ANNUAL REPORT
LEONTEQ SECURITIES AG
2019

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 "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 Company 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.

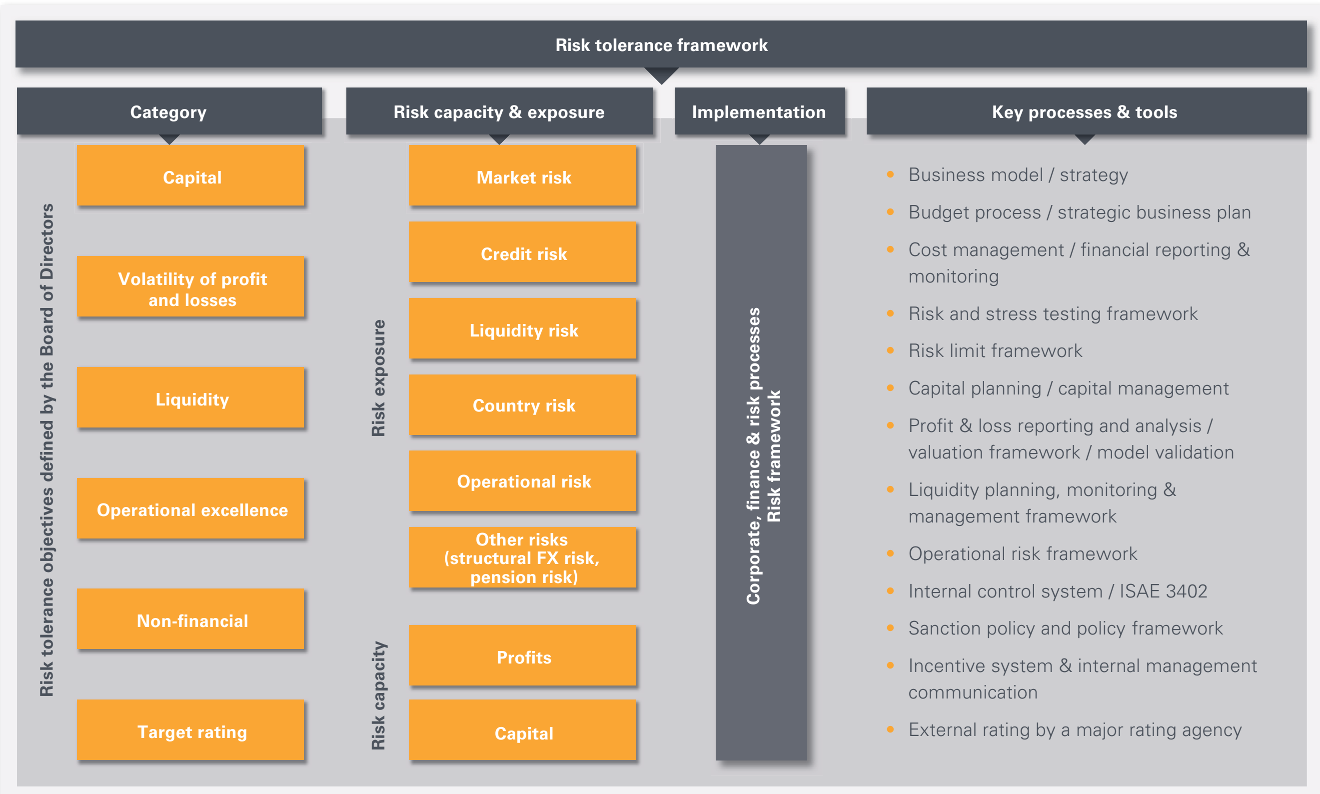
Risk management and control principles

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 Company'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 have to be continuously managed to achieve capital ratios that exceed regulatory minimum requirements;
- Risk concentrations and exposure to stress scenarios are to be closely monitored and managed within approved limits;
- Independent risk control functions serve to monitor adherence with the established risk appetite;
- Accurate, timely and detailed risk disclosures are provided to Senior Management and the Board of Directors, as well as to regulators and auditors.

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 Company-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 Company 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 Company.

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

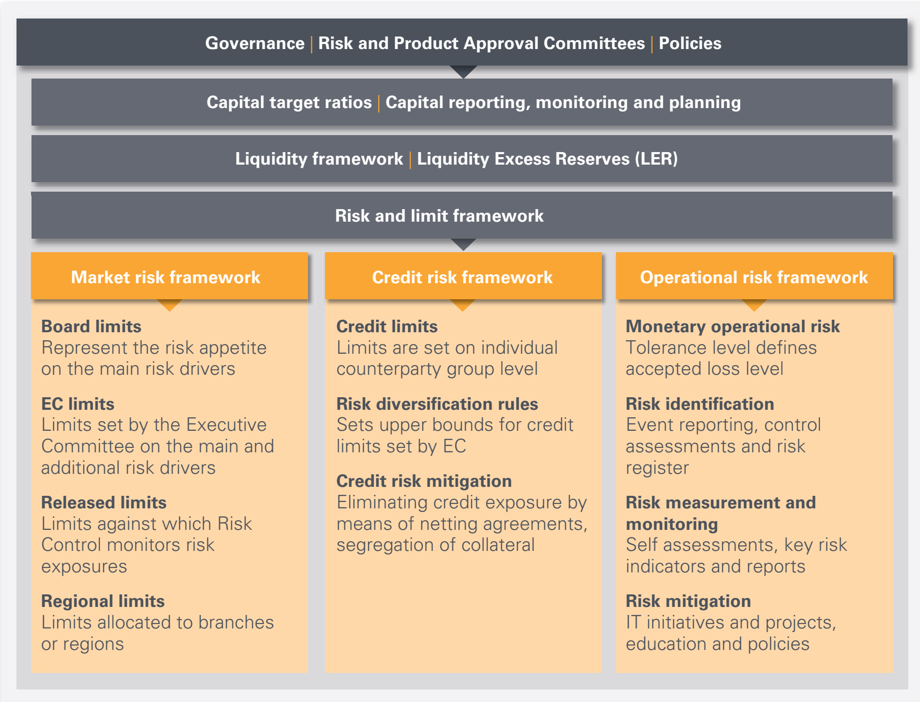
- The Product Approval Committee is responsible for approving new types of financial products before they are issued and new services before they are launched. The Product Approval Committee is composed of both members of the Executive Committee and employees responsible for operational risk control, 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 Company 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 Company's activities and qualitative statements for risks that cannot be quantified, e.g. operational risk.

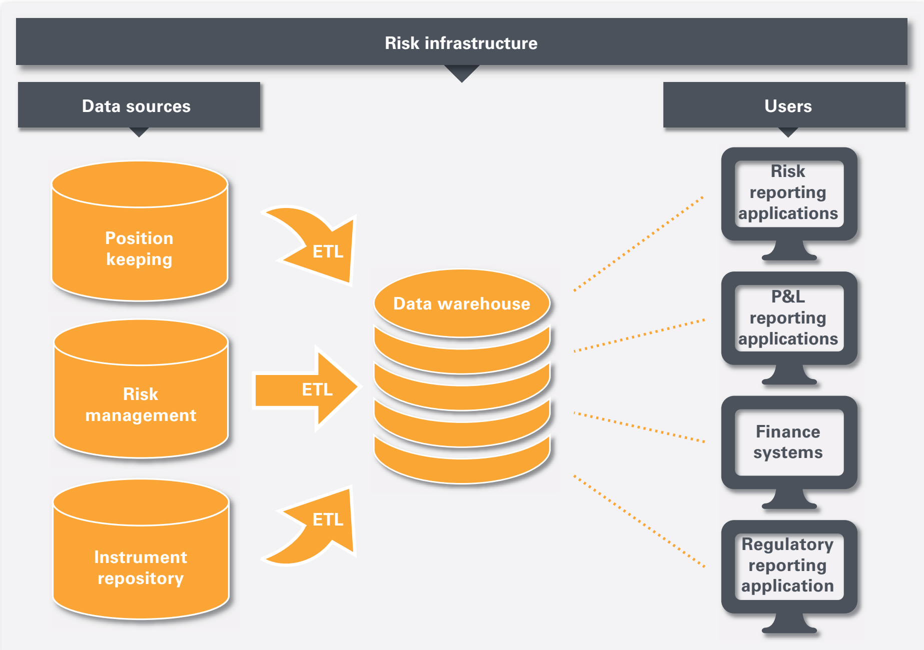


The limit framework has three different levels of limits:

- Board of Directors limits represent the Company'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 Company'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 risk. 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 Company'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 commoditised functions.

Sophis RISQUE is the Company'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 Company'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 Company'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 Company seeks to hedge efficiently. It is exposed to market risk, which results from mismatches between its exposure to equity prices, interest rates, currencies, credit spreads and commodity prices arising from the issuance of structured investment products and the instruments that are used to hedge that exposure. It is also exposed to liquidity risk relating to the need to fund its hedging activities. The Company is exposed to credit risk due to its exposure to 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 Company 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 exposure and market risk sensitivities.

Stress testing
Daily stress testing of the Company'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 Company's credit exposures.

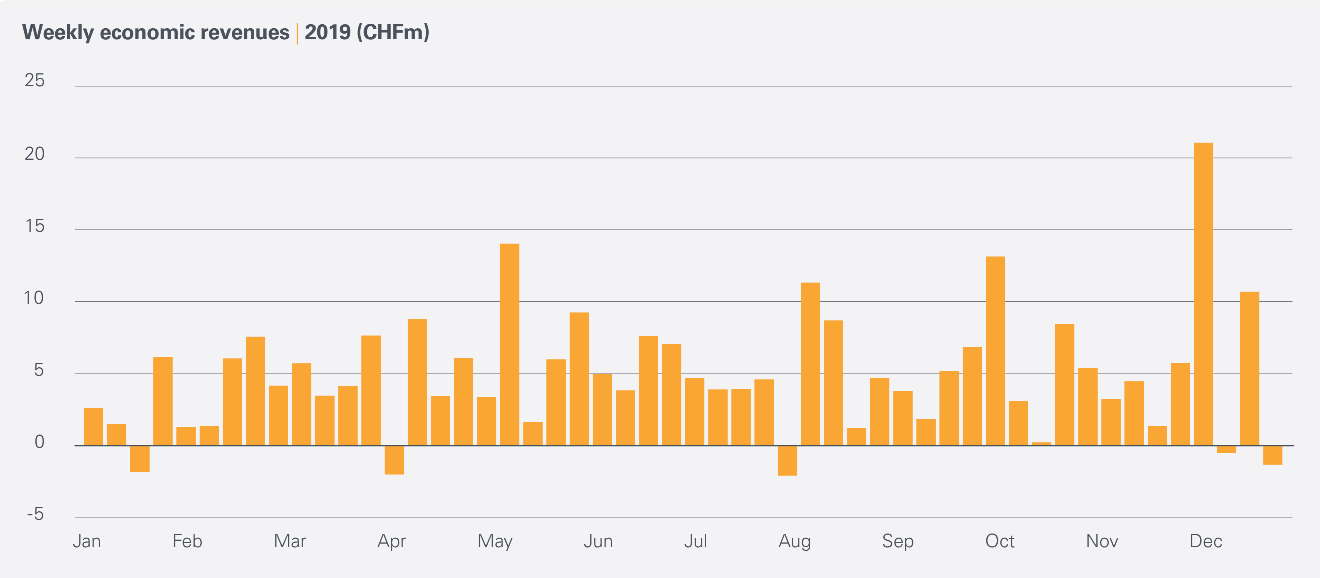
Sensitivities
The Company calculates the sensitivity to changes in the value of individual positions and the sensitivity of the entire portfolios to changes in underlying risk factors such as share prices, volatility, interest rates and credit spreads.

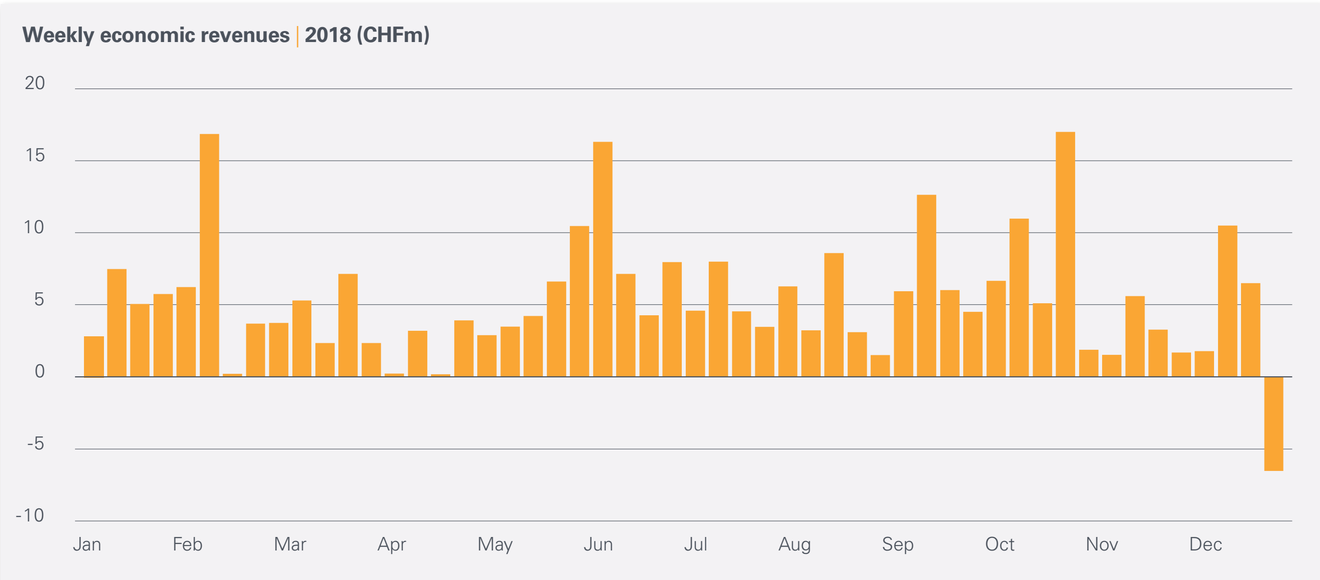
Risk concentration
Management considers that a risk concentration exists when an individual or Company of financial instruments is exposed to changes in the same risk factor and that exposure could result in a significant loss based on plausible adverse future market developments. Management monitors 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 Company 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 the 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 5 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 Company 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 Company had the following exposures relating to its financial assets and liabilities, which include the interest rate exposure from the investment portfolio.

Impact on 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 Company established a branch in Guernsey (Leonteq Securities AG, Guernsey Finance Branch) which commenced operations on 1 March 2019. The main purpose of the branch is to manage a portfolio of mainly US dollar denominated bonds. As a consequence, the functional currency of the branch is US dollar. As of 31 December 2019, the new branch was funded with capital of USD 150 million as well as a long-term intra-company loan of USD 150 million, which created a US dollar exposure for the Company in the amount of approximately USD 300 million. Sensitivities between the US dollar and the Swiss franc affecting the Company's equity are reflected in the above table.

In 2018, the Company 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 Company 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 Company reports the impact on its income statement when the following relevant historical stress scenarios are applied to its portfolio:

- 9/11 is a 1-day crash scenario that happened on 11 September 2001 after the terrorist attack on the Twin Towers in 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	25,9 77	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 Company 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 Company's OTC derivatives and securities lending and borrowing activities is typically mitigated through the use of mark-to-market collateral and close-out netting arrangements. Investments in bonds or other fixed income instruments are subject to additional limits.

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 Company 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 Company's core risk management system. All securities purchases are executed through central trading desks and the size and quality of the trades are reviewed by traders. Positions are reconciled on a daily basis by the back office. However, operational risk cannot be entirely mitigated.

Leonteq's management considers operational risk to be one of the major risks to which the Company 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 Company-wide inventory. Operational Risk Control independently reviews the assessments produced by management and collates the Company's overall operational risk profile to determine whether it is 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 Company 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 Company's reputation. Leonteq believes that its reputational risk is further mitigated through strict compliance controls and a culture of ownership and responsibility across all levels of the Company. This is also 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 Company.

The Company proactively manages risks relating to cyber security by implementing multiple layers of technical defences against unauthorised access from both internal and external sources. In addition to these technical defences, the Company'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 Company 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 Company hedges its liabilities arising from issued structured investment products through the sale or purchase of derivatives or other financial and non-financial instruments, it is exposed to the risk that it will be unable to sell or buy such hedging assets at fair value to cover its liabilities for the corresponding structured investment products. Leonteq refers to this risk as market liquidity risk related to outstanding structured investment products. As the product buy-back price is linked to the price of unwinding the asset, market liquidity risk related to trading activities is limited. Measures to mitigate market liquidity risks related to trading include:

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

Furthermore, Leonteq invests excess proceeds from the issuance of structured products in a high-grade bond 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 Company being impacted. Funding consumption occurs mainly within Leonteq Securities AG Zurich and Leonteq Securities AG Amsterdam Branch.

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

The liquidity management framework requires Leonteq to maintain sufficient liquidity reserves across its locations, thus ensuring adequate liquidity during general market, industry-specific or Company-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 Company's financial assets and liabilities. Financial assets are presented based on either the first time period in which they can be contractually redeemed or, in the case of trading financial assets (principally equity instruments with no contractual maturity), in the "up to 1 month" category, reflecting management's view 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 Company the flexibility to repay its liabilities in the event of early redemptions of structured products due to unforeseen market movements. Assets with shorter durations are periodically renewed or rolled over. This ensures a constant funding match and facilitates the adequate liquidity management of assets and liabilities.

CHF thousands	Due				Total 31.12.2019
	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	
Assets					
Liquid Assets	130,891	—	—	—	130,891
Amounts due from banks	478,031	—	—	—	478,031
Amounts due from securities financing transactions	48,883	—	—	—	48,883
Amounts due from customers	393,448	—	—	—	393,448
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	15,892	6,811	—	—	22,703
Total financial assets	**3,152,943**	**1,732,965**	**626,626**	**3,295,924**	**8,808,458**
Liabilities					
Amounts due to banks	232,210	—	—	—	232,210
Liabilities from securities financing transactions	259,319	—	—	—	259,319
Amounts due to customers	622,190	—	—	—	622,190
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	—	—	7,079	43,983	51,062
Accrued expenses	116,279	49,834	—	—	166,113
Total financial liabilities	**2,678,462**	**1,535,235**	**1,630,913**	**2,591,607**	**8,436,217**

CHF thousands	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**

FINANCIAL STATEMENTS

CONTENT

Leonteq Securities AG

Income statement for the years ended 31 December 2019 and 2018

CHF thousand	Note	2019	2018
Fee income from securities trading and investment activities		270,792	276,082
Fee income from other services		1,063	1,385
Fee expense		(56,647)	(52,735)
Net fee income	8	**215,208**	**224,732**
Result from trading activities and the fair value option	9	**(3,149)**	**21,465**
Interest and discount income		9,644	5,893
Interest expense		(26,472)	(25,842)
Changes in value adjustments for default risks and losses from interest operations		1,834	(1,640)
Net result from interest operations	10	**(14,994)**	**(21,589)**
Other ordinary income	11	2,788	3,363
Total operating income		**199,853**	**227,971**
Personnel expenses	12	(79,986)	(79,278)
Other operating expenses	13	(33,288)	(42,963)
Depreciation of long-lived assets	29	(26,411)	(15,736)
Changes to provisions and other value adjustments, and losses	34	(3,068)	(3,706)
Total operating expenses		**(142,753)**	**(141,683)**
Result from operating activities		**57,100**	**86,288**
Taxes	14	(1,070)	(758)
Net profit		**56,030**	**85,530**
of which allocated to shareholders of Leonteq Securities AG		56,030	85,530

Leonteq Securities AG

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

CHF thousand	Note	2019	2018
Net profit		**56,030**	**85,530**
Other comprehensive income/(loss) that will not be reclassified to the income statement			
Remeasurement of the defined benefit plan	31	(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	15	(10,038)	—
Income tax on items that may be reclassified	14	2	—
Total other comprehensive income/(loss) that may be reclassified to the income statement		**(3,975)**	**—**
Total other comprehensive income/(loss)		**(7,859)**	**(1,229)**
Total comprehensive income		**48,171**	**84,301**
of which allocated to shareholders of Leonteq Securities AG		48,171	84,301

The notes on pages 28 to 88 are an integral part of these financial statements.

Leonteq Securities AG

Statement of financial position as of 31 December 2019 and 2018

CHF thousand	Note	31.12.2019	31.12.2018
Assets			
Liquid assets	18	130,891	—
Amounts due from banks	19	478,031	1,341,405
Amounts due from securities financing transactions	21	48,883	84,076
Amounts due from customers	20	393,448	214,784
Trading financial assets	22	2,155,040	2,026,581
Trading inventories	23	26,661	16,221
Positive replacement values of derivative financial instruments	24	2,991,746	4,948,893
Other financial assets designated at fair value through profit or loss	25	1,521,992	1,913,507
Financial investments at fair value through other comprehensive income	27	1,122,302	—
Accrued income and prepaid expenses	28	22,703	15,148
Current tax assets	14	574	964
Deferred tax assets	14	2,732	2,690
Long-lived assets	29	109,173	52,527
Other assets	30	19,188	36,574
Total assets		**9,023,364**	**10,653,370**
Total subordinated claims		11,612	4,809
of which subject to mandatory conversion and/or debt waiver		—	—
Liabilities			
Amounts due to banks	19	232,210	924,049
Liabilities from securities financing transactions	21	259,319	428,901
Amounts due to customers	20	622,190	1,404,709
Trading financial liabilities	22	433,907	360,432
Negative replacement values of derivative financial instruments	24	2,527,075	3,688,353
Other financial liabilities designated at fair value through profit or loss	25	4,092,490	3,123,856
Bond issued and central mortgage institution loan	26	100,000	100,000
Accrued expenses and deferred income	28	166,113	133,830
Current tax liabilities	14	1,100	1,100
Other liabilities	30	68,639	18,130
Expected credit loss provision	33	269	2,950
Provisions	34	15,464	11,360
Total liabilities		**8,518,776**	**10,197,670**
Equity			
Share capital	35	15,000	15,000
Share premium		269,306	269,306
Retained earnings[1]		231,891	175,144
Accumulated other comprehensive income/(loss)	15	(11,609)	(3,750)
Total shareholders' equity		**504,588**	**455,700**
Total liabilities and equity		**9,023,364**	**10,653,370**
Total subordinated liabilities		127,706	127,644
of which subject to mandatory conversion and/or debt waiver		100,000	100,000

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

The notes on pages 28 to 88 are an integral part of these financial statements.

Leonteq Securities AG

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		**15,000**	**170,306**	**110,648**
Impact of change in accounting principle	6	—	—	(20,690)
Balance as of 1 January 2018		**15,000**	**170,306**	**89,958**
Employee participation schemes	12	—	—	(344)
Capital increase/(decrease)	35	—	99,000	—
Dividends and other distributions	35	—	—	—
Other allocations to/(transfers from) other comprehensive income	15	—	—	—
Net profit		—	—	85,530
Balance as of 31 December 2018		**15,000**	**269,306**	**175,144**

CHF thousand	Note	Share capital	Share premium	Retained earnings
Balance as of 31 December 2018		**15,000**	**269,306**	**175,144**
Impact of change in accounting principle	6	—	—	561
Balance as of 1 January 2019		**15,000**	**269,306**	**175,705**
Employee participation schemes	12	—	—	156
Capital increase/(decrease)	35	—	—	—
Dividends and other distributions	35	—	—	—
Other allocations to/(transfers from) other comprehensive income	15	—	—	—
Net profit		—	—	56,030
Balance as of 31 December 2019		**15,000**	**269,306**	**231,891**

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)	**—**	**—**	**—**	**—**	**—**	**293,433**
—	—	—	—	—	—	(20,690)
(2,521)	**—**	**—**	**—**	**—**	**—**	**272,743**
—	—	—	—	—	—	(344)
—	—	—	—	—	—	99,000
—	—	—	—	—	—	—
(1,229)	—	—	—	—	—	(1,229)
—	—	—	—	—	—	85,530
(3,750)	**—**	**—**	**—**	**—**	**—**	**455,700**

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)	**—**	**—**	**—**	**—**	**—**	**455,700**
—	—	—	—	—	—	561
(3,750)	**—**	**—**	**—**	**—**	**—**	**456,261**
—	—	—	—	—	—	156
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(3,884)	—	5,216	847	(10,038)	—	(7,859)
—	—	—	—	—	—	56,030
(7,634)	**—**	**5,216**	**847**	**(10,038)**	**—**	**504,588**

The notes on pages 28 to 88 are an integral part of these financial statements.

Leonteq Securities AG

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

CHF thousand	Note	2019	2018
Cash flow from operating activities			
Net profit		56,030	85,530
Reconciliation to net cash flows from operating activities			
Non-cash positions in net profit			
Depreciation	29	26,411	15,736
Deferred tax expense/(benefit)	14	(184)	(572)
Change in expected credit loss provision	33	(1,834)	1,640
Change in general provision	34	3,073	3,705
Share-based benefit programs	12	156	(344)
Other non-cash income and expenses		(9,756)	(1,229)
Net (increase)/decrease in assets related to operating activities			
Amounts due from banks	19	772,932	(508,642)
Amounts due from securities financing transactions	21	35,193	(70,543)
Amounts due from customers	20	(178,664)	(100,136)
Trading financial assets	22	(186,070)	248,681
Trading inventories	23	(10,440)	72,741
Positive replacement values of derivative financial instruments	24	1,957,147	(3,319,176)
Other financial assets designated at fair value through profit or loss	25	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	(7,555)	2,043
Other assets	30	17,386	8,558
Net increase/(decrease) in liabilities related to operating activities			
Amounts due to banks	19	(528,543)	322,838
Liabilities from securities financing transactions	21	(169,582)	51,504
Amounts due to customers	20	(782,519)	1,224,203
Trading financial liabilities	22	73,475	259,186
Negative replacement values of derivative financial instruments	24	(1,161,278)	2,125,337
Other financial liabilities designated at fair value through profit or loss	25	968,634	83,325
Accrued expenses and deferred income	28	37,025	8,745
Other liabilities	30	3,582	916
Utilisation of general provision	34	(1,751)	(542)
Dividends received		57,611	69,148
Interest received		9,548	5,761
Interest paid		(23,085)	(26,818)
Current taxes, non-cash adjustment	14	(868)	1,000
Current taxes paid	14	—	—
Cash flow from operating activities		**225,287**	**(209,310)**
Cash flow from investing activities			
Purchases of long-lived assets	29	(28,128)	(18,045)
Proceeds from long-lived assets	29	230	161
Cash flow from investing activities		**(27,898)**	**(17,884)**

CHF thousand	Note	2019	2018
Cash flow from financing activities			
Lease payments (excl. short term/low-value leases)	29	(7,128)	—
Gross proceeds from capital increase	35	—	100,000
Costs incurred from capital increase	35	—	(1,000)
Cash flow from financing activities		**(7,128)**	**99,000**
Exchange rate differences		(53)	(67)
Net (decrease)/increase in cash and cash equivalents		**190,208**	**(128,261)**
Cash and cash equivalents, beginning of the year		98,004	226,265
Cash and cash equivalents at the balance sheet date		**288,212**	**98,004**
Cash and cash equivalents			
Liquid assets		130,891	—
Due from banks on demand[2]		162,890	266,869
Due to banks on demand		(5,569)	(168,865)
Net cash and cash equivalents at the balance sheet date		**288,212**	**98,004**

[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 flow 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 28 to 88 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

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

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

The Company provides some of these core services to platform partners under the terms of cooperation agreements. The Company also distributes its 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 3 to19) 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.

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

2 Basis of presentation

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

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.

Foreign currency translation

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

Unrealised exchange differences 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.

Initial recognition and derecognition
The Company uses trade date accounting to recognise financial transactions. The Company recognised 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 were recognised in the statement of financial position. At the date on which the Company 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 Company's issued products meet these criteria. Issued products contain hybrid financial instruments, certificates (including actively managed certificates) and mini-futures. Hybrid financial instruments are composed of debt components and embedded derivatives. Certificates may comprise an underlying instrument (or a basket of underlyings) combined with derivatives. Alternatively, the pay-off of a certificate could be achieved through the combination of a debt host and one or more embedded derivatives (similar to a hybrid financial instrument). The Company has designated all its issued products as other financial liabilities designated at fair value through profit or loss.

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

In addition to issued products, the Company applies the fair value option to selected receivables from customers and to interest rate instruments. The application of the fair value option to these instruments reduces an accounting mismatch that would otherwise arise from recognising these assets using a different measurement basis (e.g. amortised cost) than for 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 Company believes that the assumptions it has made are appropriate, and that the Company's financial statements are therefore a fair representation of the financial position and results in all material respects.

The most relevant areas in which the Company exercises judgment include the application of the Company's assumptions with respect to: revenue recognition as well as the deferral period applied to fee income (Note 8); fair value of financial instruments and trading inventory – especially levels 2 and 3, including own credit (Note 16); 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 Company's 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 Company or were not relevant to the Company when applied for the first time.

First time adoption of IFRS 16 "Leases"

The Company adopted IFRS 16 "Leases" on its mandatory effective date as of 1 January 2019. The Company 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 Company 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	2,690	(141)	2,549
Long-lived assets	52,527	54,122	106,649
Liabilities			
Accrued expenses and deferred income	133,830	(3,483)	130,347
Other liabilities	18,130	54,055	72,185
Provisions	11,360	2,849	14,209
Shareholders' equity			
Retained earnings	175,144	560	175,704

In accordance with IAS 17, the total commitments arising from operational leases amounted to CHF 55,827 thousand as of 31 December 2018. As of 1 January 2019, the lease obligation determined in accordance with IFRS 16 amounted to CHF 54,055 thousand. The difference is attributable to the following items:

CHF thousand	Balance
Commitments arising from operating leases as of 31 December 2018	55,827
Addition of extension options	1,092
Short-term and low-value leases	—
Effect of discounting	(2,864)
Lease liability as of 1 January 2019	**54,055**

A weighted average discount (borrowing) rate of 1.14%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 Company has performed an initial assessment of the new standards and interpretations and based on this assessment, the Company expects that none of them will have a significant impact on the Company's financial statements.

7 Segment reporting

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

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

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

Investment Solutions
The Investment Solutions business line manufactures and distributes structured investment products, which it offers to and distributes on behalf of financial intermediaries (our clients) in more than 50 countries. The business line further enables and enhances the structured product capabilities of its issuance partners. Structured investment products are manufactured and managed for Leonteq's own name or for an issuance partner, which acts as the issuer or guarantor of the respective products. The services cover the entire lifecycle of a structured 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	180,040	35,168	—	215,208
Net trading income/(loss)	(15,674)	12,525	—	(3,149)
Net interest income/(expense)	(15,459)	575	(110)	(14,994)
Other ordinary income	327	—	2,461	2,788
Total operating income	**149,234**	**48,268**	**2,351**	**199,853**
Personnel expenses	(60,751)	(9,623)	(9,612)	(79,986)
Other operating expenses	(25,079)	(2,098)	(6,111)	(33,288)
Depreciation of long-lived assets	(18,821)	(3,496)	(4,094)	(26,411)
Changes to provisions and other value adjustments, and losses	—	—	(3,068)	(3,068)
Total operating expenses	**(104,651)**	**(15,217)**	**(22,885)**	**(142,753)**
Result from operating activities	**44,583**	**33,051**	**(20,534)**	**57,100**

CHF thousand	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total 2018
Net fee income	198,959	25,773	—	224,732
Net trading income/(loss)	18,169	3,296	—	21,465
Net interest income/(expense)	(22,217)	628	—	(21,589)
Other ordinary income	817	—	2,546	3,363
Total operating income	**195,728**	**29,697**	**2,546**	**227,971**
Personnel expenses	(64,184)	(8,326)	(6,768)	(79,278)
Other operating expenses	(32,305)	(2,621)	(8,037)	(42,963)
Depreciation of long-lived assets	(12,259)	(1,345)	(2,132)	(15,736)
Changes to provisions and other value adjustments, and losses	(1,756)	—	(1,950)	(3,706)
Total operating expenses	**(110,504)**	**(12,292)**	**(18,887)**	**(141,683)**
Result from operating activities	**85,224**	**17,405**	**(16,341)**	**86,288**

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

Information by geographic location

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total 2019
Net fee income	111,663	95,942	7,603	215,208
Net trading income/(loss)	6,851	(6,476)	(3,524)	(3,149)
Net interest income/(expense)	(4,550)	(10,391)	(53)	(14,994)
Other ordinary income	2,754	44	(10)	2,788
Total operating income	**116,718**	**79,119**	**4,016**	**199,853**

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2019
Accrued income and prepaid expenses	6,336	16,367	—	22,703
Current tax assets	574	—	—	574
Deferred tax assets	2,720	12	—	2,732
Long-lived assets	108,246	927	—	109,173
Other assets	18,604	584	—	19,188

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

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

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

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, involves the exercising of judgement. The average effective lifetime of products issued in the Investment Solutions divisions is determined based on the historical effective lifetime of expired products and the expected effective lifetime of existing products at the balance sheet date. The calculation only excludes products or product categories that show a unique revenue recognition profile that differs significantly from the majority of issued products. As of 31 December 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 different from the portfolio approach described above.

In the Insurance & Wealth Planning Solutions division, the satisfaction of previously unsatisfied service obligations can be determined on a product-by-product basis. 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 Company presents fee income net of any costs that are directly attributable to the issuance of partner products and Leonteq products. Consequently, incremental costs of obtaining a contract are not recognised as an asset. Since Leonteq does not sell its products to the end investor but acts 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	7,776	5,881
Total fee income from securities trading and investment activities	**270,792**	**276,082**
Fee income from other services	1,063	1,385
Total fee income from other services	**1,063**	**1,385**
Fee expense	(56,647)	(52,735)
Total fee expense	**(56,647)**	**(52,735)**
Net fee income	**215,208**	**224,732**

Net fee income decreased by 4% 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's strategy to leverage on partner distribution networks. Other fee income comprised primarily commission for securities lending transactions and increased by CHF 1.9 million year on year. Fee income from other services relates to intercompany cost recharges and slightly decreased compared to previous year. 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 8% of net fee income in 2019, down from 10% (or CHF 22.0 million) in 2018.

Fee expense comprised intercompany fee recharges, mainly for distribution services, rendered by related group companies in line with transfer pricing agreements. Fee expense rose by 7% compared to 2018 demonstrating Leonteq's international expansion.

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

Since Leonteq collected the majority of its fees when the product was issued, the Company defers the recognition of fees until it satisfied 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 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.

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	6,381
Precious metals/commodities/crypto-currencies	(23,052)	8,711
Trading related costs	(24,606)	(21,603)
Result from trading activities and the fair value option	**(3,149)**	**21,465**
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 and discount income	9,644	5,893
Total interest and discount income	**9,644**	**5,893**
Interest expense	(26,472)	(25,842)
Total interest expense	**(26,472)**	**(25,842)**
Gross result from interest operations	**(16,828)**	**(19,949)**
Changes in value adjustments for default risks and losses from interest operations	1,834	(1,640)
Net result from interest operations	**(14,994)**	**(21,589)**

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	328	117
Total other ordinary income	**2,788**	**3,363**

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 Company 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 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 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 RSUs are recognised as personnel expenses in the income statement over the respective vesting period corresponding to the grant value of 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 Company 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 Leonteq AG's return on shareholder's equity (ROE) target whereas one third is measured against Leonteq AG's 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	73,399	69,847
of which share-based compensation	4,542	3,083
Social contributions	5,290	4,615
Pension plan expenses	134	4,430
Other personnel expenses	1,163	386
Total personnel expenses	**79,986**	**79,278**

Personnel expenses for 2019 of CHF 79,986 thousand increased by 1% in 2019 compared to CHF 79,278 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 21.3 million for the year ending 31 December 2019 (2018: CHF 22.6 million).

The Company employed 384 and 363 employees as of 31 December 2019 and 2018, respectively. It had 374 and 357 full-time equivalents as of 31 December 2019 and 2018, respectively.

Personnel expenses include the impact of the three types of equity-settled, employee share-based compensation plans operated by the Company.

Restricted stock unit (RSU) plans

The Company operates RSU plans for certain Leonteq employees. Part of the deferred compensation of participating employees is paid in the form of RSUs that are converted into Leonteq AG shares, whereby one RSU 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 Leonteq 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	114,219	54,453	168,672
Allotted RSUs and transfers (additions) in the year under review	80,092	53,812	133,904
Forfeited RSUs and transfers (reductions) in the year under review	(15,764)	—	(15,764)
Settlement of RSUs by Leonteq AG shares	(45,128)	(23,224)	(68,352)
Unvested committed RSUs at the balance sheet date	**133,419**	**85,041**	**218,460**

CHF	
Average grant price of unvested committed RSUs (programme 2016 to 2022)	44.09

CHF thousand	Employees	Executive Committee	Total 2019
Personnel expenses recognised over the vesting period for RSUs	15,723	5,349	21,072
Market value of RSUs on the allocation date	15,723	5,349	21,072
Charged as personnel expenses in the year under review	2,402	1,543	3,945
Cumulative charges recognised as personnel expenses up to the balance sheet date	12,020	3,826	15,846
Estimated personnel expenses for the remaining vesting periods without future terminations	2,081	1,523	3,604

Number of RSUs	Employees	Executive Committee	Total 2018
Unvested committed RSUs at the beginning of the year	124,354	56,995	181,349
Allotted RSUs and transfers (additions) in the year under review	22,719	15,517	38,236
Forfeited RSUs and transfers (reductions) in the year under review	(528)	—	(528)
Settlement of RSUs by Leonteq AG shares	(32,326)	(18,059)	(50,385)
Unvested committed RSUs at the balance sheet date	**114,219**	**54,453**	**168,672**

CHF	
Average grant price of unvested committed RSUs (programme 2016 to 2022)	55.49

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

Share-based compensation plan

The Company 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 Leonteq 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	—	—	—
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	—	—	—
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	—	—	—
Market value of shares on the allocation date	—	—	—
Charged as personnel expense in the year under review	—	—	—
Cumulative charges recognised as personnel expenses up to the balance sheet date	—	—	—
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	4,730	1,064	5,794
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	(4,730)	(1,064)	(5,794)
Unvested committed Leonteq AG shares at the balance sheet date	**–**	**–**	**–**

CHF	
Average grant price of unvested committed shares (programme 2015 to 2019)	101.27

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

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	1,183	7,140
Information and communication technology	19,602	20,144
Vehicles, equipment, furniture and other accommodation expenses	35	(99)
Audit fees	568	1,105
of which for financial and regulatory audit	204	903
of which for other services	364	202
Other administrative expenses	11,900	14,673
of which for professional services other than audit fees	5,919	4,441
Total other operating expenses	**33,288**	**42,963**

With the first-time adoption of IFRS 16, the rent and accommodation expenses decreased by 83.4% compared to previous year. For further information refer to Note 29.

14 Taxes

Income 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 Company may avail on dividend income from qualifying equity holdings.

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

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

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

CHF thousand	2019	2018
Income tax expense		
Current income tax expense	388	1,000
Deferred income tax (benefit)/expense	682	(242)
Total income tax expense	**1,070**	**758**
Profit before tax	**57,100**	**86,288**
Income tax expense computed at the Swiss statutory tax rate	12,076	18,249
Explanations for higher/(lower) tax expense:		
Participation income tax relief	(5,721)	(2,893)
Tax rate differential	(11,380)	(9,539)
Impact due to IFRS 16 lease accounting	(71)	—
Transfer pricing adjustments	776	683
Addition/(Utilisation) of unrecognised tax losses carried forward	5,461	(2,786)
Impact of first-time adoption of IFRS15 recognised through equity	—	(2,760)
Costs relating to capital increase recognised through equity	—	(211)
Other impacts	(71)	15
Total income tax expense	**1,070**	**758**
Capital tax expense	324	528
Corporate tax expense	**1,394**	**1,286**

The statutory tax rate of the Company was 21.15% and 21.15% for the years ended 31 December 2019 and 2018, respectively. The Company's foreign operations are taxed at varying rates. The tax rate differential presented relates primarily to the income of the Company's Guernsey Branch, which is taxed at the Guernsey company standard rate of 0%.

The Company applied for participation income tax 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. 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 Company.

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 2018, Leonteq Securities AG's ruling covering its branch activities with the Zurich Cantonal Tax Office expired. The Company 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	—	—
Share-based payment expenses	—	—	—	—
Timing differences in depreciation of long-lived assets	(58)	—	—	—
Other	—	—	—	—
Total deferred taxes	**2,732**	**2,690**	**—**	**—**

CHF thousand	Assets 2019	Assets 2018	Liabilities 2019	Liabilities 2018
Changes in deferred taxes				
Balance at the beginning of the year	2,690	2,118	—	—
Changes affecting the income statement	(684)	241	—	—
of which revaluation of share-based payment plans	—	—	—	—
of which movement in pension liability	(766)	241	—	—
of which other temporary differences	82	—	—	—
Changes recognised through equity related to first time adoption of new accounting standards	(141)	—	—	—
Translation adjustment	1	1	—	—
Changes affecting the statement of other comprehensive income from pension liability	866	330	—	—
Balance at the end of the year	**2,732**	**2,690**	**—**	**—**

15 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)	93	(1,559)	—	—	330	(1,136)
Balance as of 31 December 2018	**—**	**(4,758)**	**—**	**—**	**1,008**	**(3,750)**
Increase/(decrease)	(10,038)	(4,750)	5,214	847	868	(7,859)
Balance as of 31 December 2019	**(10,038)**	**(9,508)**	**5,214**	**847**	**1,876**	**(11,609)**

Currency translation adjustments
In 2019 the Company 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 Company was reduced to 0.1% compared to 1% 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 Company'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.

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

There were no significant changes in the valuation models used for the period ending 31 December 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 Company based on the valuation methods and assumptions explained below is the same as the book value. There is no deviation between fair value and book value.

Financial assets and liabilities at amortised costs

The financial assets and liabilities at amortised costs contain the positions "cash in hand", "amounts due from banks", "amounts due from securities financing transactions", "amounts due from customers", "accrued income", "amounts due to banks", "liabilities from securities financing transactions", "amounts due to customers" and "accrued expenses". All these positions have short-term maturities (i.e. less than three months) and it is assumed that the book value is equal to the fair value 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 Company considers additional factors in the case of issued structured products as well as derivative instruments to ensure that the valuations are appropriate. The factors include uncertainties in relation to models used, to parameters used, to liquidity risks and, in the case of structured products, to the risk of early redemption. The adjustments reflect the uncertainty in model assumptions and input parameters in relation to the valuation method used. The adjustments relating to the liquidity risk take into account the expected cost of hedging open net risk positions. The Company believes that it is necessary and appropriate to take these factors into account to determine the fair value of these instruments correctly.

The 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 Company's equity securities, debt securities, quoted funds and exchange traded derivative instruments is the exit price. Generally accepted market prices are used for foreign currencies, precious metals, trading inventories and commodities. Mid-market prices are used for the valuation of debt securities, which are categorised as financial assets designated at fair value through profit or loss if the market price risks of these positions are offset fully or to a significant extent by issued structured products or other trading positions.

Level 2 instruments

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

Level 3 instruments

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

No day 1 gains or losses were recognised as a result of transactions involving level 3 instruments during the year. An unrealised 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 based on 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 Company's management believes, based on the valuation approach used for the calculation of fair values and the related controls, that the level 3 fair values are appropriate.

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

CHF 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 Company 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.

17 Hedge accounting

In accordance with the risk management framework, the Company 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 Company 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.

18 Liquid assets

Liquid assets include deposits held at sight with the Swiss National Bank and are recognised at their nominal value.

19 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)	165,258	266,869
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	**478,031**	**1,341,405**
Amounts due to banks		
Cash overdrafts (cash and cash equivalents)	5,569	168,865
Cash collateral received from banks or regulated financial institutions	191,110	497,576
Settlement liabilities with banks or regulated financial institutions	34,181	254,968
Settlement liabilities with platform partners – banks or regulated financial institutions	1,350	2,640
Total amounts due to banks	**232,210**	**924,049**

Amounts with related parties are reflected in Note 37.

Amounts due from banks decreased due to lower volatility levels at the end of 2019 resulting in lower negative replacement values.

20 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	812	2,838
Total amounts due from customers	**393,448**	**214,784**
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
Subordinated loans	25,500	25,500
Fees payable to other Leonteq companies	5,386	4,107
Other fees payable	421	433
Total amounts due to customers	**622,190**	**1,404,709**

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.

21 Securities financing transactions (assets and liabilities)

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

The transfer of securities in the case of repurchase and reverse repurchase agreements is not recognised or derecognised in the statement of financial position unless the risks and rewards of ownership are also transferred. In reverse repurchase agreements, cash collateral provided is derecognised with a corresponding receivable 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 Company transfers owned securities and where the recipient is granted the right to resell or repledge them, the securities are presented in the statement of financial position in the line items "trading financial assets" or "other financial assets designated at fair value through profit or loss", of which pledged as collateral. Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if the Company has the right to resell or repledge them, with securities that the Company has 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).

22 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 16)	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 16)	4	73

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

23 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".

24 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 Company enters into derivative contracts for trading purposes, realised and unrealised gains and losses are recognised in "result from trading activities and the fair value option".

A derivative may be embedded in a "host contract". Such combinations are known as hybrid instruments and arise predominantly from the issuance of structured debt instruments. The values of embedded derivatives are presented with the host debt as 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 Company uses derivative financial instruments to hedge risks associated with foreign exchange movements. At the inception of the transaction, the Company documents the relationship between the hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking the hedging transactions. At inception and on an ongoing basis, the Company documents the effectiveness of the hedge. For the hedge of fixed foreign currency denominated costs, the associated derivatives may be designated as cash flow hedges. Effective unrealised gains or losses on these instruments are recognised within the hedge accounting reserve in other comprehensive income. The Company transfers the hedge accounting reserves into the statement of other comprehensive income when the hedged cash flows occur or when hedge accounting is terminated.

For derivative financial instruments used for hedge accounting in accordance with IFRS 9 refer to Note 17.

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**	**102,506,865**	**4,014**	**9,696**	**1,323,254**
of which based on valuation-model (see Note 16)	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 16)	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		—	—	

25 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 16)	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 16)	4,092,490	3,123,856

Bonds are used to offset exposures to similar term components of the Company's issued products, principally the host debt component of structured products issued. Receivables from Insurance & Wealth Planning Solutions counterparties relate to expenses incurred to purchase economic hedges for interest rate risks on behalf of Insurance & Wealth Planning Solutions counterparties prior to the inception of their specific client contracts. These expenses are reimbursed to the Company by the respective Insurance & Wealth Planning Solutions counterparty.

The maturity 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.

26 Bond issued and central mortgage institution loans

CHF thousand	Type of debt	Coupon rate	Year of issue	Early redemption date	Maturity	31.12.2019	31.12.2018
Leonteq Securities AG							
Tier 1 Contingent Convertible Loan Notes – Tranche 1	Subordinated with PONV[7] clause	6.75% + 6-months CHF LIBOR	2015	26.08.2020	perpetual	50,000	50,000
Tier 1 Contingent Convertible Loan Notes – Tranche 4	Subordinated with PONV[7] clause	6.75% + 6-months CHF LIBOR	2015	26.08.2020	perpetual	50,000	50,000
Total outstanding						**100,000**	**100,000**

[7] PONV = Point of non-viability

Maturities of issued loans

CHF thousand	Up to 1 year	1-2years	2-3 years	3-4 years	4.5 years	Over 5 years	31.12.2019	31.12.2018
Leonteq Securities AG								
Tier 1 Contingent Convertible Loan Notes – Tranche 1						50,000	50,000	50,000
Tier 1 Contingent Convertible Loan Notes – Tranche 4						50,000	50,000	50,000
Total outstanding						**100,000**	**100,000**	**100,000**

27 Financial investments measured at fair value through other comprehensive income

In 2018, the Company began investing 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 Company 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 15).

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

CHF thousand	31.12.2019	31.12.2018
Accrued income and prepaid expenses		
Prepaid operating expenses	4,519	1,661
Accrued interest	17,856	13,484
Other	328	3
Total accrued income and prepaid expenses	**22,703**	**15,148**
Accrued expenses and deferred income		
Accrued operating expenses	42,638	45,109
Deferred fee income	106,899	75,745
Accrued interest	3,826	5,005
Other	12,750	7,971
Total accrued expenses and deferred income	**166,113**	**133,830**

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

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 of standard software.

Impairment of non-financial assets

For all non-financial assets not measured at fair value, the Company assesses at the end of each reporting period whether there is objective evidence that a non-financial asset or a group of 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 31.12.2019
	Furniture / equipment	Leasehold improvement	Right-of-use asset	
Historical cost				
Balance as of 1 January 2019	2,629	9,881	85,367	97,877
Additions	261	—	1,786	2,047
Disposals	(80)	(25)	(982)	(1,087)
Reclassifications	—	—	—	—
Other value adjustments/impairments	—	—	(9)	(9)
Translation adjustments	—	—	(26)	(26)
Balance as of 31 December 2019	**2,810**	**9,856**	**86,136**	**98,802**
Accumulated depreciation cost				
Balance as of 1 January 2019	1,498	2,734	31,245	35,477
Depreciation[8]	430	1,302	6,582	8,314
Disposals	(80)	(25)	(246)	(351)
Reclassifications	—	—	—	—
Other value adjustments/impairments	3	—	(8)	(5)
Translation adjustments	—	—	(14)	(14)
Balance as of 31 December 2019	**1,851**	**4,011**	**37,559**	**43,421**
Net book value as of 31 December 2019	**959**	**5,845**	**48,577**	**55,381**

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

CHF thousand	Property and equipment			Total 31.12.2018
	Furniture / equipment	Leasehold improvement	Right-of-use asset	
Historical cost				
Balance as of 1 January 2018	2,596	9,838	—	12,434
Additions	33	43	—	76
Disposals	—	—	—	—
Reclassifications	—	—	—	—
Other value adjustments/impairments	—	—	—	—
Translation adjustments	—	—	—	—
Balance as of 31 December 2018	**2,629**	**9,881**	**—**	**12,510**
Accumulated depreciation cost				
Balance as of 1 January 2018	1,057	1,433	—	2,490
Depreciation[8]	412	1,299	—	1,711
Disposals	—	—	—	—
Reclassifications	—	—	—	—
Other value adjustments/impairments	29	2	—	31
Translation adjustments	—	—	—	—
Balance as of 31 December 2018	**1,498**	**2,734**	**—**	**4,232**
Net book value as of 31 December 2018	**1,131**	**7,147**	**—**	**8,278**

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	31,185	12,110	120,711	218,588
15,200	6,516	6,151	27,867	29,914
—	(687)	(123)	(810)	(1,897)
—	—	—	—	—
—	—	—	—	(9)
—	—	—	—	(26)
92,616	**37,014**	**18,138**	**147,768**	**246,570**
48,562	22,064	5,836	76,462	111,939
12,185	3,589	2,323	18,097	26,411
—	(687)	(123)	(810)	(1,161)
—	—	—	—	—
—	—	227	227	222
—	—	—	—	(14)
60,747	**24,966**	**8,263**	**93,976**	**137,397**
31,869	**12,048**	**9,875**	**53,792**	**109,173**

Information technology and systems			Total 31.12.2018	Total 31.12.2018
Internally developed software	Purchased software	IT equipment		
68,279	25,251	9,387	102,917	115,351
9,137	5,934	2,898	17,969	18,045
—	—	(175)	(175)	(175)
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
77,416	**31,185**	**12,110**	**120,711**	**133,221**
38,844	19,543	4,095	62,482	64,972
9,719	2,507	1,799	14,025	15,736
—	—	(77)	(77)	(77)
—	—	—	—	—
(1)	14	19	32	63
—	—	—	—	—
48,562	**22,064**	**5,836**	**76,462**	**80,694**
28,854	**9,121**	**6,274**	**44,249**	**52,527**

Leases

In the previous year, the Company 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 Company 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 Company'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 Company 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 Company 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.

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	54,122
Additions	1,786
Disposals	(737)
Effect of contract modifications	—
Amortisation	(6,582)
Currency translation adjustment	(12)
Balance as of 31 December 2019	**48,577**
Lease liability	
Balance as of 1 January 2019	54,055
Additions	1,049
Disposals	—
Effect of contract modifications	80
Interest expense	580
Payments	(7,478)
Currency translation adjustment	(25)
Balance as of 31 December 2019	**48,261**
Contractual liability (excluding short-term or low-value assets) as of 31 December 2019	51,062
of which due within 1 year	7,079
of which due within 2 and 5 years	24,574
of which due within 6 and 10 years	19,409
of which due after 10 years	—

During the period 1 January 2019 to 31 December 2019, CHF 47 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	25,133	6,631
Due between two and five years	57,326	24,350
Due later than five years	2,982	24,846
Commitments for minimum payments under operational leases	**85,441**	**55,827**

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 Company sublet office space that it does not expect to be used in the coming years.

30 Other assets and other liabilities

CHF thousand	31.12.2019	31.12.2018
Other assets		
Withholding and other tax receivables	19,182	36,573
Other assets	6	1
Total other assets	**19,188**	**36,574**
Other liabilities		
Other tax liabilities	3,162	5,391
Pension liability	14,155	12,715
Lease liability	48,261	—
Other liabilities	3,061	24
Total other liabilities	**68,639**	**18,130**

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 01 January 2019 IFRS 16 became effective. Due to the application of this standard the Company has recognised a lease liability which amounts to CHF 48.26 million as of 31 December 2019.

Other liabilities mainly represents unpaid supplier invoices.

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	478,031	—	478,031	—	(228,505)	249,526
Amounts due from securities borrowing	48,883	—	48,883	—	(48,883)	—
Amounts due from customers	393,448	—	393,448	(81,701)	(3,207)	308,540
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	**5,564,991**	**–**	**5,564,991**	**(2,379,596)**	**(682,347)**	**2,503,048**

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	1,341,405	—	1,341,405	—	(519,195)	822,210
Amounts due from securities borrowing	84,076	—	84,076	—	(84,076)	—
Amounts due from customers	214,784	—	214,784	(44,974)	(529)	169,281
Positive replacement values of derivative instruments	4,948,893		4,948,893	(2,652,210)	(1,675,454)	621,229
Other financial assets designated at fair value through profit or loss	1,913,507	—	1,913,507	(165,386)	—	1,748,121
Total as of 31 December 2018	**8,502,665**	**–**	**8,502,665**	**(2,862,570)**	**(2,279,254)**	**3,360,841**

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	622,190	—	622,190	(81,701)	(350,125)	190,364
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	**7,733,284**	**—**	**7,733,284**	**(2,379,596)**	**(1,962,884)**	**3,390,804**

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

For the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements above, each agreement between the Company 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 Company operates a defined benefit plan and defined contribution plans.

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

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

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

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

Past service costs are recognised immediately in the income statement.

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

The Company also contributes to pension schemes on behalf of employees domiciled in other locations. These pension schemes qualify as defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The contributions are recognised as employee benefit expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions totalling CHF 406 thousand and CHF 159 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 Company 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 Company'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**

Defined benefit costs recognised in profit or loss include effects from the change in conversion rates and switch of the current Swiss defined benefit plan to the newly introduced 1e plan.

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 Company'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 Company 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 Company applies the expected credit loss methodology:

- Stage 1, performing assets: At initial recognition, the 12-month 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 Company 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 Company's business operations. The Company holds cash collateral in connection with its trading activities relating to derivatives instruments and/or securities financing transactions. Assets measured at fair value through consists of bonds.

The credit quality of the Company'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 Company'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	(1,834)	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	**1,116**	**2,950**
of which presented as a liability	269	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 1.12 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 Company recognises a provision if, as a result of a past event, the Company has a current liability at the balance sheet date that will probably lead to an outflow of funds (which can include legal fees), 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 Company's control. If the possibility of an outflow of resources is remote, neither a provision nor a contingent liability is reported.

CHF thousand	Reinstatement cost provisions	Other provisions	2019 Total provisions	2018 Total provisions
Balance at the beginning of the period	—	11,360	11,360	8,264
Adjustment due to first time adoption of IFRS 16	2,849	—	2,849	—
Utilisation in conformity with designated purpose	(2)	(1,749)	(1,751)	(542)
Increase in provisions recognised in the income statement	34	3,598	3,632	3,750
Release of provisions recognised in the income statement	—	(564)	(564)	(44)
Translation differences	(1)	(61)	(62)	(68)
Balance at the end of the period	**2,880**	**12,584**	**15,464**	**11,360**
of which short-term provisions	—	3,448	3,448	2,697
of which long-term provisions	2,880	9,136	12,016	8,663

Reinstatement cost provisions

In the course of the adoption of IFRS 16 the Company reassessed its expected reinstatement costs as well as presentation of these costs. The amount of CHF 2,849 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 Company 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 Company 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 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	15,000,000	15,000	15,000,000	15,000,000	15,000	15,000,000
of which fully paid in	15,000,000	15,000	—	15,000,000	15,000	—
Total share capital	**15,000,000**	**15,000**	**15,000,000**	**15,000,000**	**15,000**	**15,000,000**
Authorised capital	—	—	—	—	—	—
of which capital increase completed	—	—	—	—	—	—
Conditional share capital	—	—	—	—	—	—
of which capital increase completed	—	—	—	—	—	—

The Company does not hold any own shares. The Company's share-based payments plans are settled with Leonteq AG shares. For further information refer to Note 12.

Capital distribution

The Board of Directors plans to propose to the Annual General Meeting of Leonteq Securities AG on 31 March 2019 that no dividend be paid out of retained earnings and that there be no distribution out of reserves from capital contributions for the financial year 2019 and 2018, accordingly, that all accumulated profits as well as accumulated reserves from capital contributions be carried forward.

No dividend out of retained earnings and no distribution from reserves form capital contributions were paid for the financial year 2018 and 2017, respectively.

36 Significant shareholders

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

	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[9, 10]	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[11]	2,784,000	14.70%	2,201,081	11.63%
Directors and executives[12]	178,322	0.94%	157,523	0.83%
Total significant shareholders	**10,464,552**	**55.26%**	**9,860,834**	**52.08%**

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

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

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

12 Excluding shareholdings of Lukas T. Ruflin.

37 Related-party transactions

The Company entered into various transactions and agreements with related parties. Significant transactions and agreements can be categorised as financial and platform partner agreements with Raiffeisen 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
Leonteq AG								
Amounts due from customers	55	2,061	—	—	—	—	—	—
Amounts due to customers	—	—	26,285	25,500	—	—	—	—
Bond issues and central mortgage institution loans	—	—	100,000	100,000	—	—	—	—
Accrued expenses and deferred income	—	—	2,206	2,147	—	—	—	—
Fee income	—	—	—	—	1,049	1,370	—	—
Interest expense	—	—	—	—	1	—	7,055	6,731
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

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
Leonteq Securities (Europe) GmbH								
Amounts due from customers	47	23	—	—	—	—	—	—
Accrued income and prepaid expenses	—	—	—	—	—	—	—	—
Amounts due to customers	—	—	2,826	1,949	—	—	—	—
Interest income	—	—	—	—	—	1	—	—
Fee expense	—	—	—	—		—	24,699	22,465
Leonteq Securities (Hong Kong) Ltd.								
Amounts due from customers	—	13	—	—	—	—	—	—
Amounts due to customers	—	—	384	517	—	—	—	—
Fee expense	—	—	—	—	—	—	4,243	4,716
Leonteq Securities (Japan) Ltd.								
Amounts due from customers	54	—	—	—	—	—	—	—
Amounts due to customers	—	—	281	209	—	—	—	—
Fee expense	—	—	—	—	—	—	2,921	2,348
Leonteq Securities (Monaco) SAM								
Amounts due from customers	8	11	—	—	—	—	—	—
Amounts due to customers	—	—	337	651	—	—	—	—
Fee income from other services	—	—	—	—	14	14	—	—
Fee expense	—	—	—	—	—	—	7,150	6,005
Leonteq Securities (Singapore) PTE Ltd.								
Amounts due from customers	5	65	—	—	—	—	—	—
Amounts due to customers	—	—	773	782	—	—	—	—
Fee expense	—	—		—	—	—	13,385	13,610
Significant shareholders Transactions with members of governing bodies	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

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

On 6 April 2018, the Company 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 Company's key management personnel comprise 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 Company's Nomination & Remuneration Committee and is reviewed annually. The Nomination & Remuneration Committee provides the Board with recommendations on the remuneration of Board members and the Executive Committee and defines the basic principles for the establishment, amendment and implementation of incentive plans. Taking into account the maximum amount of remuneration for members of the Board of Directors and the members of the Executive Committee approved by the Annual General Meeting (AGM), the Board reaches its final decisions regarding remuneration.

Total compensation for the Board of Directors and the Executive Committee of the Company (together key management personnel) for the year ending 31 December 2019 are listed in the tables below.

Compensation of members of the Board of Directors

CHF thousand	Salaries and other short-term employee benefits	Share-based payments [13]	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**

[13] These share-based payment amounts reflect the fair value of the shares at time of grant (including corresponding social security contributions).

Compensation of 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 Company 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	21,302	22,600
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.

39 Post-balance sheet events

No events occurred after the balance sheet date which would materially affect the financial statements.

40 Statutory banking regulations

The Company's financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). FINMA stipulates that banks or security dealers domiciled in Switzerland that report their financial statements according to US GAAP or IFRS must explain any material differences between Swiss accounting regulations for banks (Banking Ordinance and FINMA Circular 2015/1) and the reporting standard used. The most significant differences between IFRS and Swiss accounting regulations for banks that are of relevance to the Company are as follows:

Extraordinary profit
Under IFRS, all items of income and expense are allocated to ordinary operating activities. In accordance with Swiss accounting regulations for banks, income and expenses are classified as extraordinary if they are not recurring or not related to operational activities.

Pensions and post-retirement benefits
Under IFRS, the liability and related pension expense are determined based on the projected unit credit actuarial calculation of the benefit obligation. Under the Swiss accounting regulation for banks, the liability and related pension expense are determined primarily on the basis of the pension plan valuation. A pension asset is recognised if a statutory overfunding of a pension plan leads to a future economic benefit, and a pension liability is recognised if a statutory underfunding of a pension plan leads to a future economic obligation. Pension expenses include the required contributions defined by the Swiss accounting regulation for banks, any additional contribution required by the pension fund trustees, and any change in the value of the pension asset or liability between two measurement dates, as determined on the basis of the annual year-end pension plan valuation.

Share based payments
The Swiss accounting regulations for banks allow the same accounting treatment for share-based payments as IFRS with the following exceptions: The expense for share-based payments is recognised in the income statement with a corresponding entry in accrued expenses and deferred income.

Lease accounting
IFRS 16 requires the Company 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.

Cryptocurrencies

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

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.

Hedge Accounting

Under IFRS, the fair value movements of hedging instruments of cash flow hedges are recognised in comprehensive income. Swiss accounting regulations for banks does not allow the recognition of expenses or income in the comprehensive income. The fair value movements of the hedging instruments of cash flow hedges are recognised in the compensation account instead. The effect was CHF 0 thousand for 2019 and for 2018, respectively. Hedge accounting was not applied in 2018 and 2017, respectively.

Refinancing costs for trading financial assets and liabilities as well as other financial assets and liabilities designated at fair value through profit or loss

The Company offsets refinancing costs for trading financial assets and liabilities as well as other financial assets and liabilities designated at fair value through profit or loss with the "result from trading activities and the fair value option". The net position is disclosed as "interest and discount income". Interest and discount income includes the net refinancing result of the trading activities of CHF 6,797 thousand and CHF 9,202 thousand in 2019 and 2018, respectively.

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 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.

Compensation account

The balance of the compensation account was CHF 0 and CHF 0 as of 31 December 2019 and as of 31 December 2018, respectively.

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 Company provides investment advisory or discretionary portfolio management services in respect of those assets. In particular, this includes certain issued certificates where the Company offers such services. Structured products where no investment advice or discretionary portfolio management services are provided, including rule-based investment certificates, do not meet the Company's definition of assets under management.

Report of the independent auditor

to the Board of Directors of Leonteq Securities AG, Zurich

Report on the audit of the financial statements

Opinion

On your instructions, we have audited the financial statements of Leonteq Securities AG (the Company), which comprise the statement of financial position as at 31 December 2019 and the income statement, statement of other comprehensive income, statement of changes in equity, statement of cash flow and notes for the year ended 31 December 2019, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 22 to 88 and the audited sections of the risk and control report on pages 4 to 19) give a true and fair view of the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

We are independent of the entity 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 materiality: CHF 2.85 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 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 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.

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zurich, Switzerland
Telephone: +41 58 792 44 00, Facsimile: +41 58 792 44 10, www.pwc.ch

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 2.85 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 Company 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 140'000 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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of financial instruments held at fair value

Key audit matter	How our audit addressed the key audit matter
The Company exercises considerable judgement in valuing certain assets and liabilities at fair value where valuation models are used for the valuation of these assets and liabilities. These assets and liabilities are known as Level 2 or Level 3 financial instruments. For the Company, these financial instruments consist of issued structured products and derivative instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs such as the Company's own credit risk, implied volatility or correlations between different risk factors. Given the extent of judgement involved in valuing these financial instruments, we considered this to be a key audit matter. See Note 16 to the financial statements on pages 46 to 52.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 2 or Level 3 financial instruments, including controls over: - approval of new instruments, - approval and validation of models adopted, - daily analysis of profit and loss, and - accuracy of data feeds, inputs to models and the Company's independent price verification. For issued structured products and derivatives, we assessed a sample of valuations by considering the modelling approaches, inputs and valuation adjustments, assisted by PwC valuation experts. We have assessed the Company's own credit spread by critically reviewing the methods and calculations used in determining the own credit spread. We assessed the appropriateness of the Company's disclosure in the financial statements.

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Recognition of fee income

Key audit matter	How our audit addressed the key audit matter
The Company exercises considerable judgement in recognising revenue from fee income for services rendered over a specific period. Fees from these services include 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 35 to 36.	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 Company's IT system with the initial margin tool. We further tested the inputs in the fee deferral calculation against the Company's assumptions and we reperformed the deferred revenue calculation. We assessed the appropriateness of the Company's disclosure in the financial statements.

Portfolio and risk management system

Key audit matter	How our audit addressed the key audit matter
We focussed on this area because the Company's financial accounting and reporting system is dependent on a complex system and there is a risk that the IT system architecture, the interfaces controls and business continuity measures used are not designed and operating effectively.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the Company's IT systems relating to financial reporting. The system's suitability was tested by means of inquiry with management and users and by considering the Company's IT strategy and its implementation status. We further tested logical and physical access restrictions in place.

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 financial statements and statutory financial statements as of 31.12.2019 and our auditor's reports thereon.

Our opinion on the 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 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 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.

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Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements 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 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA's and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

PricewaterhouseCoopers AG

Andrin Bernet	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 Securities AG

Income statement in accordance with ARB for the years ended 31 December 2019 and 2018

CHF thousands	2019	2018
Result from interest operations		
Interest and discount income	16,441	15,092
Interest expense	(25,892)	(25,841)
Gross result from interest operations	**(9,451)**	**(10,749)**
Changes in value adjustments for default risks and losses from interest operations	1,833	(1,640)
Net result from interest operations	**(7,618)**	**(12,389)**
Fee income		
Fee income from securities trading and investment activities	270,792	313,539
Fee income from other services	1,063	1,384
Fee expense	(56,647)	(110,880)
Net fee income	**215,208**	**204,043**
Result from trading activities and the fair value option	**(14,681)**	**13,603**
Result from other ordinary activities		
Other ordinary income	2,838	3,363
Result from other ordinary activities	**2,838**	**3,363**
Operating expenses		
Personnel expenses	(83,295)	(77,932)
Other operating expenses	(40,373)	(43,435)
Operating expenses	**(123,668)**	**(121,367)**
Depreciation of long-lived assets	(20,059)	(15,798)
Changes to provisions and other value adjustments, and losses	(3,131)	(5,046)
Result from operating activities	**48,889**	**66,409**
Extraordinary income	230	62
Taxes	(709)	(1,528)
Net profit	**48,410**	**64,943**

Interest and discount income includes the net refinancing result of the trading activities of CHF 6.8 million as of 31 December 2019 and CHF 9.2 million as of 31 December 2018.

Appropriation of retained earnings

CHF thousands	31.12.2019	31.12.2018
Net profit	**48,410**	**64,943**
Profit carried forward from prior years	173,169	108,226
Accumulated profit carried forward	**221,579**	**173,169**
Appropriation of profit		
Allocation to the statutory retained earnings reserves	—	—
Dividend	—	—
Accumulated profit to be carried forward	**221,579**	**173,169**

Leonteq Securities AG

Balance sheet in accordance with ARB as of 31 December 2019 and 2018

CHF thousands	31.12.2019	31.12.2018
Assets		
Liquid assets	130,891	—
Amounts due from banks	478,031	1,341,405
Amounts due from securities financing transactions	48,883	84,076
Amounts due from customers	393,448	214,784
Trading financial assets	2,181,701	2,042,802
Positive replacement values of derivative financial instruments	2,991,746	4,948,893
Other financial assets designated at fair value through profit or loss	2,644,294	1,913,507
Accrued income and prepaid expenses	23,276	16,112
Long-lived assets	60,597	52,527
Other assets	19,190	36,574
Total assets	**8,972,057**	**10,650,680**
Total subordinated claims	11,612	4,809
of which subject to mandatory conversion and/or debt waiver	—	—
Liabilities		
Amounts due to banks	232,210	924,049
Liabilities from securities financing transactions	259,319	428,901
Amounts due to customers	622,190	1,404,709
Trading financial liabilities	433,907	360,432
Negative replacement values of derivative financial instruments	2,527,075	3,688,353
Other financial liabilities designated at fair value through profit or loss	4,092,490	3,123,856
Bond issued and central mortgage institution loan	100,000	100,000
Accrued expenses and deferred income	177,340	141,461
Other liabilities	6,223	5,414
Expected credit loss provision	1,114	2,950
Provisions	12,584	11,360
Total liabilities	**8,464,452**	**10,191,485**
Equity		
Share capital	15,000	15,000
Statutory capital reserve	270,307	270,307
of which tax-exempt capital contribution reserve	163,525	163,525
Statutory retained earnings reserve	719	719
Profit carried forward	173,169	108,226
Net profit	48,410	64,943
Total shareholders' equity	**507,605**	**459,195**
Total liabilities and shareholders' equity	**8,972,057**	**10,650,680**
Total subordinated liabilities	127,706	127,644
of which subject to mandatory conversion and/or debt waiver	100,000	100,000

Off-balance in accordance with ARB

Please refer to Note 38.

Leonteq Securities AG

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

CHF thousands	Share capital	Statutory capital reserve[1]	Statutory retained earnings reserve	Profit/(-loss) carried forward	Net profit/ (-loss)	Total
Balance as of 31 December 2017	**15,000**	**170,307**	**719**	**82,507**	**25,719**	**294,252**
Reallocation of retained earnings	—	—	—	25,719	(25,719)	—
Employee participation schemes	—	—	—	—	—	—
Capital increase/(decrease)	—	100,000	—	—	—	100,000
Acquisition and disposal of own shares	—	—	—	—	—	—
Dividends and other distributions	—	—	—	—	—	—
Other allocations to/(transfers from) the other reserves	—	—	—	—	—	—
Net profit	—	—	—	—	64,943	64,943
Balance as of 31 December 2018	**15,000**	**270,307**	**719**	**108,226**	**64,943**	**459,195**

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

CHF thousands	Share capital	Statutory capital reserve[2]	Statutory retained earnings reserve	Profit/(-loss) carried forward	Net profit/ (-loss)	Total
Balance as of 31 December 2018	**15,000**	**270,307**	**719**	**108,226**	**64,943**	**459,195**
Reallocation of retained earnings	—	—	—	64,943	(64,943)	—
Employee participation schemes	—	—	—	—	—	—
Capital increase/(decrease)	—	—	—	—	—	—
Acquisition and disposal of own shares	—	—	—	—	—	—
Dividends and other distributions	—	—	—	—	—	—
Other allocations to/(transfers from) the other reserves	—	—	—	—	—	—
Net profit	—	—	—	—	48,410	48,410
Balance as of 31 December 2019	**15,000**	**270,307**	**719**	**173,169**	**48,410**	**507,605**

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

Concordance table regarding disclosure requirements

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

Margin number of FINMA Circ. 15/1	Disclosure requirement	Disclosure in single financial statements of Leonteq Securities AG
75 – 124	Balance sheet	Note 40: Statement of financial position for the year ended 31 December 2019 and 2018
125 – 161	Income statement	Note 40: Income statement for the year ended 31 December 2019 and 2018
162 – 169	Appropriation of profit/coverage of losses/ other distributions	Note 40: Proposed appropriation of retained earnings as well as proposed distribution from reserves from capital contribution
170	Cash flow statement	In accordance with margin number 327, Leonteq Securities AG does not need to disclose a cash flow statement.
171 – 172	Statement of change in equity	Note 40: Statement of changes in equity from the years ended 31 December 2019 and 2018
182	Business name and its legal form and domicile	Note 1: General information
183 – 190	Accounting and valuation policies	Note 4: Critical accounting estimates and judgements in applying accounting policies; Note 5: Changes to critical accounting estimates and changes to presentation; Note 3: Principal accounting policies; Note 40: Statutory banking regulations (differences between IFRS and ARB)
191	Risk Management	Risk and Control (pages 3 to 19)
195	Material events after balance sheet date	Note 39: Post-balance sheet events
197	Information on the balance sheet	Notes to the (consolidated) financial statements
198	Breakdown of securities financing transactions (assets and liabilities)	Note 21: Securities financing transactions (assets and liabilities)
199	Presentation of collateral for loans/receivables and off-balance-sheet transactions and impaired loans/ receivables	Note 40: Collateralised loans/receivables and off-balance-sheet transactions and impaired loans/receivables
200	Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)	Note 22: Trading financial assets and liabilites Note 23: Trading inventories Note 25: Other financial assets and liabilities designated at fair value through profit or loss
201	Presentation of derivative financial instruments (assets and liabilities)	Note 24: Replacement values of derivative instruments
202	Breakdown of financial investments	Leonteq Securities AG does not have any financial investments
203	Presentation of participations	In accordance with margin number 328, Leonteq Securities AG does not need to disclose the participations
204	Disclosure of companies in which the banks holds a permanent direct or indirect significant participation	In accordance with margin number 329, Leonteq Securities AG does not need to disclose the permanent direct or indirect significant participations
205	Presentation of long-lived assets	Note 29: Long-lived assets
206	Presentation of intangible assets	Leonteq Securities does not have any intangible assets
207	Breakdown of other assets and other liabilities	Note 30: Other assets and liabilities

Margin number of FINMA Circ. 15/1	Disclosure requirement	Disclosure in single financial statements of Leonteq Securities AG
208	Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership	Leonteq Securities AG does not have any assets pledged or assigned to secure own commitments and of assets under reservation of ownership
209	Disclosure of liabilities relating to own pension schemes and number and nature of equity instruments of the bank held by own pension schemes	Note 40: Statutory banking regulations – Pension and post-retirement benefits
210	Disclosure of the economic position of own pension schemes	Note 40: Information on Economic Benefit/Liability and the pension expenses
211	Presentation of issued structure products	Note 25: Other financial assets and liabilities designated at fair value through profit or loss
212	Presentation of bonds outstanding and mandatory convertible bonds	Note 26: Bond issued and central mortgage institution loans
213	Presentation of value adjustments and provisions, reserves for general banking risks and changes therein during the current year	Note 34: Provisions
214	Presentation of the bank's capital	Note 35: Shareholder's equity
215	Number and value of equity securities or options on equity securities held by all executives and directors and by employees and disclosure of any employee participation schemes	Note 12: Personnel expenses
216	Disclosures of amounts due from / to related parties	Note 37: Related-party transactions
217	Disclosure of holders of significant participations	Note 36: Significant shareholders
218	Disclosure of own shares and composition of equity capital	Note 35: Shareholder's equity
219	Disclosures in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations and Article 663c para. 3 CO for banks whose equity securities are listed	The equity securities of Leonteq Securities AG are not listed
220	Presentation of the maturity structure of financial instruments	In accordance with margin number 333, Leonteq Securities AG does not need to disclose the maturity structure of financial instruments
221	Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle	In accordance with margin number 334, Leonteq Securities AG does not need to disclose the presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle maturity structure of financial instruments
222	Breakdown of total assets by country or group of countries (domicile principle)	In accordance with margin number 335, Leonteq Securities AG does not need to disclose the breakdown of total assets by country or group of countries (domicile principle)
223	Breakdown of total assets by credit rating of country groups (risk domicile view)	Note 40: Statutory banking regulations – Breakdown of total assets by credit rating of country groups
224	Breakdown of assets and liabilities broken down by the most significant currencies for the bank or financial group	In accordance with margin number 336, Leonteq Securities AG does not need to disclose the breakdown of assets and liabilities broken down by the most significant currencies for the bank or financial group
225 – 228	Off-balance-sheet transactions	Note 38: Off-balance
229	Assets under management	Note 40: Statutory banking regulations – assets under management
230	Information on the income statement	Notes to the (consolidated) financial statements
231	Breakdown of the result from trading activities and the fair value option	Note 9: Results from trading activities and the fair value option

Margin number of FINMA Circ. 15/1	Disclosure requirement	Disclosure in single financial statements of Leonteq Securities AG
232	Disclosure of material refinancing income	Note 40: Statutory banking regulations – Refinancing costs for trading financial assets and liabilities as well as other financial assets and liabilities designated at fair value through profit or loss
233	Breakdown of personnel expenses	Note 12: Personnel expenses
234	Breakdown of general and administrative expenses	Note 13: Other operation expenses
235	Explanations regarding material losses, extraordinary income and expenses as well as material releases of hidden reserves, reserves for general banking risks and value adjustments and provisions no longer required	Note 40: Statutory banking regulations – Extraordinary profit
236	Disclosure of and reasons for revaluation of participations and long-lived assets up to acquisition cost at maximum	Leonteq Securities AG does not have any participation and long-lived assets with hidden reserves
237	Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment	In accordance with margin number 339, Leonteq Securities AG does not need to disclose the presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment
238	Presentation of current and deferred taxes and disclosure of tax rate	Note 14: Taxes
239	Disclosures and explanations of the earning per equity securities	The equity securities of Leonteq Securities AG are not listed

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

CHF thousands	Type of collateral			Total 31.12.2019
	Secured by mortgage	Other collateral	Unsecured	
Loans (before netting with value adjustments)				
Amounts due from customers	—	84,908	308,540	393,448
Other financial assets designated at fair value through profit & loss	—	184,069	2,460,225	2,644,294
Mortgage loans				
Residential property	—	—	—	—
Office and business premises	—	—	—	—
Commercial and industrial premises	—	—	—	—
Other	—	—	—	—
Total loans (before netting with value adjustments)				
Balance as of 31 December 2019	**—**	**268,977**	**2,768,765**	**3,037,742**
Balance as of 31 December 2018	**—**	**210,889**	**1,917,402**	**2,128,291**
Total loans (after netting with value adjustments)				
Balance as of 31 December 2019	**—**	**268,977**	**2,768,765**	**3,037,742**
Balance as of 31 December 2018	**—**	**210,889**	**1,917,312**	**2,128,201**
Off-balance sheet				
Contingent liabilities	—	—	21,302	21,302
Irrevocable commitments	—	—	28	28
Obligations to pay up shares and make further contributions	—	—	—	—
Credit commitments	—	—	—	—
Total off-balance-sheet as of 31 December 2019	**—**	**—**	**21,330**	**21,330**
Total off-balance-sheet as of 31 December 2018	**—**	**—**	**22,632**	**22,632**

CHF thousands	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Net debt amount
Impaired loans / receivables				
Balance as of 31 December 2019	**—**	**—**	**—**	**—**
Balance as of 31 December 2018	**—**	**—**	**—**	**—**

Information on economic benefit/liability and the pension expenses

CHF thousands	31.12.2019 Surplus	31.12.2019 Economic benefit or liability	31.12.2018 Economic benefit or liability	Change versus previous year	Contributions accrued for the period	31.12.2019 Pension costs included in Personnel Expenses	31.12.2018 Pension costs included in Personnel Expenses
Patronage funds and pension plans	—	—	—	—	—	—	—
Pension plans without a surplus/ shortfall	—	—	—	—	—	—	—
Pension plans with a surplus	1,811	—	—	—	3,607	3,607	3,251
Pension plans with a shortfall	—	—	—	—	—	—	—
Pension schemes without their own assets	—	—	—	—	—	—	—
Total	**1,811**	**—**	**—**	**—**	**3,607**	**3,607**	**3,251**

Pension fund Leonteq Securities AG

	31.12.2019	31.12.2018
Coverage ratio excluding employer's contribution reserve	104.30%	103.30%
Coverage ratio including employer's contribution reserve	104.30%	103.30%

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.

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[3]	N/A	—
Vince Chandler[4]	N/A	20,741
Patrick de Figueiredo	10,866	8,846
Susana Gomez Smith[5]	1,616	N/A
Richard A. Laxer	5,502	1,797
Thomas R. Meier	4,156	2,136
Dominik Schärer[6]	1,572	N/A
Total	**84,264**	**82,741**
whereof locked shares	50,295	34,293

[3] Paulo Brügger resigned from Leonteq's Board of Directors on 2 February 2019 with immediate effect.
[4] Vince Chandler did not stand for re-election at the Annual General Meeting on 27 March 2019.
[5] Susana Gomez Smith joined Leonteq's Board of Directors on 27 March 2019.
[6] Dominik Schärer joined Leonteq's Board of Directors on 19 September 2019.

Executive Committee	31.12.2019		31.12.2018	
	Shares	Restricted Stock Units[7]	Shares	Restricted Stock Units[7]
Lukas T. Ruflin[8, 9]	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**

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

[8] 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.

[9] 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.

Total assets by credit rating of country groups

Risk domicile view

Moody's rating categories	Net foreign exposure in CHF thousands	2019 Shares as %	Net foreign exposure in CHF thousands	2018 Shares as %
Aaa – Aa3	5,415,029	96%	5,561,833	96%
A1 – A3	730	0%	1,107	0%
Baa1 – Baa3	133,584	2%	129,160	2%
Ba1 – Ba2	39,914	1%	32,918	1%
Ba3	18,944	0%	8,868	0%
B1 – B3	55,600	1%	42,037	1%
Caa1 – C	4,415	0%	918	0%
unrated	11,760	0%	6,409	0%
Total assets	**5,679,976**	**100%**	**5,783,249**	**100%**

Capital management

The capital base serves primarily 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 determined by the Swiss Federal Council and the Swiss Financial Market Supervisory Authority (FINMA), which follows the capital framework defined by the Bank for International Settlements (BIS), retaining the tradition of higher capital requirements through the application of capital buffers, depending on the size of the company. The Company is not subject to liquidity requirements, as they apply specifically to banks.

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

The following sections summarise the eligible capital, required capital and capital ratios calculated in accordance with the ARB (FINMA Circ. 15/1) as of 31 December 2019 and 31 December 2018.

Eligible capital

CHF thousand	31.12.2019	31.12.2018
Total shareholders' equity	507,605	459,195
Capital deductions	—	(81)
Other adjustments	—	—
CET 1 capital	**507,605**	**459,114**
Additional Tier 1	100,000	100,000
Tier 1 capital	**607,605**	**559,114**
Tier 2 capital	26,614	28,450
Total BIS eligible capital	**634,219**	**587,564**

Tier 2 capital component takes the subordinated loan as well as the expected credit loss provision into account.

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 Company.

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

As a securities dealer, the company is subject to Swiss capital adequacy requirements. The Company has 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.

CHF thousand	BIS required capital		Risk weighted assets	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Market risk (incl. derivatives)	161,568	137,441	2,019,599	1,718,011
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	12,375	9,352	154,685	116,898
Commodities	6,397	8,596	79,957	107,452
Credit risk	33,137	43,801	414,211	547,513
Operational risk	25,230	23,531	315,373	294,137
Non-counterparty related risk	4,848	4,202	60,597	52,527
Items not deducted in application of threshold 3, but risk-weighted with 250%	—	—	—	—
Cryptocurrencies	2,227	50	27,841	629
Total	**227,010**	**209,025**	**2,837,621**	**2,612,817**

BIS capital ratios (%)	31.12.2019	31.12.2018
CET 1 capital ratio (required: 7.0%[10])	17.9%	17.6%
Tier 1 capital ratio (required: 8.5%[10])	21.4%	21.4%
Total capital ratio (required: 10.5%[10])	**22.4%**	**22.5%**

[10] Minimum requirement including capital conservation buffer according to Annex 8 of the Capital Adequacy Ordinance.

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 Company'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 on 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 Exposure	31.12.2018 Exposure
Tier 1 capital	607,605	559,114
Total assets as per published financial statements	8,972,057	10,650,680
Adjustments	(281,438)	(3,271,295)
Leverage ratio exposure	8,690,619	7,379,386
Leverage ratio	**7.0%**	**7.6%**

The leverage ratio decreased by 0.6 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).

Report of the statutory auditor

to the General Meeting of Leonteq Securities AG, Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Leonteq Securities AG (the Company), which comprise the income statement, statement of financial position, statement of changes in equity and notes (pages 96 to 107), including a summary of significant accounting policies for the year ended 31 December 2019.

In our opinion, the financial statements as at 31 December 2019 give a true and fair view of the financial position and the results of operations in accordance with accounting rules for banks and comply with Swiss law and the 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 2.46 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 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 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.

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zurich, Switzerland
Telephone: +41 58 792 44 00, Facsimile: +41 58 792 44 10, www.pwc.ch

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 2.46 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 Company 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 123'000 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 financial instruments held at fair value

Key audit matter	How our audit addressed the key audit matter
The Company exercises considerable judgement in valuing certain assets and liabilities at fair value where valuation models are used for the valuation of these assets and liabilities. These assets and liabilities are known as Level 2 or Level 3 financial instruments. For the Company, these financial instruments consist of issued structured products and derivative instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs such as the Company's own credit risk, implied volatility or correlations between different risk factors. Given the extent of judgement involved in valuing these financial instruments, we considered this to be a key audit matter. See Note 16 to the financial statements on pages 46 to 52.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 2 or Level 3 financial instruments, including controls over: - approval of new instruments, - approval and validation of models adopted, - daily analysis of profit and loss, and - accuracy of data feeds, inputs to models and the Company's independent price verification. For issued structured products and derivatives, we assessed a sample of valuations by considering the modelling approaches, inputs and valuation adjustments, assisted by PwC valuation experts. We have assessed the Company's own credit spread by critically reviewing the methods and calculations used in determining the own credit spread. We assessed the appropriateness of the Company's disclosure in the financial statements.

pwc

Recognition of fee income

Key audit matter	How our audit addressed the key audit matter
The Company exercises considerable judgement in recognising revenue from fee income for services rendered over a specific period. Fees from these services include 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 35 to 36.	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 Company's IT system with the initial margin tool. We further tested the inputs in the fee deferral calculation against the Company's assumptions and we re-performed the deferred revenue calculation. We assessed the appropriateness of the Company's disclosure in the financial statements.

Portfolio and risk management system

Key audit matter	How our audit addressed the key audit matter
We focussed on this area because the Company's financial accounting and reporting system is dependent on a complex system and there is a risk that the IT system architecture, the interfaces controls and business continuity measures used are not designed and operating effectively.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the Company's IT systems relating to financial reporting. The system's suitability was tested by means of inquiry with management and users and by considering the Company's IT strategy and its implementation status. We further tested logical and physical access restrictions in place.

Responsibilities of the Board of Directors for the financial statements

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

In preparing the financial statements, the Board of Directors is responsible for assessing the 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

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

LEONTEQ SECURITIES AG
Europaallee 39 | CH-8004 Zurich | info@leonteq.com | www.leonteq.com