchange rates prevailing at year-end. Transactions occurring during the year are recorded at the actual exchange rate of the respective date. The differences between the year-end exchange rate and the average rate are recorded as a foreign exchange difference in the net trading income.

Major exchange rates used in CHF

	Spot rate 31.12.2019	Spot rate 31.12.2018	Average rate 2019	Average rate 2018
EUR / CHF	1.0854	1.1253	1.1125	1.1552
USD / CHF	0.9676	0.9816	0.9937	0.9787
GBP / CHF	1.2819	1.2519	1.2696	1.3058
JPY / CHF	0.0089	0.0090	0.0091	0.0089
HKD / CHF	0.1242	0.1253	0.1268	0.1249
SGD / CHF	0.7192	0.7201	0.7273	0.7270

Risk assessment
The risk assessment of Leonteq AG is performed regularly according to Swiss Code of Obligations Art. 961c and was approved by the Board of Directors on 3 December 2019.

1 Due from banks

CHF thousands	31.12.2019	31.12.2018
Due from banks	3,341	5,152
Total due from banks	**3,341**	**5,152**

2 Due from/to subsidiaries

CHF thousands	31.12.2019	31.12.2018
Due from subsidiaries		
Leonteq Securities AG – other receivables	785	—
Total due from subsidiaries – current	**785**	**–**
Due from Leonteq Securities AG	25,500	25,500
Total due from subsidiaries – non-current	**25,500**	**25,500**
Due to subsidiaries		
Leonteq Securities AG – other payables	55	2,061
Leonteq Securities (Europe) GmbH, London branch	60	—
Total due to subsidiaries	**115**	**2,061**

3 Accrued income and prepaid expenses/accrued expenses and deferred income

CHF thousands	31.12.2019	31.12.2018
Accrued income and prepaid expenses		
Accrued interest income from Leonteq Securities AG	2,206	2,147
Prepaid expenses	243	223
Total accrued income and prepaid expenses	**2,449**	**2,370**
Accrued expenses and deferred income		
Accrued operating expenses	453	429
Accrued taxes	847	692
Total accrued expenses and deferred income	**1,300**	**1,121**

4 Financial investments

CHF thousands	31.12.2019	31.12.2018
Leonteq Securities AG – Tier 1 Contingent Convertible Loan Notes – Tranche 1 – subordinated	50,000	50,000
Leonteq Securities AG – Tier 1 Contingent Convertible Loan Notes – Tranche 4 – subordinated	50,000	50,000
Total financial investments	**100,000**	**100,000**

5 Investments in subsidiaries

Name	Domicile	Business activity	Equity Interest in %	Share capital (CHF thousands)	
				31.12.2019	31.12.2018
Leonteq Securities AG[1]	Zurich, Switzerland	Securities dealer	100%	15,000	15,000
Leonteq Securities (Monaco) SAM	Monte Carlo, Monaco	Financial services provider	99.90%	759	759
Leonteq Securities (Europe) GmbH[2]	Frankfurt, Germany	Financial services provider	100%	256	256
Leonteq Securities (Hong Kong) Ltd.	Central, Hong Kong	Financial services provider	100%	1,224	1,224
Leonteq Securities (Singapore) PTE Ltd.	Singapore, Singapore	Financial services provider	100%	741	741
Leonteq Securities (Japan) Ltd.[3]	Tokyo, Japan	Financial services provider	100%	2,763	2,192

1 Leonteq Securities AG has branches in Amsterdam and Guernsey.
2 Leonteq Securities (Europe) GmbH has branches in London and Paris.
3 In February 2019 the share capital was increased from JPY 250 million to JPY 312.5 million

6 Interest income from Leonteq Securities AG

CHF thousands	2019	2018
Subordinated interest income from Leonteq Securities AG	1,156	571
Contingent convertible loan interest income from Leonteq Securities AG	5,899	5,924
Other interest income from Leonteq Securities AG	—	236
Total interest income from Leonteq Securities AG	**7,055**	**6,731**

7 Personnel expenses

CHF thousands	2019	2018
Board remuneration	1,589	1,685
Recruitment costs	115	—
Total personnel expenses	**1,704**	**1,685**

8 Other operating expenses

CHF thousands	2019	2018
Intercompany service recharges	1,049	1,370
Marketing expenses	178	299
Banking fees	55	40
Consulting fees	449	3,922
Insurances	559	1,071
Indirect taxes	4	1,197
T&E expenses	72	103
Other	89	164
Total other operating expenses	**2,455**	**8,166**

Other operating expenses decreased primarily due to costs incurred in connection with the capital increase of CHF 5.4 million in 2018.

9 Taxes

CHF thousands	2019	2018
Income taxes	—	135
Capital taxes	155	151
Total taxes	**155**	**286**

10 Headcount

Leonteq AG did not have any employees during the financial years 2019 and 2018. All members of the executive committee are employed and paid by Leonteq Securities AG.

11 Guarantees and commitments

On 10 August 2015, Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017 the lease has been assigned to a third party. In connection with the transfer it was agreed that this deed of guarantee will remain with Leonteq AG. As of 31 December 2019, the total commitment relating to future rental payments under the original lease contract was GBP 8.4 million (CHF 10.7 million) (2018: GBP 9.9 million or CHF 12.4 million, respectively), excluding taxes.

On 11 December 2017, Leonteq AG provided a guarantee relating to the lease of the office premises of its newly established subsidiary Leonteq Securities (Japan) Ltd. As of 31 December 2019, the total commitment relating to future rental payments under this lease was JPY 32.3 million (CHF 0.3 million) (2018: JPY 54.7 million or CHF 0.5 million, respectively), excluding taxes.

12 Significant shareholders

	31.12.2019		31.12.2018	
	Number of shares held	Voting rights in %	Number of shares held	Voting rights in %
Raiffeisen Switzerland Cooperative	5,495,157	29.02%	5,495,157	29.02%
Lukas Ruflin family interest[4, 5]	1,543,756	8.15%	1,543,756	8.15%
Sandro Dorigo	463,317	2.45%	463,317	2.45%
Subtotal shareholders' agreement	**7,502,230**	**39.62%**	**7,502,230**	**39.62%**
Rainer-Marc Frey[6]	2,784,000	14.70%	2,201,081	11.63%
Directors and executives[7]	178,322	0.94%	157,523	0.83%
Total significant shareholders	**10,464,552**	**55.26%**	**9,860,834**	**52.08%**

[4] 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.

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

[6] H21 Macro Limited, Cayman Islands, is the direct shareholder.

[7] Excluding shareholdings of Lukas T. Ruflin.

13 Share capital

The share capital of the Company consisted of 18,934,097 registered shares at a nominal value of CHF 1.00 each and 18,934,097 registered shares at a nominal value of CHF 1.00 each as of 31 December 2019 and 31 December 2018, respectively.

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 full 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

During the course of 2019, Leonteq AG increased its balance of own shares by 87,530 shares through deliveries. The Company held 311,951 and 224,421 own shares for potential future share deliveries as of 31 December 2019 and 31 December 2018, respectively.

14 Ownership of shares and options by members of the Board of Directors and Executive Committee

The table below shows the number of shares held by the individual members of the Board of Directors and members of the Executive Committee as of 31 December 2019 and 31 December 2018, respectively. Members of the Board of Directors and members of the Executive Committee did not hold any options to acquire shares as of 31 December 2019 and as of 31 December 2018, respectively. RSUs issued to members of the Executive Committee convert into shares upon vesting. See Note 13, Share capital for further information.

Board of Directors	31.12.2019	31.12.2018
Christopher M. Chambers	25,019	18,419
Hans Isler	21,172	19,000
Jörg Behrens	14,361	11,802
Paulo Brügger[8]	N/A	—
Vince Chandler[9]	N/A	20,741
Patrick de Figueiredo	10,866	8,846
Susana Gomez Smith[10]	1,616	N/A
Richard A. Laxer	5,502	1,797
Thomas R. Meier	4,156	2,136
Dominik Schärer[11]	1,572	N/A
Total	**84,264**	**82,741**
Whereof locked shares	50,295	34,293

[8] Paulo Brügger resigned from Leonteq's Board of Directors on 2 February 2019 with immediate effect.

[9] Vince Chandler did not stand for re-election at the Annual General Meeting on 27 March 2019.

[10] Susana Gomez Smith joined Leonteq's Board of Directors on 27 March 2019.

[11] Dominik Schärer joined Leonteq's Board of Directors on 19 September 2019.

Executive Committee	31.12.2019		31.12.2018	
	Shares	Restricted Stock Units[11]	Shares	Restricted Stock Units[11]
Lukas T. Ruflin[12, 13]	12,380	—	12,380	—
Marco Amato	30,432	5,908	27,000	8,330
Jochen Kühn	29,038	18,261	16,734	35,563
Manish Patnaik	5,122	1,587	4,550	2,159
Reto Quadroni	5,488	936	4,889	1,535
David Schmid	22,870	3,714	20,926	5,658
Ingrid Silveri	1,108	783	683	1,208
Total	**106,438**	**31,189**	**87,162**	**54,453**

[11] Balance of unvested stock units granted for prior year variable compensation or contractually agreed with vesting periods 2018 – 2022.

[12] This excludes 1,531,376 shares as of 31 December 2019 and as of 31 December 2018 held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Ruflin.

[13] Excluding 462,325 call options as of 31 December 2019 and as of 31 December 2018 held by Thabatseka LP; call options are subject to the following conditions: original strike CHF 210 (adjusted by cumulative dividends per share and effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

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

15 Auditor's remuneration

Audit fees
The Group paid PwC audit fees of CHF 0.5 million for the year 2019 and CHF 1.0 million for the year 2018.

Additional fees
Additional fees of CHF 0.3 million were paid to PWC in 2019 and CHF 0.2 million in 2018.

16 Collateralised assets

As of the balance sheet date, Leonteq AG has no transactions outstanding in relation to collateralisation or securitisation.

17 Events after the balance sheet date

No events occurred after the balance sheet date which would materially affect the financial statements.

18 Waiver due to publication of Consolidated Statements

In accordance with Swiss Code of Obligation Art. 961d we refer to the consolidated financial statements of the Group for the financial and operational review and the statement of cash flows.

Report of the statutory auditor

to the General Meeting of Leonteq AG, Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Leonteq AG (the Company), which comprise the income statement, statement of financial positions and notes (pages 182 to 192), including a summary of significant accounting policies as at 31 December 2019.

In our opinion, the financial statements as at 31 December 2019 comply with Swiss law and the articles of incorporation.

Basis for opinion

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

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Overview

Overall materiality: CHF 3.25 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

- Valuation of investments in subsidiaries

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 3.25 million
How we determined it	Capped at Leonteq AG overall group materiality
Rationale for the materiality benchmark applied	For the audit of the financial statements of Leonteq AG we have selected total assets as the relevant benchmark and applied 1% to it resulting in an overall materiality of CHF 4.27 million. However, as Leonteq overall group materiality is lower we capped Leonteq AG materiality at CHF 3.25 million.

We agreed with the Board of Directors that we would report to them misstatements above CHF 160'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries

Key audit matter	How our audit addressed the key audit matter
We focussed on this area because of the magnitude of the position in the financial statements. Investments in subsidiaries are held at historical cost with impairment being recognised for any loss in value. The Company identifies impairment by comparing the carrying amount of the investment in subsidiary with the recoverable amount, which is calculated based on the net asset value. See Note 5 to the financial statements on page 187.	We assessed the applied methodology and reviewed the judgement exercised by the Company. We further analysed the calculations and evaluated the Company's assessment of potential impairment. We assessed the appropriateness of the Company's disclosure in the financial statements.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Andrin Bernet	Dominik Töngi
Audit expert Auditor in charge	Audit expert

Zurich, 12 February 2020

pwc

Publisher
Leonteq AG
Europaallee 39
CH-8004 Zurich
Switzerland

Design Concept and Realisation
Leonteq Securities AG
Marketing

Print
Staffel Medien AG, Zurich
www.staffelmedien.ch

Print Run
500

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FSC

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

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