SWISS INVESTMENT ENGINE

ANNUAL REPORT 2017


SWISS

CONTENT

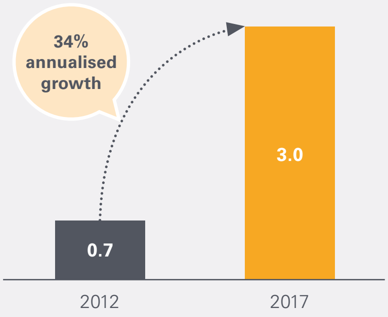
FINANCIAL HIGHLIGHTS

10 years since inception and 5 years on the stock exchange, Leonteq enters the next phase of its corporate development.

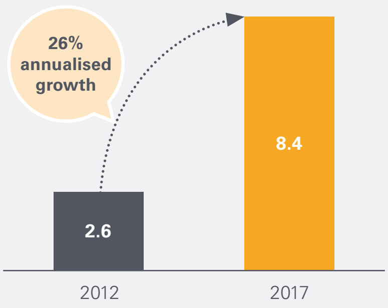
FINANCIAL

Leonteq 5 years on the stock exchange

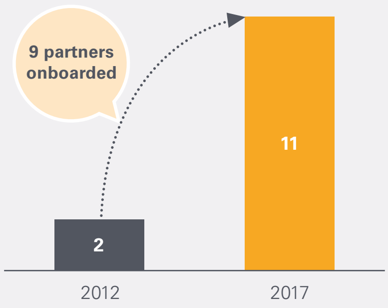
Platform assets Leonteq (CHFbn)



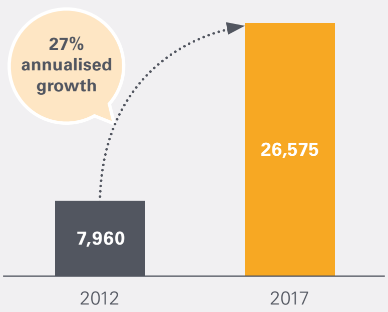
Platform assets banking partners (CHFbn)



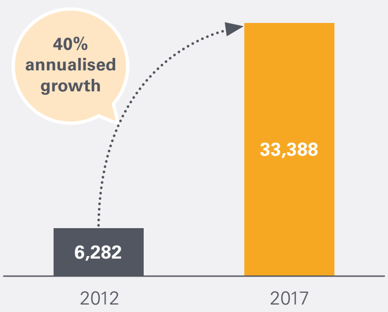
Banking & insurance partners



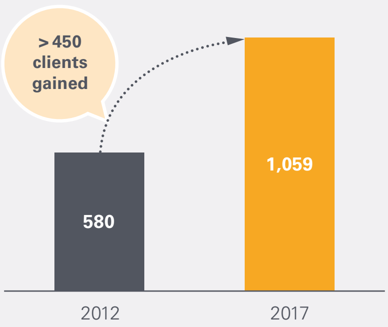
Structured products issued



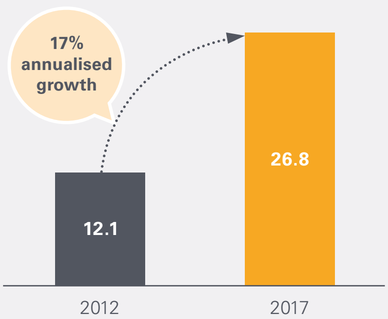
Unit linked life insurance policies



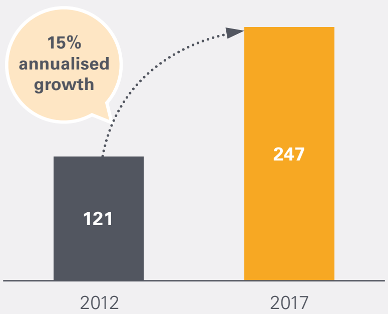
Clients



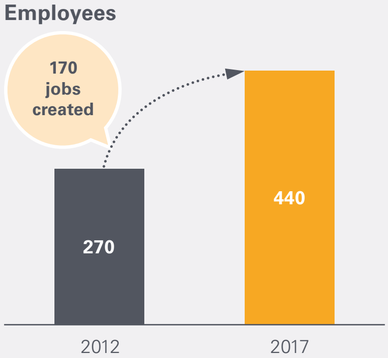
Turnover (CHFbn)



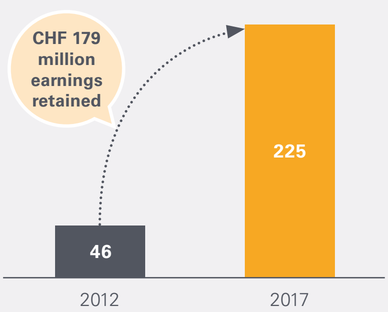
Net fee income (CHFm)



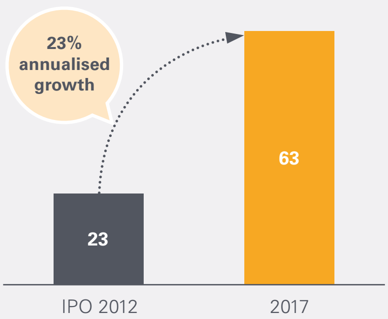
Employees



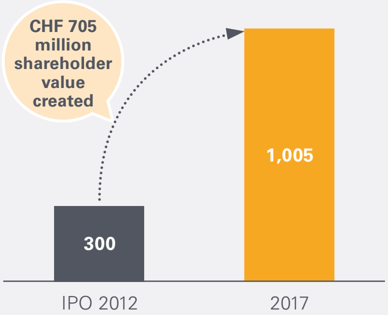
Retained earnings (CHFm)



Share price (CHF)



Market capitalisation (CHFm)



Dear shareholders

Leonteq successfully completed its turn-around programme within one year. We have increased our issuance capacity with key partner banks, taken the necessary rightsizing measures, and demonstrated our ability to rigorously manage our cost base. The underlying business is healthy and we have seen solid demand for structured products across all regions and business lines despite the historically low levels of volatility. We have onboarded renowned banking and insurance partners and made further progress with our expansion in Asia.

Turn-around achieved

Total operating income grew 4% year-on-year to CHF 215.4 million in 2017, primarily driven by a solid increase in net fee income of 18%, to CHF 247.0 million, which was partially offset by a decrease in net trading income. Net fee income grew as a result of an increased client demand across all business lines as well as the resolution of issues with key banking partners. The decrease in net trading income reflects negative contributions from hedging activities resulting from record low levels of volatility in 2017 and the negative treasury carry on Leonteq's own products.

In line with cost guidance we provided at the beginning of the year, total operating expenses amounted to CHF 192.1 million for 2017. Our management team continued to rigorously execute the cost reduction programme and delivered annualised savings of CHF 24.4 million. The staff base was reduced from its peak at 523 FTEs in October 2016 to 440 FTEs at year-end 2017 and we completed of the optimisation of excess office space in London and Zurich.

After we returned to profitability in the first half of 2017, net profit improved to CHF 21.9 million in the second half of 2017 compared to a loss of CHF -20.0 million in the prior-year period. Despite one-off costs of CHF 15.9 million for the full year of 2017, net profit for 2017 rose to CHF 23.1 million and earnings per share amounted to CHF 1.45 both up 34% year on year. Leonteq's total eligible capital was CHF 419.7 million as at 31 December 2017 and risk-weighted assets increased by 26% on the back of business growth and an increase in platform assets. The BIS total capital ratio was 19.6% as at 31 December 2017, versus 22.7% at end-2016. To preserve the capital base and invest in further business growth, the Board of Directors will propose to the Annual General Meeting of 28 March 2018 that no dividend be distributed for the financial year 2017.

Healthy business & partner network expanded

Leonteq's platform assets came in at a record level of CHF 11.4 billion as at 31 December 2017. Driven by positive client sentiment and solid demand for structured products, we issued 26,575 structured products in 2017 and grew total turnover by 28% to CHF 26.8 billion. Serviced net new insurance policies more than doubled in 2017 and a record of 33,388 policies were outstanding on the platform at end-2017. We recorded strong growth in net fee income across all our regions and continued to make progress to go onshore in Japan.

In the second half of 2017, Leonteq and Standard Chartered Bank, a leading global financial institution, have started collaboration for the issuance and distribution of structured products under the Standard Chartered Bank Notes, Certificates and Warrants Programme. We also have made solid progress with Crédit Agricole CIB after the go-live in the first quarter of 2017.

Corporate governance improved

We continued our process to strengthen the Board's independence with the completion of the Extraordinary General Meeting on 22 November 2017. The Board of Directors of Leonteq AG has increased from seven to eight members, whereof five are independent.

To strengthen the efficiency and accountability of the management, the Board of Directors decided to reduce the Executive Committee from 11 to 6 members at the beginning of 2017. Further top management changes followed in September 2017 with the appointment of a new General Counsel and a Chief Risk Officer and a Chief Executive Officer on an interim basis in October 2017. Founding partner Jan Schoch left the company at the end of October 2017 and sold his entire stake in Leonteq.

Marco Amato
Chief Executive Officer a.i.

Christopher M. Chambers
Chairman of the Board of Directors

Focus on profitable growth going forward

Going forward, our priorities will include further expanding the scope of our existing cooperation with banking partners and broadening the product offering. Rigorous cost management will continue while management will selectively invest in new hires and in important growth projects. Total operating expenses of around CHF 180 million are expected for the full year 2018. To drive profitable growth going forward, we will continue to focus on automation of payoffs and front-to-back processes as well as on implementing additional measures to boost client profitability and optimise balance sheet usage at transaction level. We have launched a new project to reduce capital intensity of our structured product business by transferring market risk to external hedge providers.

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

Christopher M. Chambers
Chairman of the Board of Directors

Marco Amato
Chief Executive Officer a.i.

CORPORATE GOVERNANCE

Transparency and clear responsibilities form the basis for how Leonteq is managed.

GOVERNANCE

General principles

As a publicly listed Swiss company, Leonteq AG (the 'Company' or 'Leonteq', together with its subsidiaries the 'Group') is subject to and complies with the Directive on Information relating to Corporate Governance ('DCG'), its annexes and commentary issued by SIX Swiss Exchange.

The information provided in this section complies with the Corporate Governance Directive of SIX Swiss Exchange that entered into force on 1 September 2014, with the revised version of the Guideline on the Corporate Governance Directive dated 10 April 2017 and with the guidelines and recommendations contained in the Swiss Code of Best Practice for Corporate Governance compiled by Economiesuisse, the Swiss business federation, dated 28 August 2014. It also complies with Appendix 1 of this Code, 'Recommendation on Compensation for Boards of Directors and Executive Boards', dated 28 August 2014 and which entered into force on 1 October 2014; this takes into account arts. 663b^{bis} and 663c para. 3, of the Swiss Code of Obligations, articles entered into force on 1 January 2007 and which address transparency concerning the compensation of members of the Board of Directors and the Executive Committee.

The Ordinance against Excessive Compensation pertaining to Listed Stock Corporations ('OaEC') entered into force on 1 January 2014. Leonteq has undertaken the steps necessary to ensure timely compliance with the OaEC's requirements. The requirement to provide the possibility of electronic voting had already been introduced at the 2014 Annual General Meeting (AGM). To the extent necessary amendments to the Articles of Association were proposed to and approved by the 2014 Annual General Meeting.

Corporate governance framework

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

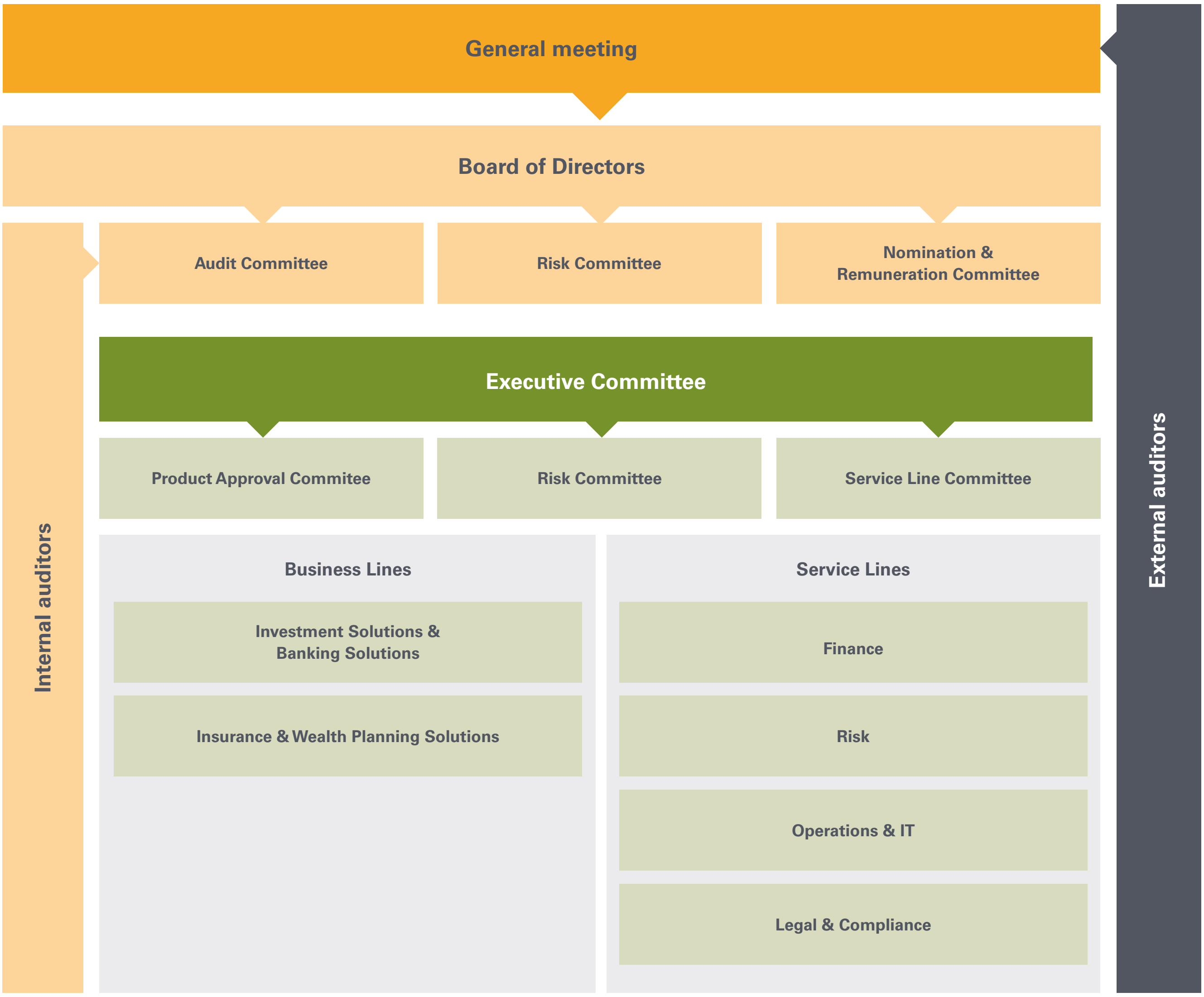
The governing bodies of the Group are

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

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

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

Corporate Governance Framework



Leonteq is active in the finance and technology sector with a focus on the structured products segment. The Group is managed by business and service lines and comprises Investment Solutions & Banking Solutions, Insurance & Wealth Planning Solutions, Finance, Operations & IT, Risk and Legal & Compliance. The firm has its headquarters in Zurich, Switzerland, regulated by the Swiss Financial Market Supervisory Authority ('FINMA'), with an additional office in Geneva. The European market is accessed through Leonteq Europe, which is domiciled in Germany and authorised by the Federal Financial Supervisory Authority ('BaFin'), Leonteq Monaco regulated by the Commission for the Control of Financial Activities, Leonteq Guernsey branch regulated by the Guernsey Financial Service Commission and Leonteq Amsterdam branch registered with the Authorities for the Financial Markets and prudentially supervised by FINMA. Leonteq Europe has exercised passporting rights into other countries of the European Economic Area. Leonteq Europe has branch offices in London and Paris. The Group's focus on its European distribution is mainly in France, Germany and in the Italian market. The Asia market is accessed through its office in Hong Kong, under the licence granted by the Securities and Futures Commission, and in Singapore, operating under the capital markets licence granted by the Monetary Authority of Singapore. A registration to conduct financial instruments business with the Kanto Local Finance Bureau of Japan is currently requested for Leonteq Securities (Japan), which is expected to commence its operations during the first half of 2018.

Leonteq AG is the Swiss holding company responsible for the overall management of the Leonteq Group. The registered shares of Leonteq AG are traded on the main standard of SIX Swiss Exchange in Zurich (security no. 19089118, ISIN CH0190891181, symbol LEON). On 31 December 2017 the Company's market capitalisation was CHF 1,004.5 million.

Non-listed companies belonging to the Group

Name	Registered offices	Capital	Stake %
Leonteq Securities AG [1]	Europaallee 39 8004 Zurich	CHF 15,000,000	100
Leonteq Securities (Europe) GmbH [2]	Goetheplatz 2 60311 Frankfurt/Main	EUR 200,000	100
Leonteq Securities (Hong Kong) Ltd.	Suites 3508 – 3509 35th Floor, Two International Finance Centre, No. 8 Finance Street, Central Hong Kong	HKD 10,000,000	100
Leonteq Securities (Japan) Preparation Ltd. [3]	Chose Ark Hills South Tower 9F, 1-4-5 Roppongi, Minato-ku, Tokyo	JPY 20,000,000	100
Leonteq Securities (Monaco) SAM	Villa Les Aigles, 15 avenue d'Ostende 98001 Monaco	EUR 500,000	99.9
Leonteq Securities (Singapore) PTE Ltd.	8 Marina View, #36-03/04 Asia Square Tower 1, Singapore 018960	SGD 1,000,000	100

[1] Including branches in Guernsey (Block F, Hirzel Court, St Peter Port, Guernsey GY1 2NQ, Channel Islands) and in Amsterdam (ITO Tower, Gustav Mahlerplein 66-A, 1082 MA Amsterdam).
[2] Including branches in London (3 Lloyds Avenue, London EC3N 3DS; new address as of 25 January 2018: 108 Cannon Street, London EC4N 6EU) and Paris (40, Rue la Pérouse, 75116 Paris).
[3] Leonteq is in the process of moving its Japanese business onshore and obtaining a licence during the course of 2018; the subsidiary will be then renamed Leonteq Securities (Japan) Ltd.

Shareholders

Significant shareholders

Leonteq's major shareholders comprise 7,870,246 shares, or 49.36% of the voting rights, as of 31 December 2017.

Shareholder name	Number of shares	Voting rights in %
Raiffeisen Switzerland Cooperative [4]	4,626,397	29.02
Lukas Ruflin family interests [5, 6]	1,283,762	8.05
Sandro Dorigo [7]	390,082	2.45
Subtotal shareholders' agreement	**6,300,241**	**39.51**
Rainer-Marc Frey [8, 9]	1,015,000	6.37
Credit Suisse Funds AG [10]	478,750	3.00
Directors and Executives [11]	76,255	0.48
Total significant shareholders	**7,870,246**	**49.36**

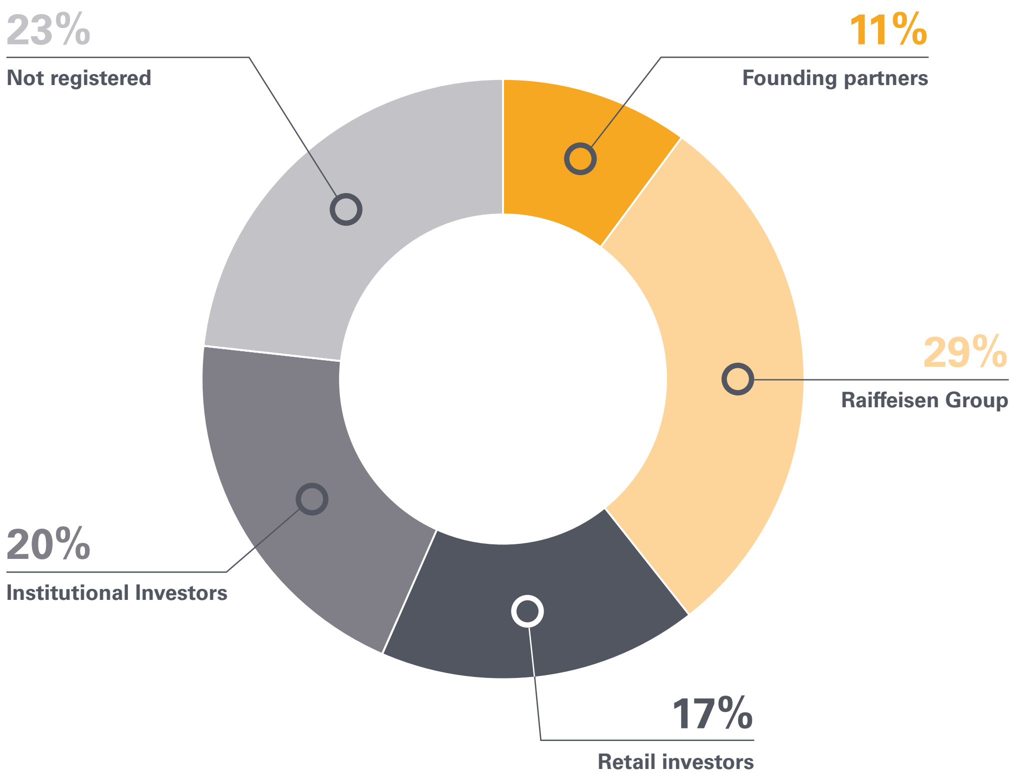
[4] 158,879 shares are directly held by Notenstein La Roche Private Bank Ltd, St. Gallen as a wholly owned subsidiary of Raiffeisen Switzerland Cooperative, St. Gallen.
[5] Lukas Ruflin family interests represents all holdings by Lukas T. Ruflin (founding partner), Clairmont Trust Company Limited and Thabatseka LP; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP (which in turn is indirectly wholly owned by Clairmont Trust Company Limited); the trust was settled by Lukas T. Ruflin.
[6] In addition holds 462,325 call options, written by Raiffeisen, with the following conditions: strike CHF 210 (adjusted by cumulative dividends per share from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style.
[7] Founding partner.
[8] H21 Macro Limited, Cayman Islands is the direct shareholder of the shares. Horizon21 AG, Pfäffikon SZ, Switzerland acts as fund management company.
[9] Creation of obligation to notify: 13 March 2017.
[10] Creation of obligation to notify: 25 October 2017.
[11] Excluding shareholdings of the founding partners.

For notifications received and individual reports of significant shareholders published during 2017 by Leonteq AG according to art. 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA) of 19 June 2015, reference is made to the Disclosure Office publication platform of SIX Exchange Regulation:

https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

Shareholder structure

Leonteq's shareholder structure comprises a total of 5,304 shareholders, who are entered in Leonteq's share registered, representing 67% of voting rights. As of 31 December 2017, 5,023 retail shareholders hold 17% of the total outstanding shares while 276 institutional investors account for 20% of the share capital and 23% of voting rights belong to shareholders who are not registered.



Shareholders' agreements

On 11 March 2013 and subsequently amended on 24 July 2014, the founding partners (Jan Schoch, Lukas Ruflin, Sandro Dorigo and Michael Hartweg), the trusts (Tabatseka Limited, Nassau, Terra Felice Limited, Nassau and EFG Bank & Trust (Bahamas) Ltd., Nassau), Notenstein La Roche Private Bank Ltd and Raiffeisen Switzerland Cooperative ('Raiffeisen') entered into a shareholders' agreement. By virtue of such shareholders' agreement, the aforementioned shareholders constitute a group of shareholders acting in concert within the meaning of art. 10 of the SESTO-FINMA (Stock Exchange Ordinance-FINMA, 25 October 2008) and art. 12 of the FMIO-FINMA (Financial Market Infrastructure Ordinance FINMA, 3 December 2015) with an aggregate shareholding of 3,204,353 shares and 48.07% of the voting rights.

On 23 November 2015, founding partner Michael Hartweg, who left Leonteq in August 2015, sold all his remaining 597,354 Leonteq shares (representing 3.75% of the voting rights) to Raiffeisen and as a consequence has no longer been a party to the shareholder group.

On 27 October 2017, Jan Schoch, founding partner and CEO of Leonteq until 6 October 2017, sold all of his 1,053,527 Leonteq shares (representing 6.61% of the voting rights) to existing and new investors and left the shareholder group.

As of 31 December 2017, the shareholder group holds 6,300,241 shares, or 39.51% voting rights in Leonteq AG. The representative and contact for this group of shareholders is Raiffeisen.

Lock-up undertaking of the founding partners

The founding partners agreed to a phased lock-up undertaking commencing on 5 October 2012 and ending five years after the first day of trading of the shares (i.e. on 19 October 2017), with respect to the shares owned by each of them immediately before the Initial Public Offering ('IPO'). Three years following the first day of trading, one third of the founding partners' and Lukas Ruflin Family Interests' original shares ('2015 Shares') were unlocked; after four years, the second third of their shares ('2016 Shares') were unlocked; after five years, the last third of the shares ('2017 Shares') were unlocked.

On 23 July 2015, some of the shares of the founding partners Michael Hartweg and Sandro Dorigo were unlocked early. At the same time, the Lukas Ruflin family interests and Jan Schoch have entered into a new lock-up undertaking in favour of Raiffeisen, with respect to their 2016 Shares and 2017 Shares (both representing in aggregate 4.22% of the voting rights of Leonteq AG) that commenced on 19 October 2016 with respect to their 2016 Shares, and commenced on 19 October 2017 with respect to their 2017 Shares, and that will have ended in each case on 19 October 2020.

On 23 November 2015 this lock-up between Jan Schoch and Lukas Ruflin family interests in favour of Raiffeisen Switzerland was extended until 19 October 2025. On 26 October 2017 Raiffeisen Switzerland agreed to waive the lock-up with Jan Schoch. Therefore, the lock-up group no longer exists.

The lock-up undertaking between Lukas Ruflin family interest and Raiffeisen remains in place but does not constitute a disclosable lock-up group according to art 120 FMIA. As of 31 December 2017, 670,688 shares of Lukas Ruflin family interest remain locked until October 2025.

Cross-shareholdings

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

Capital structure

Capital

The share capital of Leonteq AG amounted to CHF 15,944,504 consisting of 15,944,504 registered shares fully paid-in, each with a nominal value of CHF 1.00 as of 31 December 2017. The registered shares of Leonteq AG (security no. 19089118, ISIN CH0190891181, symbol LEON) are listed on the main standard of SIX Swiss Exchange and are included in the Swiss Performance Index SPI®.

Authorised and conditional capital

Authorised capital

On 23 March 2017, the Annual General Meeting approved the authorisation to increase share capital until 22 March 2019 up to an equal amount of CHF 3 million fully paid in registered shares, which is around 19% of the share capital of Leonteq. Increases by means of firm underwriting and partial increases are permitted. The Board of Directors determines the issue price, the dividend entitlement and the manner of contribution for the shares. The new registered shares are subject to the transfer restrictions according to art. 6 of the Articles of Association.

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

Conditional capital

The share capital of the Company may be increased by a maximum aggregate amount of CHF 81,416, which is around 0.5% of the share capital of Leonteq. The share capital may be increased through the issuance of a maximum of 81,416 registered shares, fully paid in with a nominal value of CHF 1.00 per share, upon the exercise of option rights or in connection with similar rights regarding employee shares (including existing or future Restricted Stock Units RSUs) granted to employees, management and other officers of the Company and its subsidiaries, according to the regulations of the Board of Directors. The pre-emptive rights and advance subscription rights of shareholders are excluded. The acquisition of registered shares based on art. 3a of the Articles of Association and every subsequent transfer of these registered shares will be subject to the transfer restrictions pursuant to art. 6 of the Articles of Association.

Conditions for the allocation and exercise of option rights and similar rights are determined by the Board of Directors. The shares may be issued at a price below the market price. For further information about the RSU program, reference is made to the Compensation Report.

Changes in capital structure

There were no changes to the capital structure in the year under review.

Effective as of 7 August 2014, the share capital of Leonteq AG was increased by 1,296,295 shares with a nominal value of CHF 2.00 each, resulting in a share capital increase of CHF 2,592,590. Total capital then amounted to CHF 15,925,920, consisting of 7,962,960 registered shares with a nominal value of CHF 2.00 each and with the shares being fully paid-in.

Following the exercise of 9,292 RSUs on 16 March 2015, and based on the share split at a ratio of 1:2 as of 29 April 2015 (first day of trading), outstanding shares increased from 7,962,960 shares with a nominal value of CHF 2.00 each, to 15,944,504 shares with a nominal value of CHF 1.00 each. The shares are fully paid-in. No further changes in the capital structure of Leonteq occurred in 2017, 2016, 2015 and 2014, respectively. For information on earlier periods, reference is further made to the Annual Report 2016 (page 13), 2015 (pages 22 and 23) and 2014 (page 20), respectively, which are published on Leonteq's website https://ch.leonteq.com/investors/#financial.

Shares and participation certificates (Partizipationsscheine)

The share capital of Leonteq AG is divided into 15,944,504 registered shares with a nominal value of CHF 1.00 each. Leonteq AG does not have any participation certificates outstanding. All registered shares are fully paid-in and entitled to dividends. Each share carries one vote. No preferential rights or similar rights are attached to the shares.

Profit-sharing certificates (Genussscheine)

No profit-sharing certificates are outstanding or have been issued in the past.

Limitations on transferability and nominee registrations

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

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

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

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

Convertible bonds and warrants/options

No convertible bonds or warrants/options are outstanding or have been in the past.

Leonteq established RSU plans related to deferred compensation and to long-term incentives of its employees. These RSUs are hedged through market transaction, i.e. through treasury shares bought back from the market. Further details are disclosed in the Compensation Report (pages 40 to 42) and the Consolidated Financial Statements (page 110).

Board of Directors

Members of the Board of Directors

Name	Year of Birth	Nationality	First election	Term expires
Christopher M. Chambers Chairman	1961	British/Swiss	2017	2018
Lukas T. Ruflin Vice-Chairman	1975	Swiss	2009	2018
Jörg Behrens	1964	Swiss	2012	2018
Paulo Brügger	1966	Swiss	2017	2018
Vince Chandler	1956	British	2012	2018
Patrick de Figueiredo	1950	Swiss	2010	2018
Hans Isler	1953	Swiss	2012	2018
Thomas R. Meier	1962	Swiss	2017	2018

The Board of Directors of Leonteq AG has increased from seven to eight non-executive members in the year under review following the completion of the Extraordinary General Meeting (EGM) on 22 November 2017. No member of the Board of Directors of Leonteq AG exercised any operational management functions for the Company or one of its subsidiaries in the year under review. No member of the Board of Directors has held a management position in Leonteq AG or any of its Group companies over the last three years. As of 31 December 2017, the majority of members of the Board of Directors of Leonteq AG met the independence criteria which are defined as follows

Leonteq's non-executive members are deemed independent if they:

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

These criteria exceed the requirements of the FINMA Circular 2017/01 Corporate Governance – Banks. The independent members of the Board of Directors are: Jörg Behrens, Christopher Chambers, Vince Chandler, Hans Isler and Thomas Meier. Paulo Brügger acts as representative of Raiffeisen and Patrick de Figueiredo and Lukas Ruflin act as representatives of the founding partners.

Over the coming years the Board aims to further strengthen its independence so that the majority of the Board remains independent according to the criteria above. The Board will be managing its composition on the basis of a formal rotation process of its members and a background and skill mapping to achieve an optimal composition for the Company over time. Following the 2018 Annual General Meeting, the Nomination and Remuneration Committee, the Audit Committee and the Risk Committee shall all consist of a majority of independent members.

In the year under review, Pierin Vincenz, Chairman of the Board of Directors of Leonteq AG, and Patrik Gisel, Member of the Board of Directors of Leonteq AG, decided to step down from their office by the Extraordinary General Meeting on 22 November 2017 when shareholders of Leonteq elected Christopher Chambers as new member and Chairman of the Board of Directors, and Thomas Meier and Paulo Brügger as new members of the Board of Directors.

Professional background, education and other activities

Christopher M. Chambers
Chairman

Christopher Chambers began his career in investment banking at Barclays de Zote Wedd Ltd., UK from 1990 to 1997. From 1997 to 2002 he was Head European Equity Capital Markets at Credit Suisse First Boston, UK and from 2002 to 2005 CEO of Man Investments Ltd., Switzerland. He was appointed Chairman of the Board of Jelmoli Ltd., Switzerland (2007 – 2009), member of the Supervisory Board (2010 – 2016) and Vice-Chairman of the Board (2013 – 2016) of Cembra Money Bank Ltd., Switzerland as well as Chairman of the Board of Moneta Money Bank, Czech Republic (2016 – 2017) and member of the Board of Evolution Group Plc, UK (2009 – 2011).

He is currently Executive Chairman of the Board of Lonrho Limited, UK (since 2013), member of the Supervisory Board of Berenberg Bank (Schweiz) AG, Switzerland (since 2012) and Chairman of the Board of Pendragon Plc, UK (since 2017). Further he serves as a member of the Board of Swiss Prime Site AG, Switzerland (since 2009), Hansa Aktiengesellschaft, Switzerland (since 2015) and Oxford Sciences Innovation Plc, UK (since 2015).

Christopher Chambers was educated in the United Kingdom, is a fellow of the Royal Society of Arts (FRSA) and holds a diploma in German Language from the London Chamber of Commerce.

Lukas T. Ruflin
Vice-Chairman

Lukas Ruflin started his career in at Pricewaterhouse Coopers, joined J.P. Morgan in 1999, and moved to Lehman Brothers from 2000 to 2004. He joined EFG Bank/EFG International in 2004 where he held various management positions, including Deputy CFO from 2004 to 2009, CEO of EFG Bank in 2010 and Deputy CEO of EFG International from 2009 to 2012. He was one of Leonteq's four founding partners in 2007 and has been a member of Leonteq's Board of Directors since 2009 and its Vice-Chairman since 2015.

Lukas Ruflin holds a Master's degree in economics from the University of St. Gallen and a CEMS Master's degree in international management from the University of St. Gallen.

Jörg Behrens
Chairman of the Risk Committee

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

He is currently the Managing Partner and Vice Chairman of the Board of Directors of the risk consultancy firm Fintegral AG, Switzerland which he founded in 2009. Since June 2001 he has been Vice Chairman of Stiftung Buechweid, Russikon, and since May 2010 he is a member of the Board of Directors of Mathfinance AG, Germany.

Jörg Behrens holds a doctorate in physics from the Swiss Federal Institute of Technology (ETH) Zurich for his research in particle physics at LEP/CERN and a Master's degree in nuclear physics from ETH.

Vince Chandler
Chairman of the Nomination and Remuenration Committee

Vince Chandler started his career after his A-level studies in 1974 at the Bank of England as Bank Officer and spent some 20 years there. He became Global Head of Equities Technology of the investment banking arm of Barclays Bank (BZW) from 1994 to 1998. He held a number of senior management roles in technology at Citigroup's Corporate and Investment Bank in the UK from 1998 to 2005. Subsequently he joined Credit Suisse as a Managing Director and Group COO for Technology from 2006 until 2008. He was a member of the Board of Directors of Dataquest, London, where he served as Chairman from 2010 until 2016.

Paulo Brügger
Member

Paulo Brügger began his career at UBS AG, Switzerland and then moved to Bank Julius Baer, Switzerland. Between 1995 and 2002 he held various senior positions at UBS AG, Switzerland and was Head of Trading at Raiffeisen Switzerland Cooperative from 2003 to 2005.

Since 2005 he has served as Head of Central Bank Department and is a member of the Executive Board of Raiffeisen Switzerland Cooperative. He is also a member of the Board of Directors at responsAbility Participations AG, Switzerland as well as a member of the Investment Committee of Raiffeisen pension funds.

Paulo Brügger holds a degree in Economics and Business Administration from the Kaderschule Zurich.

Patrick de Figueiredo
Member

Patrick de Figueiredo started his career mainly in the credit area at UBS AG, Switzerland (1976 – 1983) and the BSI Group, Switzerland (1984 – 1989). In 1989 he joined EFG Group, Switzerland as Head of Credit and subsequently held the position of Chief Risk Officer from 1997 until 2014. He served as a member of the Management Committee of EFG Bank European Financial Group SA, Switzerland from 1989 until 2014.

Since 2015 he has served as member of the Board of Directors of EFG Bank European Financial Group SA, Switzerland.

Patrick de Figueiredo holds a Master's degree in management studies from the University of Fribourg, Switzerland.

Hans Isler
Chairman of the Audit Committee

Hans Isler started his career in 1978 as a Delegate of the International Committee of the Red Cross. He then joined Arthur Andersen and was a partner from 1994 until 2002. He was a partner and member of the Board of Directors of Ernst & Young, Switzerland from 2002 to 2011. For 25 years, he led audit engagements of regulated entities, including banks, securities dealers as well as listed commercial groups.

He is currently Chairman of the Board of Directors of Banque Thaler SA and Valcourt SA and serves as a member of the Boards of Banque Pictet & Cie SA, Pictet & Cie Group SCA, Banque du Léman SA, MKS (Switzerland) SA, and PAMP SA. In addition, he is a member of the finance commission of MSF (Médecins Sans Frontières) and a member of the Geneva Court of Audit.

Hans Isler holds a Master's degree in economics from the University of St. Gallen (lic. oec. HSG) and is a Swiss chartered accountant.

Thomas R. Meier
Member

Thomas Meier began his career at Credit Suisse Group as relationship manager from 1988 to 1993. He then held various senior positions for the Asian Regions form 1993 to 1999 before taking responsibility as CEO North Asia and Branch Manager of the Hong Kong office of Credit Suisse from 2000 to 2004. He became Head of Private Wealth Management and member of the Management Board of Deutsche Bank (Luxembourg) from 2004 to 2005. After that he moved to Bank Julius Baer, where he served as CEO Asia from 2005 to 2015 and as member of the Executive Board from 2007 to 2015. After his return to Switzerland, he acted as Head of Corporate Sustainability at Bank Julius Baer from 2015 to 2017.

Since 2016 he has served as Chairman of the Julius Baer Foundation.

Thomas Meier holds a doctorate in Law from the University of Zurich and he completed the Advanced Management Program at the University of Pennsylvania, USA.

Mandates and activities outside Leonteq

According to art. 25 para. 5 of the Articles of Association, members of the Board of Directors are not allowed to hold or exercise more than the following number of additional activities in the executive or administrative bodies of other legal units, which are required to be registered in the commercial register or a comparable foreign registry, and which are not controlled directly or indirectly by the Company, or which the Company does not directly or indirectly hold:

- ten mandates in other legal entities against remuneration, whereby multiple mandates in various companies that belong to the same group of companies count as one mandate, and thereof four mandates in companies listed on a stock exchange in Switzerland or abroad and
- ten unpaid mandates, whereby reimbursement of expenses is not considered as remuneration.

Mandates exercised by a member of the Board of Directors at the request of the Company are not subject to these restrictions.

Members of the Board shall inform the Chairman of the Board concerning all external business activities, irrespective of whether remunerated or not. Before accepting or committing to new external business activities, approval must be sought by the Chairman of the Board.

External Business Activities are prohibited if it:

- are in competition with a Leonteq Group entity;
- have the potential to damage Leonteq AG's reputation;
- adversely impact the Board member's performance or his/her regular work, and
- create any potential conflict of interest.

Elections and terms of office

Pursuant to art. 19 of the Articles of Association, the Board of Directors consists of three or more members who are individually elected by the Annual General Meeting for a one-year term. Members of the Board may be re-elected with no limitation on the number of terms. The term of office ends with completion of the Annual General Meeting following their election.

The Annual General Meeting shall elect a member of the Board of Directors to be the Chairman of the Board of Directors for a one-year term. In the event of the office of Chairman being vacant, the Board of Directors shall appoint a new Chairman for the remaining term. The Board shall elect from amongst its members a Vice-Chairman. Further, the Board shall appoint a secretary who does not need to be a member of the Board.

The date of the first election to office, and the remaining term of office for each member of the Board of Directors, are both listed in the Members of the Board of Directors section on page 14.

Internal organisational structure

The internal organisational structure is laid down in the Organisational Management Regulations of the Company.

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

Notice of meetings of the Board of Directors shall be given at least five business days in advance by letter, facsimile or email. The notice shall contain the items of the agenda and the necessary documentation in order to prepare for the meeting. If all Board members are present and agree, deviations from these formal requirements are permitted; in particular, decisions can be taken on items that are not listed on the agenda.

In urgent cases, the Chairman may convene a meeting without observing the five-day notice period, and without the need to distribute the items of the agenda or the necessary documentation to prepare for the meeting.

Meetings of the Board of Directors are chaired by the Chairman or, in case of his inability to attend, the Vice-Chairman or another member of the Board of Directors. By way of exceptions, meetings may also be conducted by telephone or video conference or an equivalent means of instant communication. In such cases, the participating members shall be deemed to be present. In general, meetings shall be held in person.

The General Counsel serves as secretary to the Board of Directors. Unless the Chairman decides otherwise, the Group CEO and the Group CFO shall attend each Board meeting as guests with advisory opinion. The Chairman determines which other individuals may attend Board meetings as guests. Such individuals do not have any voting rights.

A Board quorum is constituted when at least two thirds (2/3) of the members of the Board of Directors are present. No quorum is required if the sole purpose of the meeting is to record the implementation of a capital increase and approve the amendments to the Articles of Association. A Board member who abstains from voting shall be deemed present.

The Board of Directors passes its resolutions with the majority of the votes cast. Abstentions from voting do not count towards the votes cast. In the event of a tie of votes, the Chairman of the meeting has the casting vote.

Resolutions of the Board of Directors may also be taken by means of circulated resolutions, i.e. in writing or via a signed copy sent by email, provided that (i) no Board member requests oral deliberation within three days from the date of delivery of the proposed resolution and (ii) at least two thirds (2/3) of the Board members vote by means of such circulated resolution. The circulated resolution, signed by the Board members and the secretary serves as the minutes. The Board of Directors passes circulated resolutions unanimously.

All resolutions are recorded in writing. The secretary is responsible for keeping the minutes, which are signed by the chairman of the meeting and the secretary, and must be approved by the Board of Directors.

No member of the Board of Directors shall participate in or vote on any matter that gives rise to a personal conflict of interests.

The Board of Directors held 13 meetings and 10 conference calls in 2017. The total attendance rate of all members of the Board of Directors was 93% on average in 2017. The duration of each meeting was half a day and conference calls lasted one hour on average. Conference calls were often convened to address urgent cases. The Executive Committee or certain of its members attended the meetings (including the CEO, the CFO and the General Counsel).

Board member	Attendance 2017					
	Meetings	in %	Conference Calls	in %	Total	In %
Christopher M. Chambers (Chairman since 2017 EGM)	1/1	100	1/2	50	2/3	67
Pierin Vincenz (Chairman until 2017 EGM)	12/12	100	8/8	100	20/20	100
Lukas T. Ruflin (Vice-Chairman)	13/13	100	10/10	100	23/23	100
Jörg Behrens	11/13	85	8/10	80	19/23	83
Paulo Brügger (Member since 2017 EGM)	1/1	100	2/2	100	3/3	100
Vince Chandler	13/13	100	10/10	100	23/23	100
Patrick de Figueiredo	12/13	92	10/10	100	22/23	96
Patrik Gisel (Member until 2017 EGM)	10/12	83	6/8	75	16/20	80
Hans Isler	13/13	100	8/10	80	21/23	91
Thomas R. Meier (Member since 2017 EGM)	1/1	100	2/2	100	3/3	100

Board Committee

The Board of Directors has delegated certain resolutions, the preparation and implementation of its resolutions and the supervision of the business of the Company and the Group to Board Committees. The Board Committees inform the Board in a timely manner of their findings and actions.

Each Board Committee has the power to retain independent legal, accounting, financial and other advisors and consultants as it may deem necessary, at the expense of the Company and without the need to obtain the approval of the full Board of Directors in advance.

The term of membership of a Board Committee is one year upon appointment. Re-election is possible.

The Board Committees meet as often as required to fulfil their duties and responsibilities, usually before an ordinary meeting of the Board of Directors. The Chairman of the relevant Board Committee convenes meetings. Each member of a Board Committee is entitled to make a request at any time to the Chairman of the relevant Board Committee that a meeting be convened. In cases where no meeting is convened by the Chairman of the Board Committee within a reasonable period of time after such request, the requesting Board Committee member is entitled to convene the meeting. Each Board Committee member is entitled to request that an item is placed on the agenda for the next meeting.

Each Board member has the right to attend all Board Committee meetings as a guest without a voting right, and to receive all information provided to members of the Board Committees. In case the Board committee members conclude that such presence may have an influence on independent decision making by the committee, they may decide to deny this right of presence and to call for a private session of the committee. As a specific rule, the Chairman of the Board may not attend Audit Committee meetings.

The chairmen of the Board Committees shall determine which members of the Executive Committee or other individuals may attend the meetings as guests. Such guests do not have voting rights. The Board Committee may take its decisions in private meetings.

The Board Committees pass their resolutions and adopt proposals to the Board with the majority of the votes cast. Abstentions from voting do not count towards the votes cast. In the event of a tied vote, the chairman of the Board Committee has the casting vote.

The Board has established the following permanent Board Committees:

- Audit Committee
- Risk Committee
- Nomination and Remuneration Committee

The constitutions of the Audit Committee and the Risk Committee fall within the responsibility of the Board of Directors, while members of the Nomination and Remuneration Committee are elected individually by the General Meeting, following art. 2 in connection with art. 7 OaEC.

From the 2017 Annual General Meeting on 23 March 2017 until the 2017 Extraordinary General Meeting on 22 November 2017, the Board Committees were constituted as follows:

Board member	Audit Committee	Risk Committee	Nomination and Remuneration Committee
Pierin Vincenz (Chairman until 2017 EGM)			
Lukas T. Ruflin (Vice-Chairman)	●		●
Jörg Behrens	●	● Chair	
Vince Chandler			● Chair
Patrick de Figueiredo	●	●	
Patrik Gisel (Member until 2017 EGM)		●	
Hans Isler	● Chair	●	●

At year-end 2017, the Board Committees were constituted as follows:

Board member	Audit Committee	Risk Committee	Nomination and Remuneration Committee
Christopher M. Chambers (Chairman since 2017 EGM)			
Lukas T. Ruflin (Vice-Chairman)	●		●
Jörg Behrens	●	● Chair	
Paulo Brügger (Member since 2017 EGM)			
Vince Chandler			● Chair
Patrick de Figueiredo	●	●	
Hans Isler	● Chair	●	●
Thomas R. Meier (Member since 2017 EGM)			

In order to increase the independence of the individual committees the Board envisages the following constitution for 2018:

Board member	Audit Committee	Risk Committee	Nomination and Remuneration Committee[12]
Christopher M. Chambers (Chairman since 2017 EGM)			
Lukas T. Ruflin (Vice-Chairman)	●		●
Jörg Behrens	●	● Chair	
Paulo Brügger (Member since 2017 EGM)		●	
Vince Chandler			● Chair
Patrick de Figueiredo		●	
Hans Isler	● Chair	●	●
Thomas R. Meier (Member since 2017 EGM)	●	●	

[12] Subject to approval at the 2018 AGM.

Audit Committee

The Audit Committee consists of a chairman, who is an independent member of the Board, and a minimum of one other member of the Board. The Audit Committee supports the Board of Directors in its supervision of financial controls through direct link to its internal and external auditors.

The Audit Committee's main duties include the following:

- financial and business reporting processes, including processes relating to the preparation of financial reports, financial statements and business reports, together with the monitoring of tax matters
- the process of review and evaluation of the efficiency and effectiveness of the internal control framework, from an audit point of view
- internal and external audit processes, including a review of the activities, the adequacy, effectiveness and organisational structure of the internal audit function, a review of the internal audit's risk assessment, discussion of the risk profile and the related audit approach with the external auditor, review and approval of the audit scope proposed by the external auditor, and review of the performance of the external auditor and
- compliance with laws, regulations and policies, and best practices throughout the Group.

On 31 December 2017, the Audit Committee comprised four Board members: Hans Isler chaired the committee, with Jörg Behrens, Lukas Ruflin and Patrick de Figueiredo as members. Two out of the four members are not independent. In the case of a tied vote, the independent Chairman of the Audit Committee has the final ballot. The Audit Committee may take its decisions in private meetings.

The Audit Committee met five times in 2017 and held no conference calls. The total attendance rate of all members of the Audit Committee was 100% on average in 2017. Meetings typically lasted three hours, and were attended by members of the Executive Committee and management responsible for areas supervised by the Audit Committee.

Board member	Attendance 2017					
	Meetings	In %	Conference Calls	in %	Total	in %
Hans Isler (Chairman of the Audit Committee)	6/6	100	0/0	N/A	6/6	100
Jörg Behrens	6/6	100	0/0	N/A	6/6	100
Lukas T. Ruflin	6/6	100	0/0	N/A	6/6	100
Patrick de Figueiredo	6/6	100	0/0	N/A	6/6	100

Risk Committee

The Risk Committee consists of a chairman, who is an independent member of the Board, and a minimum of one other member of the Board. The Risk Committee monitors:

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

On 31 December 2017, the Risk Committee comprised three Board members: Jörg Behrens chaired the committee, with Patrick de Figueiredo, and Hans Isler as additional members. Patrik Gisel served as member of the Risk Committee until the 2017 Extraordinary General Meeting on 22 November 2017. At year-end 2017, one out of the three members is not independent.

The Risk Committee met six times in 2017 and held no conference calls. The total attendance rate of all members of the Risk Committee was 90% on average in 2017. Meetings lasted two hours on average. Meetings were attended by members of the Executive Committee and management responsible for risk control. One of the six meetings was held as a risk workshop lasting one half day focusing on topics such as liquidity frameworks, upcoming regulatory changes and the impact of market environment on risk management of issued structured products.

Board member	Attendance 2017					
	Meetings	In %	Conference Calls	in %	Total	in %
Jörg Behrens (Chairman of the Risk Committee)	6/6	100	0/0	N/A	6/6	100
Patrick de Figueiredo	5/6	80	0/0	N/A	5/6	80
Patrik Gisel (member until 2017 EGM)	4/5	80	0/0	N/A	4/5	80
Hans Isler	6/6	100	0/0	N/A	6/6	100

Nomination and Remuneration Committee

The Nomination and Remuneration Committee regularly reviews and oversees the Company's compensation policies and models. It is responsible for a formal evaluation process and prepares the decisions of the Board of Directors regarding total compensation of the members of the Board of Directors and the Executive Committee, as well as overall remuneration of all other Group staff, defined as follows:

- it ensures that the management of Leonteq and its subsidiaries maintain and observe an up-to-date remuneration policy and procedure
- it ensures that the total annual salary increases and the variable compensation amounts are within the overall limitations as defined by the Board of Directors as approved by the General Meeting
- it decides on the contractual arrangements of members of the Board of Directors and the Executive Committee, and key employees, including those of the Company's subsidiaries, as approved by the Board of Directors
- it reviews the overall annual salary, annual salary increases and variable compensation proposed by the management for all other Group staff
- it ensures that the policy on variable compensation and other variable elements of employee remuneration does not conflict with client or shareholder interests, and
- it is responsible for the compensation report to be submitted to the Board of Directors for approval.

The Nomination and Remuneration Committee is further responsible for:

- reviewing the structure, size and composition of the Board of Directors, appointing members of committees of the Board, proposals for appointments of the Executive Committee and it makes recommendations on these matters to the Board
- the evaluation of the experience, knowledge and skills of the Board before an appointment is made and prepares a description of the role and capabilities required for a particular appointment
- the succession planning of all Board and Executive Committee members

On 31 December 2017, the Nomination and Remuneration Committee comprised three members: Vince Chandler chaired the committee, with Lukas Ruflin and Hans Isler as additional members. Following the provisions of the OaEC, all members of the Nomination and Remuneration Committee were elected individually for a term of one year by the General Meeting on 28 March 2017. To ensure the independence of the Nomination and Remuneration Committee, Pierin Vincenz resigned from this committee at the Annual General Meeting 2017, while Lukas Ruflin remained as a non-independent member in light of his experience in managing people businesses and his intimate knowledge of the Leonteq business activities, its culture and its individuals. Furthermore, the Board concluded that Lukas Ruflin should not participate in discussions related to his own remuneration as Vice-Chairman.

The Nomination and Remuneration Committee held five meetings and six calls in 2017. The total attendance rate of all members of the Nomination and Remuneration Committee was 95% on average in 2017. Meetings usually lasted two to three hours and calls lasted one hour, and were attended by the CEO and upon request by the CFO, the General Counsel and management responsible for remuneration reporting and controlling.

Board member	Attendance 2017					
	Meetings	In %	Conference Calls	in %	Total	in %
Vince Chandler (Chairman of the Nomination and Remuneration Committee)	5/5	100	7/7	100	12/12	100
Hans Isler	5/5	100	7/7	100	12/12	100
Lukas T. Ruflin	5/5	100	6/7	86	11/12	92
Pierin Vincenz (member until 2017 AGM)	2/2	100	2/3	67	4/5	80

Definition of areas of responsibility of the governing bodies

The individual responsibilities and powers of the governing bodies arise from corporate law and the Company's Organisational and Management Regulations. The governing bodies are responsible for the strategic direction of the Group and for determining and implementing the principles of organisation, management and monitoring. They are accountable for providing the means necessary to achieve the targeted objectives, and bear ultimate responsibility for the overall results. They supervise the maintenance of the Group as a whole, and coordinate and oversee all activities carried out by and in the name of the Group.

The Board of Directors has a strategy-setting responsibility; it supervises and monitors the business – whereas the Executive Committee, led by the CEO, has executive management responsibility within the scope as defined by the Board of Directors in the Organisational and Management Regulations.

Leonteq operates under a strict dual-board structure, as mandated by Swiss banking law. The functions of Chairman of the Board and CEO are assigned to different people, thus ensuring a separation of powers. This structure establishes checks and balances, and preserves the institutional independence of the Board of Directors from the daily management of the Company – for which responsibility is delegated to the Executive Committee, under the leadership of the CEO.

The decisions of the governing bodies are implemented in compliance with the applicable legal and supervisory regulations.

Responsibilities of the Board of Directors

The Board of Directors has ultimate oversight of the Company and the subsidiaries, and is responsible for the overall direction, supervision and monitoring of the business as well as the financial reporting.

The Board of Directors has the following duties in particular:

- overall direction and strategy of the company and issuance of the necessary directives
- determination of the organisation of the company
- appointments and dismissals of the persons entrusted with management and representation, and determination of the method of signature
- ultimate supervision of the persons entrusted with management of the Company
- organisation of accounting, financial control and financial planning
- preparation of the annual report
- preparation for the Annual General Meeting and execution of its decisions and
- notification of the judiciary should the company become over-indebted.

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

Entering into, dissolution and modification of joint ventures of strategic importance, and, on proposal by the Risk Committee, the issuance of unlimited guarantees, letters of comfort and similar matters, also fall within the competence of the full Board of Directors.

In addition, the Board determines the manner in which the Company is organised, appoints and dismisses members of the Executive Committee, grants signatory powers, defines business policies and strategies, issues and annually reviews the necessary directives and regulations, and determines corporate governance principles for the subsidiaries. It supervises the Executive Committee in respect to compliance with laws and regulations, and the implementation of the Group's corpor-ate governance principles, Articles of Association, directives and resolutions.

The full Board of Directors decides on the organisation and design of accounting, financial control and financial planning, following proposals by the Audit Committee. It also decides upon strategic financial and capital planning, following proposals by the Executive Committee. The Board of Directors is further responsible for the annual business plan and budget, the issuance of guidelines for financial reporting, financial commitments relative to investments and long-term contracts, together with the acquisition and encumbrance of real estate, following proposals by the Executive Committee.

Finally, the Board is responsible for notification of the judiciary should the Company become over-indebted.

Responsibilities of the Executive Committee

Based on decisions of the Board and within the scope of the company's Organisational and Management Regulations, the Executive Committee prepares and implements the overall strategy and company policies.

It is responsible for the day-to-day management of the Group, and has authority in all matters that are not the prerogative of, or subject to, the approval of the Board of Directors (including Board Committees and the Chairman) or the Annual General Meeting.

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

Further, the Executive Committee is responsible for a system of reporting duties and approval processes applicable to all subsidiaries. It ensures that all corporate governance directives are implemented by the subsidiaries in a timely manner, in accordance with local legislation and regulations.

The Executive Committee is headed by the CEO, who is responsible for the overall management and performance of the Group. He manages the implementation and development of strategic and operational plans as approved by the Board of Directors. He represents Leonteq in relation to third parties and regulators, and is jointly responsible (together with the Board of Directors and other senior executives) in relation to FINMA for the prudent management and regulation-compliant operation of the organisation.

The Executive Committee has delegated certain functions to the Product Approval Committee, the Risk Committee and the Service Line Committee. The Product Approval Committee is responsible for approving new types of financial products before they are issued and new services. The Product Approval Committee is composed of both members of the Executive Committee and management responsible for operational risk control, trading and treasury. The Risk Committee is responsible for the determination and monitoring of liquidity risks, market risk limits, counterparty limits and country-specific limits within the scope defined by the Board of Directors. It established permissible hedging instruments within the scope defined by the Board, approves eligible issuers and stress scenarios and issues guidelines on the general handling of legal and regulatory risks. The Risk Committee further decides on the initiation of lawsuits, withdrawal from lawsuits or other legal proceedings and entering into settlements if the committed amount is below CHF 1,000,000 or not of fundamental nature. Board approval is required in cases of initiation of lawsuits, withdrawal from lawsuits and other legal proceedings, and entering into settlements if the committed amount is above CHF 1,000,000 or the matter is of a fundamental nature.

Procedures in case of Conflicts of Interests

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

- inform the Chairman or, in case of a conflict of interests concerning the Chairman, the Vice-Chairman, immediately, and..
- ..refrain from all discussions (other than issuing an own statement on the matter and to answer questions regarding the matter) concerning, and abstains from voting upon, all matters involving the interests at stake.

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

- No members of the Executive Committee are present in Board meetings if discussions take place or decisions are made with respect to the Executive Committee's or individual Executive Committee members' performance, remuneration, recruiting or any matter of a personal nature with respect to Executive Committee members.
- Also, parts of Board meetings are held in private sessions without Executive Committee members from time to time if the Board discusses matters of a fundamental strategic nature for the Company.

Information and control instruments vis-à-vis Executive Committee

In order to control the business activity of the Group, the Board of Directors has formed the committees listed in the Internal Organisational Structure Board of Directors section on page 18. Each committee Chairman is in regular contact with the Executive Committee and senior management, and provides the Board of Directors with regular updates on the current activities of the committee and important committee matters. Minutes of committee meetings are made available to the full Board of Directors. Conference calls are held between Board and committee meetings in order to receive updates on current topics and initiatives, to exchange views and opinions, and to decide upon more urgent matters.

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

In general, each Board member is entitled to request information from the Executive Committee on all matters relating to the Company and to the Group as a whole. The Board is informed about extraordinary items as soon as reasonably practical by way of a circulating letter or, if appropriate, by telephone or email.

Furthermore, the Board receives recurring business and governance-relevant information on a regular basis, as summarised here:

At least on a quarterly basis, the Board receives

- from the CFO, the quarterly Financial Update with information concerning operating income and expenditures, income statements with budget vs. actuals, periodical forecasts, regulatory capital information and additional financial information.

On a monthly basis, the Board receives

- from the CEO, the monthly CEO update, which provides summary information on financials, capital, projects, people and other relevant business matters
- from Risk Control, the monthly risk report, which provides in-depth information on risk exposures, profit & loss, investment portfolio, limit monitoring results, market risk (including sensitivities, VaR, stress testing), counterparty risks with highest exposures, operational risk, liquidity and Pension Solutions risk profile
- from the CFO, daily breakdown of economic revenues.

Before each Board meeting, the CFO provides a report summarising the financial situation of the Group and an executive summary with financial review (including actual vs. prior period comparison, periodical forecast, key performance indicators, such as cost/income ratio etc.) and periodical staff analysis, including fluctuation.

On a quarterly basis, the Board Risk Committee receives

- the quarterly risk reports from the CRO
- reports on regulatory and compliance issues from the General Counsel
- details on the capital adequacy situation, large exposure risk and the 10 largest debtors from the CFO.

At least on an annual basis, the Board Risk Committee is provided with the Group's risk status by the CRO or by the CFO and the full Board with the Compliance risk assessment and Compliance activity reports by the General Counsel. Formal annual Board approval is required for the corporate strategy (prepared by the CEO), the annual budget (prepared by the CFO) and the strategic capital planning (prepared by the CRO).

Finally, Board members receive ad hoc reports on new business proposals and other relevant business matters from the CEO, and on claims and litigation prepared by the General Counsel, as they occur.

Members of management responsible for the finance and accounting function, including the CFO, attend Audit Committee meetings and are available to answer questions from the committee relating to financial statements and the annual budgeting process. The General Counsel attends Audit Committee meetings and is available to answer questions relating to Legal & Compliance. The Chief Risk Officer provides an oversight of all major areas of risk within Leonteq, and an update on the overall key risk aspects to the Risk Committee.

Additionally, independent audits are performed by Ernst & Young Ltd. ('Internal Audit'), which reports to Leonteq's Audit Committee. Since it is organisationally independent of management, it provides Leonteq's Board of Directors and the Audit Committee with independent and objective assurance of the adequacy and effectiveness of the internal control system. Internal Audit maintains a regular dialogue with the external auditor, to share risk issues arising from their respective audits and to coordinate their activities. The obligations and rights of Internal Audit are set forth in the internal regulations and in an internal audit charter. In accordance with this charter, Internal Audit has unrestricted access to premises, people, information and documents with respect to all elements of Leonteq and its subsidiaries.

Executive Committee

Members of the Executive Committee

Name	Year of Birth	Nationality	Function	Appointment
Marco Amato	1981	Italian/Swiss	Chief Executive Officer ad interim (CEO a.i.)	10.2017
Marco Amato	1981	Italian/Swiss	Chief Financial Officer (CFO)	09.2016
Jochen Kühn	1977	German	Head of Insurance & Wealth Planning Solutions	01.2017
Manish Patnaik	1973	German	Chief Operating Officer	03.2014
Reto Quadroni	1963	Swiss	Chief Risk Officer	10.2017
David Schmid	1982	Swiss	Head of Investment & Banking Solutions	01.2016
Ingrid Silveri	1976	Italian/Venezuelan	General Counsel	10.2017

In the year under review Leonteq's Board of Directors and management team initiated decisive actions, including cost saving measures, to restore profitability. To strengthen the efficiency and accountability of the management the Board of Directors decided to reduce the Executive Committee from 11 to 6 members on 9 February 2017. As a result, Justin Arbuckle, Rüdiger Assion, Sandro Dorigo, Steven Downey and Tobias Wohlfarth left the Executive Committee. Ulrich Sauter, General Counsel, decided step down as General Counsel from the Executive Committee by the end of September 2017. On 6 October 2017 the Board of Directors agreed with Jan Schoch to step down from his function as CEO and to leave the Executive Committee.

Professional background, education and other activities

Marco Amato

Marco Amato started his career at Ernst & Young, Switzerland in 2006 and became a partner within the Assurance Financial Services organisation in 2014 and was a member of the Financial Services Organisation leadership team. As a client service partner, he gained vast experience in auditing financial statements in accordance with both national and international accounting standards. He has in-depth knowledge of the front-, middle-, and back-office operations of financial institutions, and has acted as an advisor on finance transformation, regulatory, and risk management matters. In September 2016 he joined Leonteq as Chief Financial Officer, was additionally Risk Officer between November 2016 and October 2017 and became CEO ad interim in October 2017.

He holds an Advanced Master's degree in International Business Law (LL.M.) from the University of Zurich and a Master's degree in Business and Economics from the University of Basel, and is a Swiss Certified Public Accountant.

Jochen Kühn

Jochen Kühn started his career in 2006 at McKinsey & Company, Switzerland where he became partner in 2013. He was responsible for client acquisition and client projects focusing on international insurance groups and local European insurers. He was also leader of McKinsey's European Insurance Risk Practice and expert for life insurance and pension fund topics across the value chain for client projects globally. In January 2017 he joined Leonteq as Head of Insurance & Wealth Planning Solutions and member of the Executive Committee.

He holds a PhD in Finance (Dr. oec. publ.) from the University of Zurich, and an MBA (Diplom-Kaufmann) from the University of Tübingen, Germany.

Manish Patnaik

Manish Patnaik began his career at Tata Infotech Ltd., India as a Senior Software Engineer (1997 – 1999), and at Société Générale, Singapore as Business Analyst and Delivery Manager (1999 – 2000). Between 2000 and 2011, he worked at Commerzbank, Germany where he became Group Leader for equity derivatives, cash equity and research. He joined Leonteq in 2011 as Head of Front Office IT and became Chief Information Officer in 2012, before his appointment to Chief Operating Officer and member of the Executive Committee in March 2014.

Manish Patnaik holds a bachelor's degree in technology (electronics & communication) from R.E.C. (Regional Engineering College), Kurukshetra, India, and a Master's degree in business administration (finance) from ICFAI Business School, India.

Reto Quadroni

Reto Quadroni started his career at UBS AG, Switzerland in 1994 working in the area of IT Development and Quantitative Risk Management, before joining Systor AG, Switzerland as a Senior Financial Engineer in 1999. Between 2000 and 2003 he worked in the Credit Risk Control and the Product Control Departments of Swiss Re, Switzerland before re-joining UBS AG, Switzerland as a Risk Specialist in 2003. As a member of the Group Risk Division he focused on quantitative risk methodologies and regulatory and statistical analysis.

He joined Leonteq in 2009, and was later appointed Head of Risk Control until 2014. After a period of two years, during which he led a team focusing on strategic and regulatory related projects, he resumed his responsibility for Risk Control and became a member of the Executive Committee in October 2017.

Reto Quadroni studied Theoretical Physics at ETH Zurich and holds a Ph.D. in Natural Sciences.

David Schmid

David Schmid started his career with UBS AG, Switzerland in 2006 where he was involved in various platform projects for the private banking division. He joined Leonteq in 2008 where he was part of the Structured Solutions Sales team in Zurich and was promoted to Co-Head Structured Solutions Sales Switzerland. From 2012 to 2014 he was responsible for Leonteq's operation in Asia and the foundation of Leonteq Securities (Singapore) Pte Ltd. He became CEO Asia in 2014 before he was appointed to Head Investment Solutions and member of the Executive Committee in 2016. Since 2017 he has led the Investment and Banking Solutions Division and was responsible for global issuance and sales of structured products in Switzerland, Europe and Asia.

David Schmid holds a bachelor degree in Economics with a major in Banking and Finance from the University of Zurich.

Ingrid Silveri

Ingrid Silveri started her career as a lawyer in Venezuela. From 2006 to 2011 she worked in the debt capital markets groups of two international law firms, Clifford Chance (2006 – 2008), and Simmons & Simmons (2008 – 2011), in Frankfurt am Main. Ingrid Silveri joined Leonteq as Legal Counsel in 2011, with a focus on European regulatory law, securities regulations and corporate law. She was appointed Head Legal in July 2014 and became General Counsel and member of the Executive Committee in October 2017.

Ingrid Silveri holds postgraduate degrees (Dr. jur. and LL.M) from the Ludwig Maximilian University of Munich, Germany, and a law degree from the Andrés Bello Catholic University in Caracas, Venezuela.

Mandates and activities outside Leonteq

According to art. 25 of the Articles of Association, members of the Executive Committee are not allowed to hold or exercise more than the following number of additional activities in the executive or administrative bodies of other legal entities, which are required to be registered in the commercial register or a comparable foreign registry, and which are not controlled directly or indirectly by the Company, or which the Company does not hold, directly or indirectly:

- two mandates in companies listed on a stock exchange in Switzerland or abroad, whereby multiple mandates in various companies that belong to the same group of companies count as one mandate
- four mandates in other legal entities against remuneration, whereby multiple mandates in various companies that belong to the same group of companies count as one mandate and
- five unpaid mandates, whereby reimbursement of expenses is not considered as remuneration.

Mandates exercised by a member of the Executive Committee at the request of the Company are not subject to these restrictions.

Before accepting or committing to new external business activities, approval must be sought by the Board of Directors.

External Business Activities are prohibited if they:

- are in competition with a Leonteq Group entity;
- have the potential to damage Leonteq AG's reputation;
- adversely impact the Executive Committee Member's performance or his/her regular work, and
- create any potential conflicts of interests.

The Board of Directors envisages restricting external business activities by members of the Executive Committee and will put forward changes to the Articles of Association at the 2018 Annual General Meeting to the extent that no mandates in companies listed on a stock exchange will be allowed and only two mandates in other legal entities are allowed against remuneration.

Management contracts

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

Compensation, shareholdings and loans

Detailed information on the remuneration of the Expecutive Committee can be found in the Compensation Report on pages 40 to 45. Total remuneration of the Board of Directors is disclosed in the Compensation Report on pages 46 to 47. The shareholdings of Leonteq's Board of Directors and the Executive Committee can be found in the Compensation Report on page 48.

Shareholders’ rights of participation

Voting rights restrictions and representation

Any person entered in the share register is deemed to be a shareholder.

No statutory voting right restrictions apply regarding registered shareholders, statutory group clauses or rules on granting exceptions. Each share carries an entitlement to one vote.

In line with the legal provisions, any shareholder with a voting right may have their share represented at any General Meeting by another person authorised in writing or by corporate bodies, independent proxies or proxies for deposed shares. Such representatives are not required to be shareholders. The statutory rules on participation in the General Meeting do not differ from applicable legal provisions. Further reference is made to the section Limitations on transferability and Nominee Registrations on page 13.

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

The Board of Directors ensures that shareholders may tender their proxies and instructions to the independent proxy electronically.

The independent proxy is obliged to vote according to the voting instructions received from the shareholder(s). Without instructions, he shall abstain from voting.

Statutory quora

No statutory quora other than those defined by Swiss corporate law and the Swiss Federal Merger Act apply.

Convocation of the annual general meeting and extraordinary general meeting

The statutory rules on convocation of a General Meeting correspond with the respective legal provisions. Accordingly, a General Meeting is summoned at least 20 days before the date of the meeting by notice published in the Swiss Office Gazette of Commerce, and by letter sent to the addresses of the shareholders entered in the share register.

The notice of meeting shall announce the items of business to be discussed and the motions of the Board of Directors and of the shareholders who have requested that such a General Meeting be held or that an item of business be placed on the agenda.

One or more shareholders who together represent at least ten percent of the share capital may request in writing that a general meeting be held, stating the item of business for discussion and the motions. The request shall be directed to the Board of Directors.

Inclusion of an item on the agenda

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

Registration in the share register

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

Changes of control and defense measures

Duty to make an offer

The obligation to submit a public takeover offer pursuant to art. 135 and 163 of the Financial Market Infrastructure Act is set aside in the sense of art. 125, para. 3 of the Financial Market Infrastructure Act (opting out) according to art. 8 of the Company's Articles of Association.

Clauses on changes of control

No clauses on changes of control exist at Leonteq for members of the Board of Directors, members of the Executive Committee or other members of management. In particular, no protection measures such as:

- special provisions on the cancellation of contractual arrangements
- agreements concerning special notice periods or longer-term contracts exceeding 12 months
- waiver of lock-up periods
- shorter vesting periods or
- additional contributions to pension funds that protect the above-mentioned persons by certain contractual conditions against the consequences of takeovers.

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

Auditors

Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG ('PwC') was appointed as statutory auditor of Leonteq on 29 November 2007, when Leonteq AG was incorporated. Mr. Rolf Birrer took up office as lead auditor in 2014.

The shareholders must confirm the appointment of the auditors on an annual basis at the Annual General Meeting.

Auditing fees

The Group paid PricewaterhouseCoopers AG audit fees of CHF 0.9 million for the year 2017.

Additional fees

Additional fees of CHF 0.3 million were paid to PwC in 2017 mainly for reviews and agreed procedures for tax and accounting treatments.

Supervisory and control instruments vis-à-vis the auditors

The Audit Committee, on behalf of the Board of Directors, monitors the qualification, independence and performance of the Group's auditors and the lead partner. The Audit Committee confers with Leonteq's auditors concerning the effectiveness of the internal control systems in view of the risk profile of Leonteq.

The Audit Committee reviews the annual written statement submitted by the external auditor as to its independence. Mandates to the auditor for additional audit, audit-related and permitted non- audit work are subject to prior approval by the Audit Committee.

The external auditor provides timely reports to the Audit Committee on critical accounting policies and practices employed, on alternative treatments of financial information discussed with management, and other material written communication between the external auditor and management.

The Audit Committee meets both the lead partner of the external auditor and the Head of Group Internal Audit on a regular basis.

At least once a year, the Chairman of the Audit Committee discusses the audit work performed with the lead partner of PricewaterhouseCoopers AG, together with the main findings and any critical issues that may have arisen during the audit.

The Chairman of the Audit Committee reports back to the Board of Directors on the contacts and discussions with the external auditor.

The external auditor has direct access to the Audit Committee at all times.

Information policy

Leonteq informs its shareholders and the public each year by means of the annual and half-year reports, together with press releases, presentations and brochures as needed. These documents are available to the public in electronic form on the company's website at www.leonteq.com/investors and the annual report is available in printed form. General Meetings are summoned at least 20 days before the date of the meeting by notice published in the Swiss Office Gazette of Commerce, and by letter sent to the addresses of the shareholders entered in the share register.

Interested parties can subscribe to the email distribution service to receive free and timely notification of potentially price-sensitive facts on the company's website at www.leonteq.com/investors.

The company maintains a regular updated schedule of important publication and event dates on the Investor Relations section of the Company's website at www.leonteq.com/investors/corporatecalendar.

Leonteq maintains updated information on matters of corporate governance, such as the current composition of its Board of Directors, its Executive Committee, as well as the latest version of its Articles of Association on the company's website at www.leonteq.com/about-us/leonteq/#governance.

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COMPENSATION REPORT

Leonteq aspires to be the employer of choice, attracting and retaining best-in-class talents around the globe.

General principles

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

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

Compensation model

The Company applies a total compensation approach based on fixed and variable compensation elements. Fixed compensation includes base salary, which reflects seniority, experience, market practice and the skills required to fulfil a certain function in a particular business sector and region. The Group's salary framework is based on a model comprising six rank levels with increasing degrees of job complexity (Employee, Analyst, Associate, Director, Executive Director, Managing Director). A salary band is assigned to each level that defines the target base salary range for jobs assigned to that level. Individual salaries are then determined within these salary bands by taking market benchmarks into account. Benchmarking criteria are undertaken based on global independent studies which consider market capitalisation, sector, regional and functional responsibilities. Salary increases apply on an individual basis only if an employee is promoted to a new rank level and/or based on the result of the annual individual performance assessment.

Variable compensation is awarded annually based on contractual agreement and/or at the discretion of the Company, and varies depending on the Company, divisional and individual performance measured with pre-defined strategy-oriented quantitative and qualitative Key Performance Indicators ('KPIs') which can be categorised into Financials, Customer & Innovation, People and Process targets. Contractual agreements are pre-dominantly common for sales employees, and are linked to their production. Adjustments are made for the Company's trading result, the Group's net profit and the sales organisation's direct and indirect costs of production. In order to address potential conflicts of interests, the determination of variable compensation of employees in control functions, such as Risk Control, Legal or Compliance are not dependent upon the performance of business lines, specific products or transactions monitored by these employees. In addition, conflicts of interests are mitigated through deferred compensation and compensation in equity instruments (e.g. Leonteq shares, Restricted Stock Units ('RSU') settled with Leonteq shares) which are staggered based on job complexity, level of remuneration and responsibility.

Variable compensation is disbursed partly in cash and partly in equity instruments. Bonus amounts exceeding CHF 50,000 are in principle partly deferred over a period of three years with graded vesting over this time period. The applicable deferral rate, which takes the risk profile of the employees' function into account, and the applicable split between cash and equity instruments are fixed at the discretion of the Nomination and Remuneration Committee and are valid for the relevant business year. The deferral rates in principle applied for the variable compensation in 2017 vary from 20% to 80%. There were no exceptions to this policy in the year 2017.

Note that the deferred compensation committed in cash or RSUs for the year 2017 will only affect financial periods 2018 and thereafter, since the respective personnel expense will be recognised over the vesting period.

Compensation governance

Nomination and Remuneration Committee

The Nomination and Remuneration Committee ('NRC') regularly reviews and oversees the Company's compensation policies and models, is responsible for a formal evaluation process and prepares the decisions of the Board of Directors regarding total compensation of the members of the Board of Directors and Executive Committee ('EC'), as well as overall remuneration of all other Group staff, defined as follows (art. 23 of Leonteq's Articles of Association):

- it ensures that the management of Leonteq and its subsidiaries maintain and observe an up-to-date remuneration policy and procedure
- it ensures that the maximum total remuneration for the Board and the Executive Committee are within the overall limitations as defined by the Board of Directors and as approved by the General Meeting
- it decides on contractual arrangements of members of the Board and the Executive Committee, and key employees, including those of the Company's subsidiaries, as approved by the Board of Directors
- it reviews the overall annual salary, annual salary increases and variable compensation proposed by the management for all other Group staff
- it ensures that the policy on variable compensation and other variable elements of employee remuneration does not conflict with client or shareholder interests, and
- it is responsible for the compensation report to be submitted to the Board for approval.

The Nomination and Remuneration Committee is further responsible for:

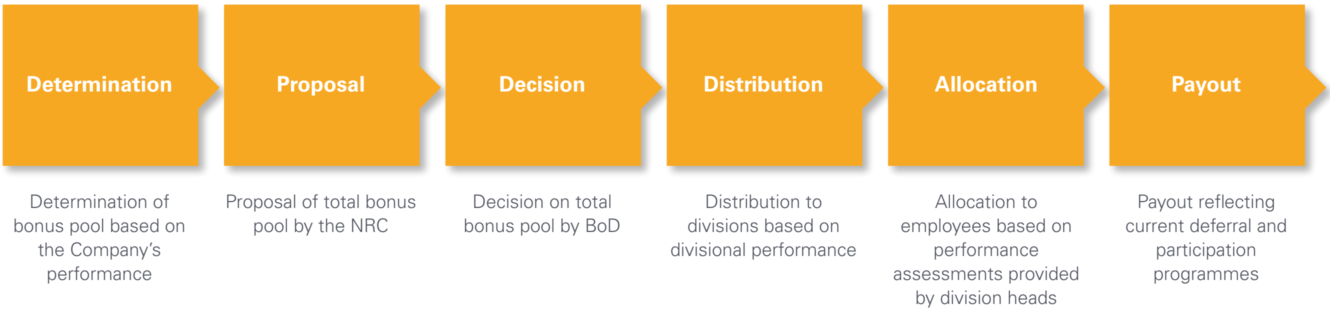
- the review of the structure, size and composition of the Board of Directors, proposals for appointments of the Executive Committee and recommendations on these matters to the Board
- the evaluation of the experience, knowledge and skills of the Board before an appointment is made together with preparation of a description of the role and capabilities required for a particular appointment
- the succession planning pertaining to all members of the Board and the Executive Committee.

On 31 December 2017, the NRC comprised three members: Vince Chandler chaired the committee, with Hans Isler and Lukas Ruflin as additional members. Following the provisions of the Swiss Ordinance against Excessive Compensation in respect to Listed Stock Corporations ('OaEC'), all members of the NRC were elected individually for a term of one year by the General Meeting on 23 March 2017. To ensure the independence of the NRC, Pierin Vincenz resigned from this committee at the 2017 Annual General Meeting, while Lukas Ruflin remained as a non-independent member in light of his experience in managing people businesses and his intimate knowledge of the Leonteq business activities, its culture and its individuals. Furthermore, the Board concluded that members should not participate in discussions related to their own remuneration.

The NRC held twelve meetings in 2017. Meetings usually lasted around two hours, and were attended upon request by the CEO and/or by the CFO, the General Counsel and/or management responsible for remuneration reporting and controlling. Any attending members of the Executive Committee did not participate in discussions related to their own remuneration respectively left the meeting for this agenda point.

The NRC met in September 2017 and provided guidance regarding an indicative bonus pool based on current forecasts and salary increases. The total provisional discretionary bonus pool for 2017 was set based on the financial forecasts made at the end of November and individual bonuses were communicated generally to employees in December. The final and committed bonus amount is subject to Leonteq's external audit completion and approval of the Group's financial statements for the financial year by the Board of Directors.

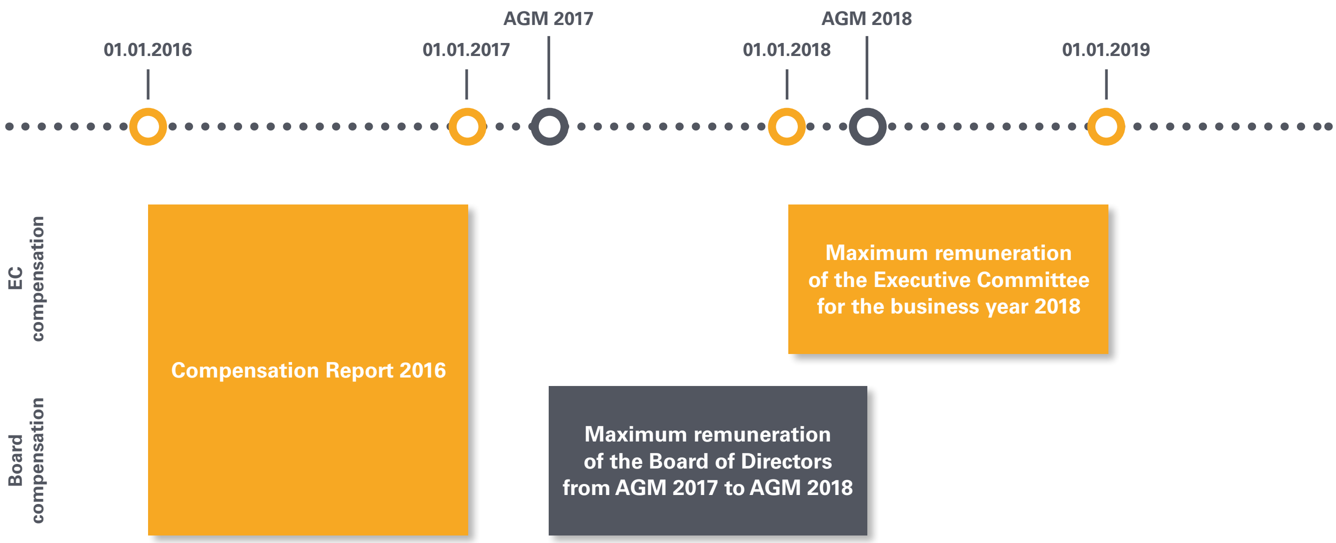
Governance process for variable compensation



Annual General Meeting

According to art. 10, para. 5 and art. 26 of Leonteq's Articles of Association, the Annual General Meeting ('AGM') has the inalienable power to approve the remuneration of members of the Board of Directors and the Executive Committee. On an annual basis, and upon proposal by the Board of Directors, separately and bindingly, the Annual General Meeting approves the maximum total amount of remuneration of members of the Board of Directors for the period until the next Annual General Meeting and the maximum total amount of remuneration of members of the Executive Committee for the business year following the Annual General Meeting. In the event of the AGM refusing to approve a requested maximum total amount of remuneration, the Board of Directors shall convene another general meeting within three months. Insofar as the approved maximum total amount of remuneration of members of the Executive Committee is not sufficient to compensate new members appointed after the resolution of the Annual General Meeting, an additional amount of up to 30% of the approved maximum total amount of remuneration of the Executive Committee may be used until the next vote of the Annual General Meeting. The Annual General Meeting does not vote on the additional amount used. Via the compensation report, the Board of Directors informs about the actual total compensation of the members of the Board and the members of the Executive Committee. The Annual General Meeting retrospectively votes on the compensation report through an advisory vote.

The General Meeting on 23 March 2017 approved the following:



Compensation of the Executive Committee

The remuneration of members of the Executive Committee shall be appropriate and in line with market conditions (art. 24 of Leonteq's Articles of Association). Members of the Executive Committee shall receive a fixed remuneration in cash, together with a profit- and performance-based variable compensation. The base salary is assessed annually against responsibility and experience, and adjusted if required. The amount of an Executive Committee member's variable remuneration depends on the overall economic success of the Company, and the meeting of the individual Executive Committee member's objectives. The objectives of Executive Committee members are approved at the beginning of the year by the Board of Directors and the fulfilment of set personal objectives is assessed annually by the Board of Directors. The variable remuneration may be paid in cash and/or by allocation of equity instruments. At the allocation of equity instruments, the amount of remuneration is equal to the value of the securities at the time of allocation. The valuation is based on market conditions at the time of the allocation (i.e. the average price of the purchase transaction for the shares). The Board of Directors determines the allocation conditions, the vesting conditions, deadlines, retention periods and expiration conditions. The Executive Committee's total maximum compensation is put forward by the Board of Directors for approval at the Annual General Meeting. Employment contracts for members of the Executive Committee shall be agreed for a pre-defined period not exceeding one year, or for an indefinite period with a notice period of a maximum of 12 months (art. 25 of Leonteq's Articles of Association).

Compensation targets

Variable compensation is determined and awarded based on the Company's success and the individual's performance. The Company's strategic objectives and individual targets are translated into quantitative and qualitative key performance indicators ('KPIs') and split in a mid-term and long-term incentive plan. Each plan comprises 50% of the variable target compensation. Target variable compensation varies significantly, and is based on responsibility, function, seniority, experience, skills and market practice. Target variable compensation is achieved if all KPI targets are met. If none of the set targets are met, variable compensation is zero. Both mid- and long-term incentive plans are capped at a maximum of 200% of the target bonus in case of full target overachievement to have an equal bonus and malus system of +/-100% of target bonus. Lower than anticipated Company performance assessed based on measured KPIs can result in a significant reduction, or even the full elimination, of the mainly discretionary variable compensation. The Board does however additionally consider the sustainability of the company's success, the risk profile and other strategic factors as part of the final KPI assessment.

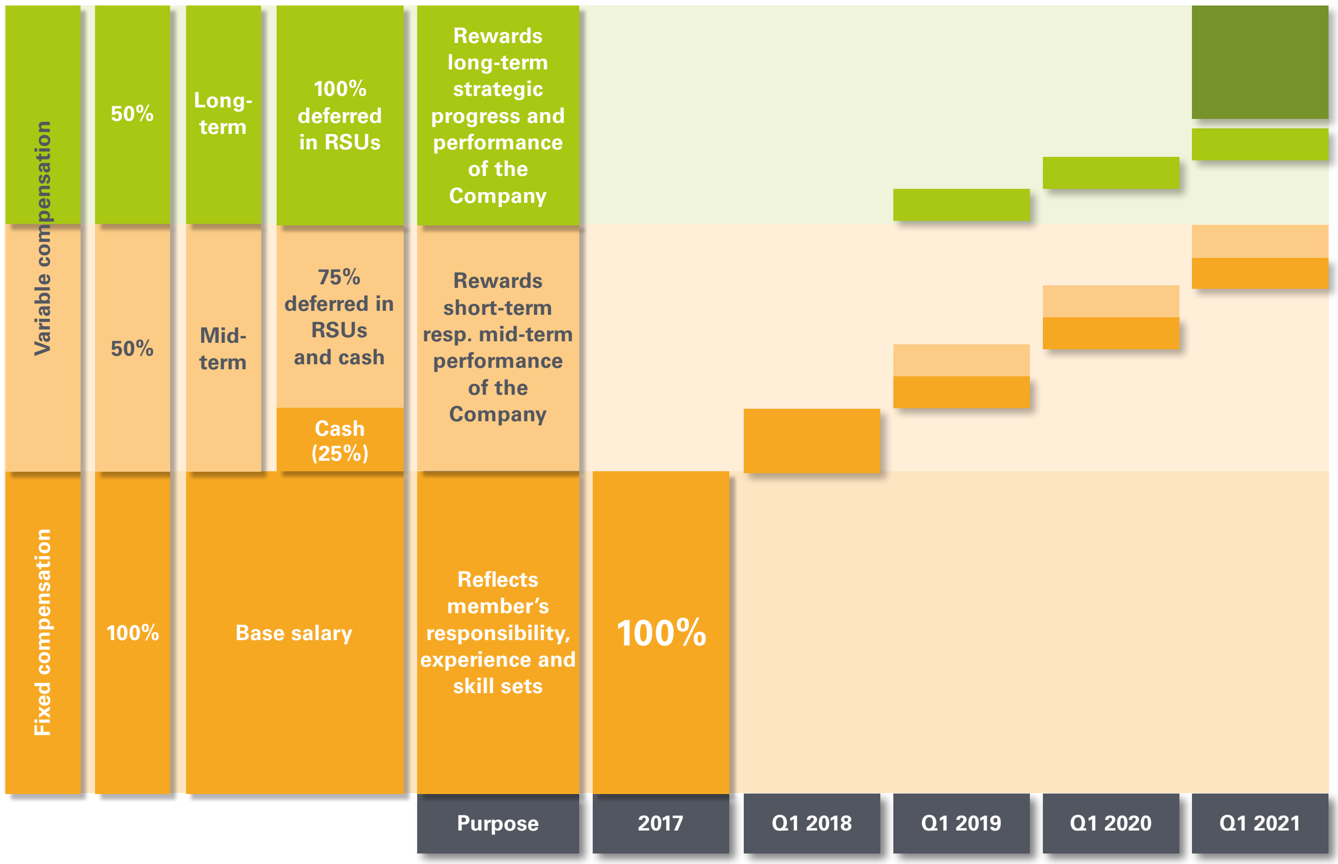
For the mid-term plan, Company KPIs are weighted with 70% and individual targets are weighted with 30%. Quantitative KPIs comprise, for example, growth in revenues, budget adherence to costs and revenues, cost-income ratio, and successful onboarding of new platform partners. Qualitative KPIs comprise Company and individual targets for the division headed by the respective EC member such as development of people, contribution to the Group's corporate culture framework, internal client satisfaction, mitigation of audit issues, policy and ICS compliance adherence, and the level of strategic target achievements. The qualitative and quantitative company KPIs relevant for the mid-term incentive plan can be grouped into the categories Financials, Customer & Innovation, People and Process.

For the long-term plan, 100% quantitative targets are currently set to determine total compensation and to assess the strategy implementation and execution. Quantitative elements comprise, for example, market capitalisation, the Company's annual net profit, the return on equity, and the level of strategic targets attained, such as the number of new platform partners.

Compensation structure

From the mid-term incentive plan, 25% is paid out immediately in cash whereas 75% is deferred over a period of three years. The deferred part of the mid-term incentive plan is settled 50% in cash in equal instalments over the three-year period and settled 50% with an RSU plan applying a graded stage vesting over three years.

From the long-term incentive plan, 100% is granted in RSUs. 50% thereof is deferred over three years with a graded stage vesting over three years, and 50% thereof is deferred over three years with cliff vesting at the end of the three years.



Pension benefits
Members of the Executive Committee are affiliated to the occupational pension institution and receive benefits under its pension plans and bylaws, including non-mandatory benefits. Group companies provide the employer contributions, as provided in the bylaws, to the occupational pension institution. In the case of illness affecting, or accident occurring to, a member of the Executive Committee, the Company may continue to pay their salary as part of a plan enacted by the Board of Directors as part of insurance benefits. In connection with early retirement, the Company may provide bridging benefits to the insured or additional contributions of up to a maximum of 50% of the fixed remuneration of each member of the Executive Committee to the occupational pension institution, according to an early retirement plan issued by the Board of Directors.

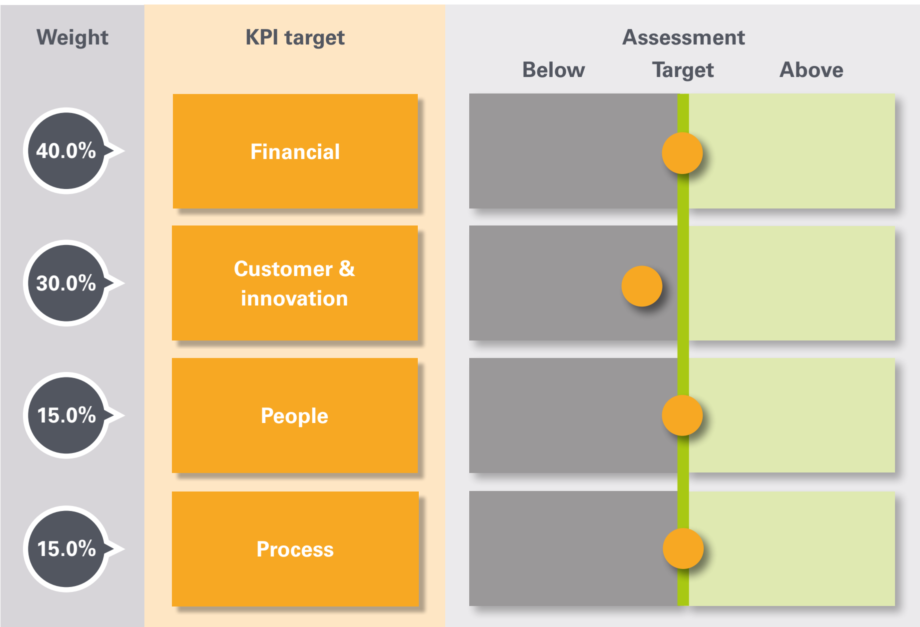
Other compensation elements
Representation allowances and effective reimbursement of expenses are not considered as remuneration. No additional payments or other benefits for members of the Executive Committee exist apart from minor benefits in kind, such as car parking or a first-class train GA travel card. Art. 25, para. 4 of Leonteq's Articles of Association describes that loans and credits from the Company to members of the Executive Committee are granted at market conditions. They may not exceed 50% of the annual fixed remuneration of the persons concerned. However, the Company's policy is not to grant any loans and credits to members of the Executive Committee. The advancement of legal, court or other similar costs for the defence of potential professional liability claims does not constitute either a loan or a credit. In accordance with the OaEC compensation elements such as golden parachutes are prohibited by law.

Performance assessment 2017

For the variable compensation for the year quantitative and qualitative targets were assessed. Quantitative targets comprise, for example, growth in revenues, reduction of costs, successful onboarding of new banking and insurance partners as well as project success rates. Qualitative targets comprise partner management, policy adherence, mitigation of audit issues and contribution to the Group's corporate culture framework. Individual targets comprise budget adherence to revenues and costs or internal client satisfaction. The Nomination and Remuneration Committee concluded that during 2017 the Executive Committee executed on the strategic priorities set for 2017 and successfully completed the turn-around programme. Total operating income grew by 4% year-on-year to CHF 215.4 million in 2017, primarily driven by a solid increase in net fee income of 18% to CHF 247.0 million, which was partially offset by a decrease in net trading income on the back of historical low volatility levels. Management rigorously executed the cost reduction programme, which resulted in a reduction of the staff base from its peak at 523 FTEs on October 2016 to 440 FTEs at year-end 2017, as well as in the completion of the optimisation of excess office space in London and Zurich. These efforts resulted in annualised total savings of CHF 24.4 million. The Nomination and Remuneration Committee also noted that Leonteq's management team successfully completed the resolution of important capacity limitations with key partner banks, most notably the expanded distribution of Raiffeisen-issued products to new countries and client groups, and the successful migration of Notenstein La Roche Private Bank's structured investment products to Raiffeisen. Furthermore, Leonteq went live with new banking and insurance partners, namely Crédit Agricole CIB, Standard Chartered Bank and Swiss Mobiliar, and launched a pilot project with PostFinance.

Overall, the Nomination and Remuneration Committee determined that the qualitative and quantitative Company KPIs relevant for the mid-term incentive plan were pre-dominantly met. On a rating scale from 1 to 5, where a rating 3 reflects an achievement level of 100% of the defined targets, the final rating for the mid-term incentive plan relevant Group KPIs was 2.9 for the year 2017.

Mid-term plan: Group KPIs performance assessment 2017

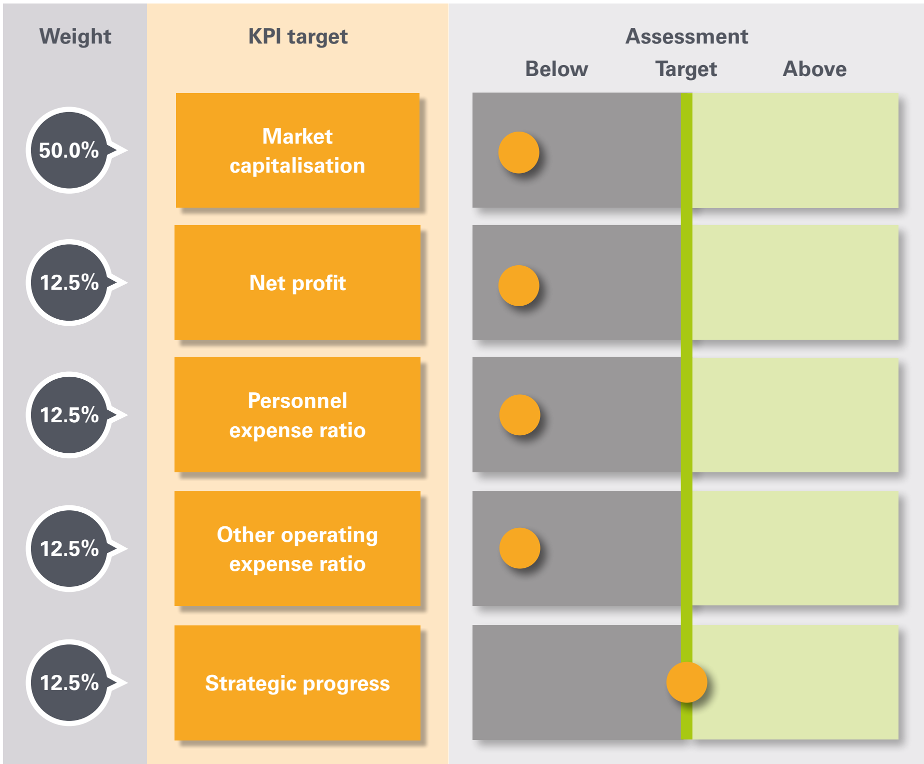


Based on the assessment of the individual targets, the members of the Executive Committee scored an average rating of 3.1 for 2017.

Taking into account the total average rating of 3.0 the Nomination and Remuneration Committee recommended a total amount of CHF 1,427,000 to be granted to members of the Executive Committee comprised of cash, deferred cash and deferred RSUs. This amount represents, on average, 48% of the maximum variable compensation under the mid-term incentive plan set for each member of the Executive Committee.

The quantitative Company KPIs relevant for the long-term incentive plan were predominantly not met taking into account the originally anticipated growth targets defined in 2015. On a rating scale from 1 to 5, where a rating of 3 reflects an achievement level of 100% of the defined targets, the final rating for the long-term incentive plan-relevant KPIs was 1.5 for the year 2017.

Long-term plan: performance assessment 2017



Taking into account the total average rating of 1.5 the Nomination and Remuneration Committee recommended a total amount of CHF 373,000 to be granted to members of the Executive Committee comprised solely of deferred RSUs. The aggregate amount represents, on average, 12% of the maximum variable compensation under the long-term incentive plan set for each member of the Executive Committee.

Total Executive Committee Compensation for 2017

The 2016 Annual General Meeting approved the maximum total amount of remuneration for the Executive Committee of CHF 24,000,000 for the business year 2017.

Based on the average rating of 3.0 for the mid-term incentive plan and of 1.5 for the long-term incentive plan, the total committed variable compensation amounts to CHF 1,800,000 for the year 2017. For the year 2016 the members of the Executive Committee offered – taking responsibility for the significantly lower results in 2016 – to forgo its entitled variable compensation in the amount of CHF 2,577,000.

Additionally, an RSU programme in the amount of CHF 1,500,000 was granted to Jochen Kühn who joined in 2017, replacing benefits of his former position as partner of a consulting company. This programme will vest in equal instalments over a period of three years. Similarly, a replacing benefit of CHF 800,000 in the form of cash and RSUs was granted to a former member of the Executive Committee who joined the Company in 2017.

Total remuneration for the Executive Committee for the year 2017, including any compensation paid to former EC members and replacement of benefits of their former positions, amounted to CHF 10,361,000 which represents 43% of the maximum amount approved by the 2016 Annual General Meeting. Compared to 2016 the total compensation increased by 66% mainly due to the fact that the Executive Committee did not receive any variable compensation in 2016 as well as additional committed remuneration in 2017 for members of the Executive Committee described above.

CHF thousands Name	Year	Fixed compen-sation	Committed variable compensation			Other compensa-tion[1]	Total committed compensa-tion[2]	Approved by the AGM
			Cash	Deferred Cash	Deferred Restricted Stock Units ('RSUs')			
Executive Committee	**2017**	**5,120**	**507**	**685**	**2,908**	**1,141**	**10,361**	**24,000**
of which highest paid: Jochen Kühn (Head of Insurance & Wealth Planning Solutions)[3]	2017	730	51	76	1,623	277	**2,757**	—
of which compensation paid to former EC members[4]	2017	2,185	150	150	500	490	**3,475**	—
Executive Committee	**2016**	**5,024**	**73**	**—**	**273**	**857**	**6,227**	**15,600**
of which highest paid: Jan Schoch (CEO)	2016	980	—	—	—	107	**1,087**	—
of which compensation paid to former EC members[4]	2016	1,376	—	—	—	205	**1,581**	—

[1] These charges comprise the employer's part in contributions to AHV/IV and Swiss Pension Plan on fixed and variable compensation and other benefits such as housing and relocation allowances.
[2] Total committed compensation is reflecting the committed amount in 2017 resp. 2016 excluding prior year period deferred commitments.
[3] Including RSU programme in the amount of CHF 1,500,000 replacing benefits of his former position as partner of a consulting company.
[4] Including any compensation earned during the notice period.

Deferred compensation paid in cash or RSUs for the 2017 compensation above will mainly affect financial periods 2018 and thereafter, since the respective personnel expense will be recognised over the vesting period.

Additional compensation elements

Apart from annual representative allowances for each member of the Executive Committee in the amount of CHF 20,400 and minor benefits in kind, such as car parking or a first-class train GA travel card, no additional payments or other benefits for members of the Executive Committee were made in the reporting period.

In particular, no compensation was made in the form of:

- profit-sharing amounts, participation in turnover and other forms of participation in the Company's business results
- services and benefits in kind award of equity securities, together with conversion and option rights, sign-on bonuses, sureties, guarantee commitments, pledges in favor of third parties or other collateral commitments
- waivers of claims or expenditures that create or increase pension benefit entitlements.

Furthermore, no agreements are in place and no payments have been made concerning:

- waivers of lock-up periods for equities and bonds, other than the one listed hereafter
- accelerated vesting periods and additional contributions to occupational pension schemes
- special payments for new members of the Board of Directors or the Executive Committee when they join the Company (golden handshake) or
- special notice periods or longer-term contracts where they exceed 12 months in duration; the notice period for members of the Executive Committee is six months.

New compensation model 2018 for the members of the Executive Committee

As announced earlier, and as part of the corporate governance priorities, the Company developed a new compensation model for the members of the Executive Committee. The new model should be simple, transparent, easy to understand and measure performance. Additionally, it should ensure that the incentives are better aligned with the strategic priorities. Given the changes in senior management and the Board, the NRC – in agreement with the Board of Directors – decided that the format and adoption of this format should wait until the new CEO has been appointed.

Compensation of the Board of Directors

The remuneration of members of the Board of Directors shall be appropriate and in line with market conditions (art. 24 of Leonteq's Articles of Association). Members of the Board of Directors shall receive a fixed remuneration in cash and/or equity securities. Employment contracts with members of the Board of Directors shall be agreed for a fixed period not exceeding one year, or for an indefinite period with a notice period of a maximum of 12 months (art. 25 of Leonteq's Articles of Association). Art. 25, para. 4 of Leonteq's Articles of Association describes that loans and credits from the Company to members of the Board of Directors are granted at market conditions. They may not exceed 50% of the annual fixed remuneration of the persons concerned. However, the Company's policy is not to grant any loans and credits to members of the Board of Directors.

Director's fee

The members of the Board of Directors, including the Chairman, receive a non-performance-related compensation in the form of a director's fee. When assessing and determining the director's fee, the Nomination and Remuneration Committee takes into consideration the different functions and individual accountabilities of the respective members of the Board of Directors. No additional compensation is made to members of the Board of Directors for attendance of meetings or consultations. The annual director's fee is paid in cash and in shares of Leonteq; a minimum amount of 40% of the compensation is paid in Leonteq shares. The shares are locked up for a period of three years.

The table below shows the director's fee by function, approved by the 2017 and 2016 Annual General Meeting, respectively. Members of the Board of Directors received the director's fee for the highest paid function covered by the respective member, irrespective of the number of functions performed. The annual director's fee for the period 2017 AGM to 2018 AGM was reduced for all functions between 13% and 53% compared to the prior period.

CHF thousands	2017 AGM– 2018 AGM	2016 AGM – 2017 AGM
Function		
Chairman of the Board of Directors	**350**	750
Vice-Chairman of the Board of Directors	**350**	400
Chairman of the RC, AC and NRC	**190**	250
Members of the Board of Directors	**150**	200

Total Board of Directors Compensation

The Board's total compensation for the period 2017 AGM to 2018 AGM was CHF 1,699,000, or 26% below the total maximum amount of CHF 2,300,000 approved by the Annual General Meeting, and was reduced by 30% compared to the prior term of office due to reductions in annual director's fees and the termination of any advisory service agreements provided by Board members. These agreements were terminated after the 2017 AGM to further underline their independence. For the period from January 2017 until the 2017 AGM, Board members voluntary waived any fees for advisory services.

The detailed individual compensation from 2017 AGM to 2018 AGM is disclosed hereafter:

CHF thousands Name	Director's fee		Post employment benefits[6]	Advisory services	2017 AGM–2018 AGM Total compensation	2016 AGM–2017 AGM Total compensation
	Cash	Share-based payment[5]				
Christopher M. Chambers (Chairman since 2017 EGM)	58	58	—	—	116	—
Pierin Vincenz (Chairman until 2017 EGM)	6	228	13	—	247	525
Lukas T. Ruflin (Vice-Chairman)	122	228	21	—	371	659
Jörg Behrens (Chairman RC)	57	133	12	—	202	263
Paulo Brügger (Member since 2017 EGM)[7]	30	20	—	—	50	—
Vince Chandler (Chairman NRC)	114	76	12	—	202	323
Patrick de Figueiredo (Member)	75	75	7	—	157	209
Hans Isler (Chairman AC)	19	171	11	—	201	264
Patrik Gisel (Member until 2017 EGM)[7]	60	40	—	—	100	200
Thomas R. Meier (Member since 2017 EGM)	25	25	3	—	53	—
Total	**566**	**1,054**	**79**	**—**	**1,699**	**2,443**

5 These share-based payments amounts reflect the fair value of the shares at time of attribution.
6 These charges comprise the employer's part in contributions to AHV/IV.
7 The director's fee for Patrik Gisel resp. Paulo Brügger is paid directly to Raiffeisen.

Out-of-pocket expenses and recharges of expenses (e.g. hotel, travel) are not considered in the above figures.

Shareholdings of members of the Board of Directors and the Executive Committee

Detailed information on the number of shares held by individual members of the Board and the Executive Committee as of 31 December 2017 and 31 December 2016 is disclosed below:

	Shares 31.12.2017	Granted Shares 31.12.2017[13]	Restricted Stock Units 31.12.2017[12]	Call Options 31.12.2017	Shares 31.12.2016	Granted Shares 31.12.2016[13]	Restricted Stock Units 31.12.2016[12]	Call Options 31.12.2016[18]
Board of Directors								
Christopher M. Chambers[8]	5,968	—	—	—	N/A	N/A	N/A	N/A
Lukas T. Ruflin[9, 11]	10,424	—	—	—	4,500	—	—	—
Jörg Behrens	9,350	—	—	—	5,887	—	—	—
Paulo Brügger[8]	—	—	—	—	N/A	N/A	N/A	N/A
Vince Chandler	16,223	—	—	—	13,244	—	—	—
Patrick de Figueiredo	6,069	—	—	—	3,886	—	—	—
Hans Isler	12,259	—	—	—	7,806	—	—	—
Thomas R. Meier[8]	415	—	—	—	N/A	N/A	N/A	N/A
Patrik Gisel[8]	N/A	N/A	N/A	N/A	1,800	—	—	—
Pierin Vincenz[8]	N/A	N/A	N/A	N/A	29,234	—	—	—
Total	**60,708**	**—**	**—**	**—**	**66,357**	**—**	**—**	**—**
Executive Committee								
Marco Amato	7,500	—	3,152	—	1,500	—	3,152	—
Jochen Kühn[17]	—	—	50,201	—	N/A	N/A	N/A	N/A
Manish Patnaik	3,844	706	—	—	3,138	1,412	—	—
Reto Quadroni[14]	699	—	1,420	—	N/A	N/A	N/A	N/A
David Schmid	13,640	358	1,243	—	7,660	716	1,865	—
Ingrid Silveri[14]	288	—	979	—	N/A	N/A	N/A	N/A
Justin Arbuckle[16]	N/A	N/A	N/A	N/A	—	—	—	—
Sandro Dorigo[16]	N/A	N/A	N/A	N/A	365,001	—	377	—
Steven Downey[16]	N/A	N/A	N/A	N/A	—	—	—	—
Ulrich Sauter[15]	N/A	N/A	N/A	N/A	8,024	524	2,631	—
Jan Schoch[10]	N/A	N/A	N/A	N/A	1,124,253	—	1,798	462,325
Tobias Wohlfarth[16]	N/A	N/A	N/A	N/A	1,350	—	—	—
Total	**25,971**	**1,064**	**56,995**	**—**	**1,510,926**	**2,652**	**9,823**	**462,325**

8 Patrik Gisel and Pierin Vincenz resigned from and Christopher M. Chambers, Paulo Brügger and Thomas R. Meier joined the Board of Directors as per 22 November 2017.
9 This excludes 1,273,338 shares as of 31 December 2017 (1,030,929 as of 31 December 2016) held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Ruflin.
10 As per 6 October 2017 Jan Schoch stepped down from his function as CEO and left the EC. He sold all of his 1,053,527 Leonteq shares (representing 6.61% of the outstanding Leonteq shares) by way of a private placement as follows: 946,527 shares with institutional investors; 82,000 shares with Lukas Ruflin family interests and 25,000 shares with Sandro Dorigo. Jan Schoch does no longer hold any options on Leonteq shares as of 31 December 2017 either.
11 Excluding 462,325 call options as of 31 December 2017 (462,325 call options as of 31 December 2016) held by Thabatseka LP; call options have the following conditions: strike CHF 210 (adjusted by cumulative dividends per share from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.
12 Balance of unvested restricted stock units granted for prior year variable compensation or contractually agreed with vesting periods 2018 – 2021.
13 Balance of unvested shares granted in 2015 for prior year variable compensation with vesting periods 2016 – 2018.
14 Ingrid Silveri and Reto Quadroni joined the EC as per 1 October 2017.
15 Ulrich Sauter resigned from EC as per 30 September 2017.
16 Steven Downey, Tobias Wohlfarth, Justin Arbuckle and Sandro Dorigo resigned from EC as per 9 February 2017.
17 Jochen Kühn joined the EC as per 9 January 2017.
18 Call Options have the following conditions: strike CHF 210; subscription ratio 1:1; maturity 19 October 2025; European style. These Call Options are written by Raiffeisen.

Loans and credits granted to members of the Board of Directors and the Executive Committee

The Company has not granted any loans or guarantee commitments to members of the Board of Directors or the Executive Committee.

Compensation, loans and credits granted to related persons

The Company has not paid any compensation or granted any loans or credits to related persons.

Report of the statutory auditor
to the General Meeting of Leonteq AG, Zurich

Report on the Compensation Report 2017

We have audited the Compensation Report of Leonteq AG (pages 37 to 48) for the year ended 31 December 2017.

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

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

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

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

Opinion
In our opinion, the Compensation Report of Leonteq AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Rolf Birrer Audit expert Auditor in charge	Roman Schnider Audit expert

Zurich, 7 February 2018

PricewaterhouseCoopers AG, Birchstrasse 160, P.O. Box 8050 Zurich, Switzerland
Telephone: +41 58 792 44 00, Fax: +41 58 792 44 10, www.pwc.ch

BUSINESS AND FINANCIAL REVIEW

Leonteq successfully completed the turn-around within one year. The underlying business is healthy and Leonteq recorded solid demand for structured products across all regions and business lines, despite the historical low volatility environment.

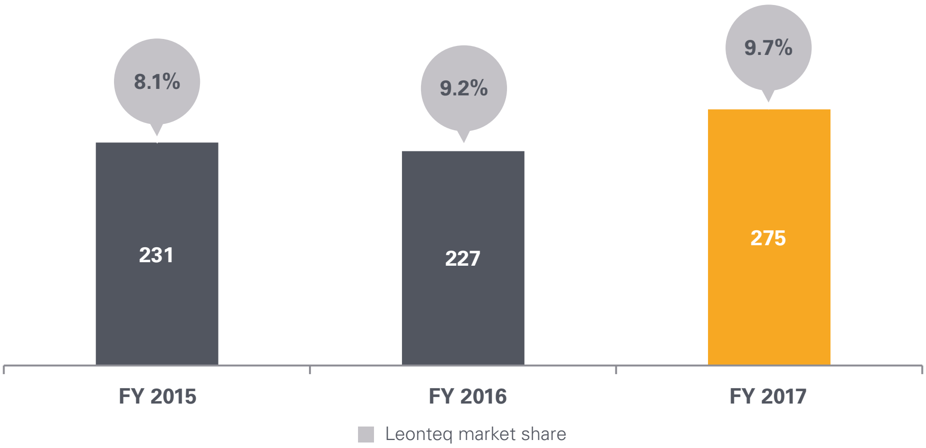
REVIEW

Market environment

Structured products

The continued low interest environment was favourable for investments in structured products. At the same time, general high client activity was supported by positive market sentiment, well performing stock markets and continued growth in gross domestic product. Geo-political concerns that dominated the first quarter of the year have abated, as the national economy continued to expand at a steady pace and global central banks either added stimulus (Bank of Japan, European Central Bank) or held steady (Federal Reserve) for most of the year.

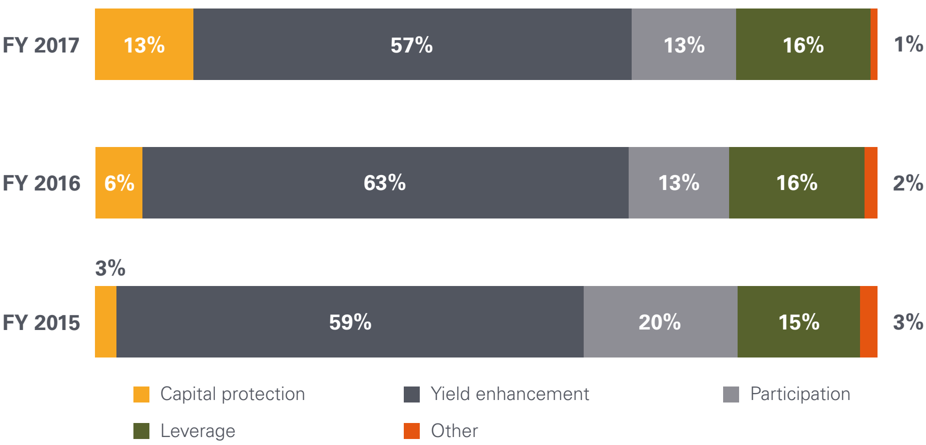
Market turnover in Switzerland (in CHF bn)



Source: SSPA, January 2018

According to the statistics published by the Swiss Structured Products Association (SSPA) taking into account both, listed and unlisted products created in or for Switzerland and sold nationally and internationally, turnover of structured products increased significantly in 2017 after a steady decline in recent years. Turnover in 2017 amounted to CHF 275 billion reflecting an increase of 21.0% compared to the previous year. More than 50% of the market turnover was generated by the most popular product category, yield enhancement, in 2017. Equity and foreign exchange were the dominant asset classes for structured products with a share of 49% and 33%, respectively.

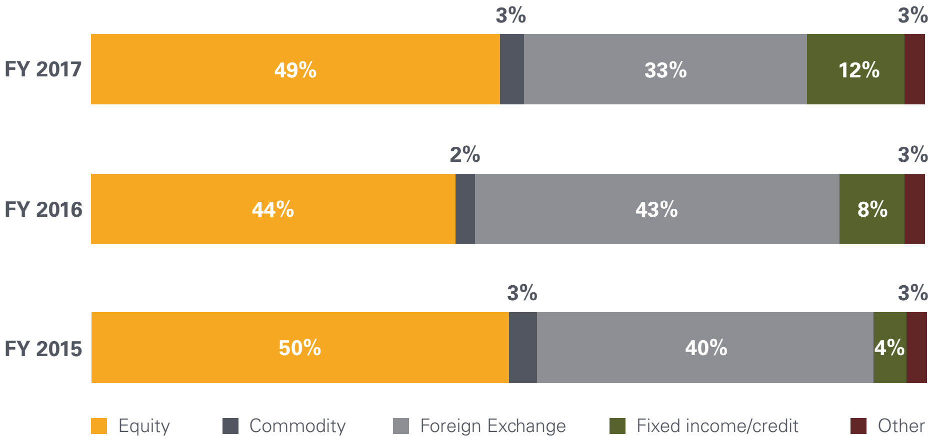
Breakdown of market turnover by product category



Source: SSPA, January 2018

Leonteq's modern platform has allowed it to benefit disproportionately from the growth in demand for structured products and to increase its market share from 8.1% to 9.7% since 2015. At Leonteq, yield enhancement products accounted for 63% of turnover, with equity underlyings the most in demand. Leonteq further automated various payoffs such as softcallables, step-down autocallables, low strike bonus certificates and mini futures to deliver a continuous high level of client service.

Breakdown of market turnover by asset classes

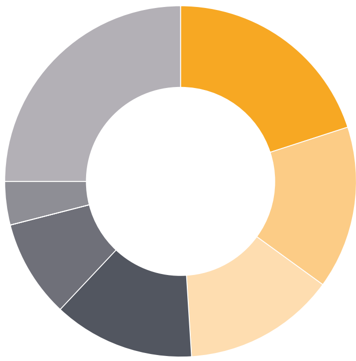


Source: SSPA, January 2018

Individual life insurance savings policies

The market for individual life insurance savings products in Switzerland decreased by 6% to CHF 6.6 billion in gross premiums in 2016. Persistently low interest rates have dead-locked the technical interest rate in Switzerland for the years to come, which restrict the maximum yield that life insurers can guarantee on their traditional general account products. This poses a decisive burden on life insurers, as even their modern savings products with guarantees are affected. Furthermore, regulatory aggravation (e.g. SST, Solvency II) have initiated a structural change of the insurance industry forcing insurance companies to replace traditional products with innovative and capital-saving unit-linked alternatives. At the same time, clients are still demanding financial guarantees and shifting their preferences towards flexible and transparent solutions. To meet these requirements, a modern and integrated platform is required. It should enable unit-linked life insurance policies with a guarantee proposition similar to traditional life savings solutions, produced in a capital and cost efficient way based on a prudent product design and modern hedging approach. Leonteq's Insurance & Wealth Planning Solutions meets these requirements enabling unit-linked life insurance products with competitive third-party financial guarantees and up-side potential managed on an innovative digital platform.

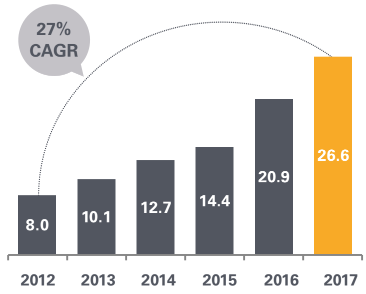
Market shares for individual life insurance savings policies in Switzerland



Swiss Life	20%
Generali	15%
Helvetia	14%
AXA	13%
Zurich	9%
Swiss Mobiliar	4%
Other	25%

Source: Swiss Insurance Association, 2016

Number of products issued (in thousands)



Group results

Leonteq successfully completed its turn-around programme in 2017. Driven by positive client sentiment and solid demand for structured products, Leonteq issued 26,575 structured products in 2017 (+27%), a record high. Backed by this favourable market environment and resolved issues with its banking platform partners, total turnover grew by 28% to CHF 26.8 billion. Total operating income increased by 4% to CHF 215.4 million in 2017 driven by an 18% growth in net fee income to CHF 247.0 million and despite negative contributions from hedging activities in the amount of CHF -13.2 million on the back of historically low volatility levels. Leonteq continued its rigorous cost management, reduced its staff base, optimised the use of office space in London and Zurich and achieved annualised savings of CHF 24.4 million, in line with its previous cost guidance. Leonteq posted a group net profit of CHF 23.1 million in 2017, representing an increase of 34%.

Income statement

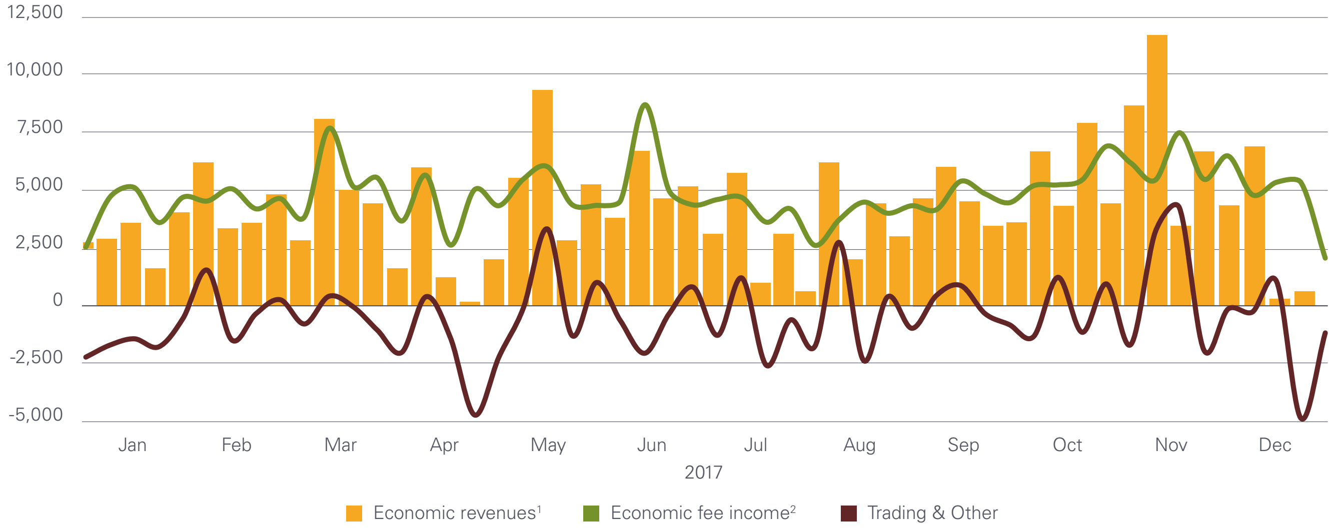
CHF million	FY 2017	FY 2016	Change y-o-y	H2 2017	H1 2017	H2 2016	Change y-o-y
Net fee income	247.0	209.0	18%	127.6	119.4	100.4	27%
Net trading income/(loss)	(25.8)	5.5	N/A	(9.4)	(16.4)	(10.1)	(7%)
Net interest income/(expense)	(8.8)	(7.5)	17%	(3.9)	(4.9)	(2.6)	50%
Other ordinary income	3.0	0.0	N/A	0.9	2.1	0.0	N/A
Total operating income	**215.4**	**207.0**	**4%**	**115.2**	**100.2**	**87.7**	**31%**
Personnel expenses	(113.6)	(111.5)	2%	(57.0)	(56.6)	(62.3)	(9%)
Other operating expenses	(50.0)	(56.6)	(12%)	(24.1)	(25.9)	(32.4)	(26%)
Depreciation	(19.2)	(16.8)	14%	(9.9)	(9.3)	(9.3)	6%
Changes to provisions	(9.3)	(4.5)	107%	(2.1)	(7.2)	(4.5)	(53%)
Total operating expenses	**(192.1)**	**(189.4)**	**1%**	**(93.1)**	**(99.0)**	**(108.5)**	**(14%)**
Profit/(loss) before taxes	**23.3**	**17.6**	**32%**	**22.1**	**1.2**	**(20.8)**	**N/A**
Taxes	(0.2)	(0.4)	(50%)	(0.2)	0.0	0.8	N/A
Group net profit/(loss)	**23.1**	**17.2**	**34%**	**21.9**	**1.2**	**(20.0)**	**N/A**

Total operating income

Leonteq recovered quickly from a subdued start to 2017 when client activity and thus fee income picked up significantly during March 2017. Volatility dropped to a record low in April 2017 and continued throughout the entire year which had a negative impact on the hedging synergies. Short term volatility spikes were recorded in May 2017 and August 2017 on the back of (geo-)political tensions which led to positive contributions from trading. Fee income production pick-up in the second half of 2017 after the usual slow summer months and continued to increase until November 2017 when Leonteq achieved the single best month of fee income generation in its history.

Despite the negative impact of the trading result, Leonteq recorded no single week with negative economic revenues throughout 2017, compared to 11 negative weeks in the full-year 2016, respectively. All in all, fee income showed much greater stability and revenue diversification improved due to a lower contribution from large ticket transactions, which fell from 9% in 2016 to 4% of total operating income in 2017.

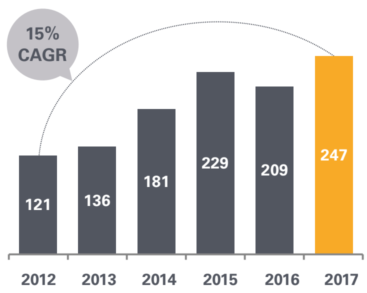
Weekly economic revenues (CHF thousands)



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

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

Fee income (in CHFm)



From a regional perspective, Leonteq recorded the strongest growth rate in net fee income in its home market Switzerland with an increase of 25% from CHF 81.7 million to CHF 102.3 million, reflecting growth in long-term savings solutions with Swiss insurance partners and higher demand in EFG International, Leonteq as well as Cornèr Bank products. At the same time, Raiffeisen Switzerland remains an important issuer for the Swiss market. Swiss clients continued to demand yield enhancement products such as barrier reverse convertibles and express certificates while participation products started to attract more attention. Europe is growing at a lower but considerable pace considering the limited offering. It posted an increase of 12%, or CHF 11.2 million in net fee income in the reporting period. Clients covered by the European offices predominantly demanded express certificates, barrier reverse convertibles and credit linked notes. In terms of exposures, credit risks such as Leonteq and EFG International were sought most. Asia generated a rise in net fee income of 21% to CHF 36.2 million reflecting mainly an increased demand in products issued by Leonteq and Raiffeisen. The Group made further progress to go onshore in Japan and registered Leonteq Securities (Japan) Preparation Limited in Tokyo.

Net fee income split by regions

CHF million	FY 2017	FY 2016	Change y-o-y	H2 2017	H1 2017	H2 2016	Change y-o-y
Switzerland	102.3	81.7	25%	52.6	49.7	39.2	34%
EMEA	108.5	97.3	12%	58.5	50.0	46.0	27%
APAC	36.2	30.0	21%	16.5	19.7	15.2	9%
Total net fee income	**247.0**	**209.0**	**18%**	**127.6**	**119.4**	**100.4**	**27%**

In the past year, demand for actively managed certificates (AMC) increased across all regions. Therefore, Leonteq undertook great efforts to improve client service level and created the AMC Gateway which allows clients to have a profound overview of their AMC exposure and performance.

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

In 2016, Leonteq benefitted from its strategic long volatility position from market shocks such as the Brexit event leading to positive hedging synergies of CHF 22.4 million. As a result, net trading income amounted to CHF 5.5 million impacted by CHF -16.9 million negative treasury carry. In 2017, however, volatility was at historically low levels which led to negative contributions from hedging activities. The negative treasury carry decreased by 25% to CHF -12.6 million in 2017 whereas hedging synergies amounted to CHF -13.2 million resulting in a net trading result of CHF -25.8 million. Nonetheless, by diligently managing the trading book, losses arising from low volatility levels could be reduced in the second half of the year 2017.

Net Interest income primarily results from interest earned on cash and cash equivalents, and interest expense relates mainly to interest paid on short-term credit and credit facility fees. Net interest result dropped to CHF -8.8 million in 2017, from CHF -7.5 million in 2016, due to increased credit facilities and secured financing costs consistent with increased business volumes.

Other ordinary income represents income charged to banking partners for services not related to fee income. Other ordinary income amounted to CHF 3.0 million due to onboarding and project related costs recharged to banking partners as well as rental income for subleases.

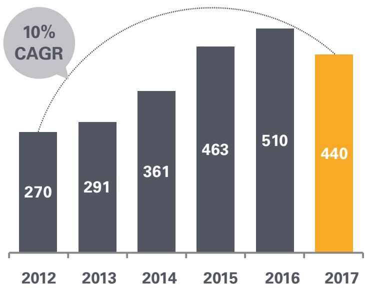
Total operating expenses

In line with the cost guidance provided at the beginning of the year 2017, total operating expenses amounted to CHF 192.1 million (including one-off costs of CHF 15.9 million). The cost base was diligently managed and rightsizing measures were implemented, which resulted in total annualised savings of CHF 24.4 million.

Personnel expenses increased by 2% to CHF 113.6 million compared to CHF 111.5 million in 2016 and include one-off costs of CHF 3.6 million in connection with the implementation of the job reduction efforts including upfront recognition of mid- and long-term compensation plans and the search for the new members of the Board of Directors. The staff base declined substantially from 510 FTEs at year-end 2016 to 440 FTEs as at year-end 2017.

In Switzerland, the staff base fell from 350 FTEs to 305 FTEs as at year-end 2017. The number of employees in EMEA and APAC went down by 14 FTEs and 11 FTEs, respectively, compared to year-end 2016.

FTE



FTEs split by regions

	31.12.2017	30.06.2017	31.12.2016	Change from YE 2016
Switzerland	305	317	350	(13%)
EMEA	70	80	84	(17%)
APAC	65	67	76	(14%)
Total FTEs	**440**	**464**	**510**	**(14%)**

The job reduction efforts affected all business units and shared services functions, with biggest reduction impacting the sales force, which was reduced by 37 FTEs to 88 FTEs at year-end 2017.

FTEs split by function

	31.12.2017	30.06.2017	31.12.2016	Change from YE 2016
Shared services	**262**	**271**	**295**	**(11%)**
whereof IT	99	101	110	(10%)
Business units	**178**	**193**	**215**	**(17%)**
whereof sales	88	99	125	(30%)
Total FTEs	**440**	**464**	**510**	**(14%)**

Other operating expenses decreased by 12% to CHF 50.0 million compared to 2016, whereof CHF 1.1 million are reported as one-off costs for professional services.

Depreciation increased by 14% to CHF 19.2 million in 2017 compared to 2016 including one-off write-down in the amount of CHF 1.9 million as a result of the optimisation of excess office space in London. Depreciation on property and equipment advanced to CHF 2.9 million for the twelve months ended 31 December 2017, compared to CHF 2.0 million for the same period in 2016. The new office premises in London and Zurich had a substantial impact on capital expenditures in 2016 and declined significantly by CHF 13.2 million to CHF 0.6 million in 2017.

Depreciation related to information technology and systems totalled CHF 14.4 million compared to CHF 12.2 million in 2016. Capital expenditures for information technology and systems totalled CHF 15.5 million in 2017, reflecting continued investments in the Company's technology platform. Leonteq attaches great importance to a state of the art IT security which was further enhanced this year by improving network access control and security operation control systems putting the company a step ahead of the rest of the industry.

Capital expenditures

CHF million	31.12.2017	31.12.2016	Change from YE 2016
Capital expenditure	0.6	13.8	(96%)
Depreciation	(2.9)	(2.0)	45%
Other value adjustments/impairments, translation adjustments & reclassifications	(1.9)	(3.1)	(39%)
Net increase/(decrease) in property and equipment	**(4.2)**	**8.7**	**N/A**
Capital expenditure	15.5	19.6	(21%)
Depreciation	(14.4)	(12.2)	18%
Other value adjustments/impairments, translation adjustments & reclassifications	0.0	(0.3)	N/A
Net increase/increase in information technology and systems	**1.1**	**7.1**	**(85%)**

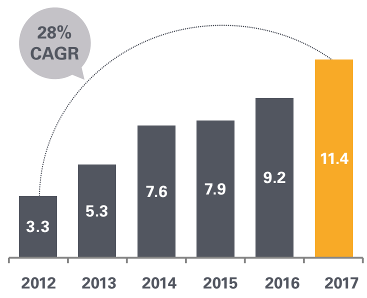
Changes to provisions went up to CHF 9.3 million in 2017 driven by CHF 5.8 million for the rightsizing efforts of the London and Zurich offices. Additional provisions of CHF 2.2 million were recognised for potential litigations and disputes in addition to CHF 1.3 million with respect to the implementation of the job reduction efforts.

Capital and balance sheet

The Group reached a record volume of CHF 11.4 billion platform assets in the reporting period. As at 31 December 2017, platform assets recognised on the balance sheet of Leonteq's platform partners amounted to CHF 8.4 billion, a raise of 24% compared to 2016. Leonteq's own issued products, recognised as other financial liabilities designated at fair value through profit or loss grew 25% from CHF 2.4 billion to CHF 3.0 billion.

Total balance sheet assets increased to CHF 6.3 billion in the year under review compared to CHF 5.6 billion to the previous year while liabilities increased by 15% to CHF 5.9 billion. The growth in assets reflects predominantly amounts of cash & receivables due to a rise in outstanding settlements with partner banks as well as higher financial assets driven by a growth in own issuances. On the liabilities side of the balance sheet, the increase is primarily driven by the rise in own issuances. The proceeds from the Group's product issuance were used for hedging activities and for investments in short to mid-term, high-quality bonds issued by core governments and supranational organisations. Considering the rating of supranational issuers as being equivalent to Aaa, all issuers had the highest or second-highest Moody's rating of Aaa and Aa1. Shareholders' equity amounted to CHF 418.4 million as of 31 December 2017.

Platform assets (in CHFbn)



Selected capital items

CHF million	31.12.2017	30.06.2017	31.12.2016	Change from YE 2016
Total assets	6,347.9	5,823.9	5,558.2	14%
Shareholders' equity	418.4	388.1	385.3	9%

Leonteq qualifies as a category 5 financial institutions pursuant to FINMA Circular 2011/2. Such category 5 financial institutions are required to maintain a total capital ratio of at least 10.5% of risk weighted assets, a Common Equity Tier 1 (CET1) ratio of at least 7%, and a Tier 1 capital ratio of at least 8.5% of risk-weighted assets. The Group and its subsidiary, Leonteq Securities AG, were both in compliance with these minimum capital requirements throughout 2017 and 2016, without exception.

Selected regulatory capital items

CHF million	31.12.2017	30.06.2017	31.12.2016	Change from YE 2016
Risk-weighted assets	2,137.6	1,918.8	1,700.2	26%
Eligible capital	419.7	389.7	386.7	9%
CET1 ratio	19.6%	20.2%	22.7%	3.1pp
Total capital ratio	19.6%	20.3%	22.7%	3.1pp

On the back of business growth, an increase in platform assets and higher market and credit risk exposure, risk weighted assets increased by 26% to CHF 2,137.6 million. The BIS total capital ratio stood at 19.6% as at 31 December 2017, compared to 22.7% as at year-end 2016.

Regulatory changes

As of January 2018, new European rules such as the Markets in Financial Instruments Directive 2014/65/EU (MiFID II), the Regulation 600/2014 (MiFIR) and the Key Information Documents for Packaged Retail and Insurance-based Investment Products Regulation 1286/2014 (PRIIPs) became applicable.

In view of the considerable technical implementation challenges, a dedicated project group was formed in the beginning of 2017 to implement the new regulatory requirements. Leonteq has successfully integrated the applicable obligations to its businesses and operations, which involved the review of its product governance processes with respect to the design, creation, issuance and the development process of structured products. The implementation further included the provision of the following information and documents to clients and intermediaries:

- MiFID II compliant product approval process, including information on target market and risk assessments
- Cost and charges disclosure documents
- Automated Key Investor Document (KID) for all standardised products at time of structuring on platform
- Regular review, recalculation and revision of PRIIPs KID published via LTQ PRIIPs KID Portal

Apart from ensuring regulatory compliance for Leonteq, the project team developed several solutions to reduce the complexity of the new regulations for clients.

Besides that, the United States Federal Government's Internal Revenue Service (IRS) has issued section 871(m) of the Internal Revenue Code, which imposes a US federal withholding tax on certain equity-linked instruments. Leonteq has facilitated identification of tax-liabilities and is fully compliant with the regulations.

Extraordinary events

In the year under review Leonteq's Board of Directors and management team initiated decisive actions, including cost saving measures, to restore profitability. To strengthen the efficiency and accountability of the management, the Board of Directors decided on 9 February 2017 to reduce the size of the Executive Committee from 11 to 6 members and to increase the independence of the Board of Directors. On 6 October 2017, the Board of Directors appointed Marco Amato as Leonteq's CEO on an ad interim basis. He succeeded founding partner Jan Schoch, who left the company and sold his shares in Leonteq at the end of October 2017. At the Extraordinary General Meeting on 22 November 2017, shareholders of Leonteq elected Christopher Chambers as the new Chairman of the Board of Directors.

Risk evaluation process

The risk assessment for Leonteq AG according to art. 961c of the Swiss Code of Obligations is performed on a regular basis and was approved most recently by the Board of Directors on 5 December 2017.

Investment Solutions

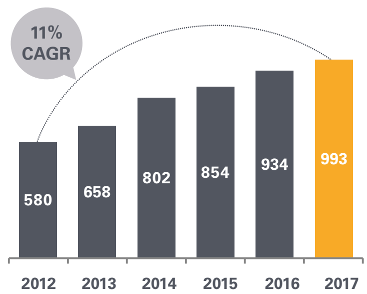
The business line Investment Solutions manufactures and distributes structured investment products with an agile, fully automated and industry leading platform. Thanks to the global network of issuance partners, the highly experienced sales force of Leonteq can not only distribute products issued on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

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

Investment Solutions encompassed around 79% of Leonteq's full-year 2017 net fee income and reflects Leonteq's core business. It posted an increase in net fee income of 13% to CHF 195.4 million in 2017 compared to 2016. This increase was primarily a result of improved client demand for structured products issued by Leonteq's platform partners and is reflected in the increase in turnover of 36% to CHF 21.7 billion in 2017 compared to CHF 15.9 billion in 2016. This was driven by both, an increase in turnover with platform partners (up 25%) to CHF 13.2 billion and in own issuances, up 60% to CHF 8.5 billion compared to CHF 10.6 billion and 5.3 billion in 2016, respectively. The Investment Solutions arm was again able to attract additional clients – in 2017, 993 clients were served by the Leonteq sales force, an increase of 6%.

Fee income margin (calculated as net fee income divided by turnover) decreased by 19 bps to 90 bps, compared to 109 bps in 2016. This was mainly driven by a reduction in margin on own issuance, down by 32 bps from 2016 resulting from the absence of large ticket transactions (impact of 16 bps compared to 2016) and an increase in deferred income (10 bps). Fee income margin on partner business decreased by 12 bps to 91 bps. Effects of fee arrangements with platform partners had a negative impact of 4 bps in 2016, while the increase in deferred income in 2016 further negatively affected the margin by 4 bps. Additionally, an increase in the competitive landscape combined with lower funding spreads for certain issuers resulted in additional margin pressure. Net trading result in the segment Investment Solutions amounted to CHF -27.0 million in 2017, significantly impacted by the record low volatility environment, particularly in the first half of 2017. This substantially weighed on total operating income which went down 1% to CHF 160.7 million compared to 2016. Pre-tax profit improved by 17% reaching CHF 33.6 million in 2017.

Number of clients



Investment Solutions

CHF million	FY 2017	FY 2016	Change y-o-y	H2 2017	H1 2017	H2 2016	Change y-o-y
Net fee income	195.4	172.8	13%	101.1	94.3	82.7	22%
Net trading income/(loss)	(27.0)	(3.3)	N/A	(9.8)	(17.2)	(18.4)	(47%)
Net interest income/(expense)	(7.7)	(7.4)	4%	(3.4)	(4.3)	(2.7)	26%
Other ordinary income	—	—	N/A	—	—	0.0	N/A
Total operating income	**160.7**	**162.1**	**(1%)**	**87.9**	**72.8**	**61.6**	**43%**
Personnel expenses	(80.0)	(79.8)	0%	(41.5)	(38.5)	(44.8)	(7%)
Other operating expenses	(33.7)	(38.7)	(13%)	(15.1)	(18.6)	(21.9)	(31%)
Depreciation	(12.5)	(12.0)	4%	(5.8)	(6.7)	(6.7)	(13%)
Changes to provisions	(0.9)	(2.9)	(69%)	(0.9)	—	(2.9)	(69%)
Total operating expenses	**(127.1)**	**(133.4)**	**(5%)**	**(63.3)**	**(63.8)**	**(76.3)**	**(17%)**
Results from operating activities	**33.6**	**28.7**	**17%**	**24.6**	**9.0**	**(14.7)**	**N/A**

The major efforts in 2017 were concentrated on improving cooperation with existing partners to resolve operational issues. Notenstein La Roche Private Bank, a subsidiary of Raiffeisen Switzerland, ceased to issue structured products under its own name in 2016, but continued to offer Raiffeisen Switzerland products to its clients. Already in the first half of 2017, Leonteq together with Raiffeisen Switzerland successfully completed the migration of all Notenstein La Roche Private Bank products to Raiffeisen Switzerland. The product and country scope have since been extended, operational bottlenecks have been eliminated and the existing issuance limit has been increased significantly. Leonteq also expanded its Swiss partnerships by onboarding Aargauische Kantonalbank and starting the pilot project with PostFinance.

In the second half of 2017, Leonteq and Standard Chartered Bank, a leading global financial institution, have started a collaboration for the issuance and distribution of structured products under the Standard Chartered Bank Notes, Certificates and Warrants Programme. As part of the collaboration, Leonteq supports Standard Chartered Bank in the distribution of structured products in Switzerland, the European Economic Area, Hong Kong and Singapore.

In order to improve efficiency, Leonteq further worked on enhancing automation of its product scope. Various products such as softcallables, step-down autocallables (which are particularly interesting for the German market), low strike bonus certificates or mini futures have been automated and additional jurisdictions have been activated.

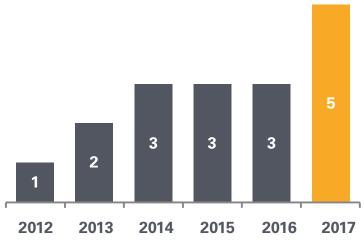
Banking Solutions

Banking Solutions allows the Group's network partners a flexible, fast, state-of-the-art and cost efficient manufacturing and distribution of structured investment products. It provides modular IT solutions to fully enable or enhance its partners' structured investment product capabilities. Depending on the level of integration and individual needs of the issuance partners, the services may include product pricing, risk management (hedging), market marking, advice on structuring, provision of digital tools, production of term sheets and additional support documents like product reports, listing, life cycle management and settlement as well as corporate centre services like risk and regulatory reporting or financial accounting.

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

Total operating income in Banking Solutions increased to CHF 31.6 million, up 39% from CHF 22.8 million in 2016, driven by an increase in net fee income of 29% to CHF 30.6 million, compared CHF 23.8 million in 2016. Turnover generated by Leonteq's platform partners went up by 2% to CHF 5.1 billion. At the same time, margin improved from 48 bps in 2016 to 60 bps in 2017 due to a larger portion of selective, profitable trades. In addition, Leonteq was able to recognise CHF 2.6 million in other ordinary income in connection with onboarding and project related costs recharged to banking partners. After posting a pre-profit of CHF 3.2 million in 2016, the Banking Solutions segment delivered a substantially higher pre-tax profit of CHF 8.8 million (up 175%) in 2017.

Number of banking partners



Banking Solutions

CHF million	FY 2017	FY 2016	Change y-o-y	H2 2017	H1 2017	H2 2016	Change y-o-y
Net fee income	30.6	23.8	29%	16.1	14.5	11.2	44%
Net trading income/(loss)	—	—	N/A	—	—	—	N/A
Net interest income/(expense)	(1.6)	(1.0)	60%	(0.8)	(0.8)	(0.4)	100%
Other ordinary income	2.6	—	N/A	0.5	2.1	—	N/A
Total operating income	**31.6**	**22.8**	**39%**	**15.8**	**15.8**	**10.8**	**46%**
Personnel expenses	(15.4)	(11.2)	38%	(6.8)	(8.6)	(6.6)	3%
Other operating expenses	(5.3)	(6.2)	(15%)	(2.5)	(2.8)	(3.8)	(34%)
Depreciation	(2.0)	(1.8)	11%	(0.9)	(1.1)	(1.0)	(10%)
Changes to provisions	(0.1)	(0.4)	(75%)	(0.1)	—	(0.4)	(75%)
Total operating expenses	**(22.8)**	**(19.6)**	**16%**	**(10.3)**	**(12.5)**	**(11.8)**	**(13%)**
Results from operating activities	**8.8**	**3.2**	**175%**	**5.5**	**3.3**	**(1.0)**	**N/A**

Leonteq announced in February 2017 the execution of a cooperation agreement in the area of structured products with Crédit Agricole CIB. Leonteq has developed a platform solution specifically for Crédit Agricole CIB to enhance their in-house capabilities to serve their clients and support the structuring and distribution of structured investment products. Crédit Agricole CIB is now using its own version of the Leonteq constructor.

In addition, Leonteq started a pilot project with PostFinance. This pilot phase allows PostFinance to evaluate the potential of structured investment products in the market. Leonteq is acting as the issuer and offers all service along the entire value chain, including the creation of termsheets, emission, distribution, hedging and settlement, as well as market making, secondary market services and life-cycle-management. PostFinance acts as the guarantor and is responsible for distributing the products into their own channel. The monthly issued product series attracted wide attention.

Furthermore, Leonteq recorded an increase in client demand, from both, public distribution and distribution into internal channels for products issued by Cornèr Bank and implemented a much more standardised set-up driven by automation.

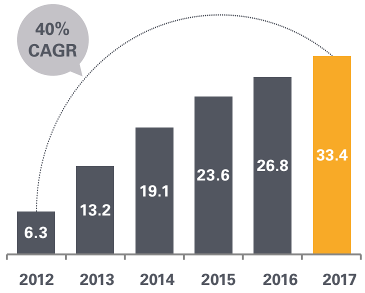
The cooperation with EFG International was further expanded to cover new business from their Lugano entity. An own EFG International labelled constructor has been developed enabling client advisors of EFG International to choose between Leonteq and EFG International options hedging when pricing a structured product.

Insurance & Wealth Planning Solutions

Insurance & Wealth Planning Solutions offers a digital platform to life insurers, enabling unit-linked retail products with financial protection. This provides a viable alternative to traditional guarantee product approaches, which are no longer economically sustainable. Partners and their end customers benefit from attractive and transparent long-term savings and draw down solutions with both, upside potential and downside protection. Partners get the advantage of high capital and cost efficiency, based on third party-guarantees, upfront hedging and scalable straight-through digital processes, covering the full policy lifecycle on individual policy level. Beyond the platform business, Leonteq provides structured solutions with downside protection, both, to life insurers for their single premium business and to insurance brokers.

Serviced net new policies increased by 110% to 6,607 new policies in 2017. This positive development was achieved by the competitive product design in the prevailing low interest rate environment, which enables insurers to combine sought-after guarantee components with the advantages of unit-linked life insurances. The products were specifically designed to benefit from the changing market environment characterised by sustained low market interest rates and a continuous drop in technical interest rates. Thus, traditional life insurance guarantee products lost their relative attractiveness compared to Leonteq-enabled unit-linked life insurance guarantee products which are directly linked to market returns. As a result, outstanding policies increased by 25% to a record 33,388 policies as at the end of 2017. Net fee income from platform business and structured solutions business increased significantly by 69% to CHF 21.0 million in 2017. Net trading income reduced to CHF 1.2 million after exceptionally high trading results of CHF 8.8 million in 2016, and total operating income increased by 3% to CHF 22.7 million in 2017. Segment expenses increased from CHF 7.0 million to CHF 10.8 million due to an increase in personnel and other operating expenses, mainly driven by additional cost allocations for IT development and business management. Pre-tax profit declined by 21% to CHF 11.9 million in 2017, compared to CHF 15.1 million in 2016 and cost-income ratio was at a competitive level of 48%.

Number of outstanding insurance policies (in thousand)



Insurance & Wealth Planning Solutions

CHF million	FY 2017	FY 2016	Change y-o-y	H2 2017	H1 2017	H2 2016	Change y-o-y
Net fee income	21.0	12.4	69%	10.4	10.6	6.5	60%
Net trading income/(loss)	1.2	8.8	(86%)	0.4	0.8	8.3	(95%)
Net interest income/(expense)	0.5	0.9	(44%)	0.3	0.2	0.5	(40%)
Other ordinary income	—	—	N/A	—	—	—	N/A
Total operating income	**22.7**	**22.1**	**3%**	**11.1**	**11.6**	**15.3**	**(27%)**
Personnel expenses	(7.3)	(4.3)	70%	(4.2)	(3.1)	(2.1)	100%
Other operating expenses	(2.3)	(1.6)	44%	(1.3)	(1.0)	(0.9)	44%
Depreciation	(1.2)	(1.1)	9%	(0.7)	(0.5)	(0.6)	17%
Changes to provisions	—	—	N/A	—	—	—	N/A
Total operating expenses	**(10.8)**	**(7.0)**	**54%**	**(6.2)**	**(4.6)**	**(3.6)**	**72%**
Results from operating activities	**11.9**	**15.1**	**(21%)**	**4.9**	**7.0**	**11.7**	**(58%)**

In Switzerland, Helvetia in collaboration with Leonteq and Raiffeisen continued to successfully offer unique unit-linked guarantee products with a participation component representing the first product on the market incorporating a third party term deposit. The trend towards modern capital efficient products in the individual life insurance business was accelerated by the anticipated competitive advantage of these products versus traditional guarantees, as the latter imposes high capital requirements and are subject to technical interest rates. Effective as of 1 January 2017, the technical interest rate for regular premium guarantees was reduced from 75 bps to 25 bps.

In the second half of 2017, Leonteq announced its cooperation with Swiss Mobiliar and Bank Cler. Leonteq supports Swiss Mobiliar with its technology platform in the design and implementation of modern life insurance products, combining guarantee-based components and innovative investment elements. Through this cooperation, Swiss Mobiliar is able to offer fixed-term income drawdown plans to its retail clients in Switzerland. The product offers a secure income, with the guarantee provided either by Swiss Mobiliar itself or by Bank Cler, depending on the client’s choice.

CONSOLIDATED FINANCIAL STATEMENTS

Leonteq posted a net profit of CHF 23.1 million despite one-off costs of CHF 15.9 million. Total operating income increased 4% driven by a strong growth in net fee income, which was partially offset by net trading result.

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Consolidated Financial Statements

Notes to the Consolidated Financial Statements

CONTENT

Statutory Financial Statements

Notes to the Statutory Financial Statements

Leonteq AG
Consolidated income statement for the years ended 31 December 2017 and 2016

CHF thousands	Note	2017	2016
Fee income from securities trading and investment activities		250,867	213,413
Fee expense		(3,850)	(4,421)
Net fee income	10	**247,017**	**208,992**
Result from trading activities and the fair value option	11	**(25,776)**	**5,462**
Interest and discount income		1,623	2,026
Interest expense		(10,546)	(9,798)
Changes in value adjustments for default risks and losses from interest operations		125	311
Net result from interest operations	9	**(8,798)**	**(7,461)**
Other ordinary income	12	2,971	44
Total operating income		**215,414**	**207,037**
Personnel expenses	13	(113,661)	(111,608)
Other operating expenses	14	(50,042)	(56,625)
Depreciation of long-lived assets	23	(19,158)	(16,772)
Changes to provisions and other value adjustments, and losses	31	(9,260)	(4,474)
Total operating expenses		**(192,121)**	**(189,479)**
Result from operating activities		**23,293**	**17,558**
Taxes	15	(222)	(361)
Group net profit		**23,071**	**17,197**
of which allocated to shareholders of Leonteq AG		23,071	17,197
Share information			
Basic earnings per share (CHF)	37	1.47	1.09
Diluted earnings per share (CHF)	37	1.45	1.08

Leonteq AG
Consolidated statement of other comprehensive income for the years ended 31 December 2017 and 2016

CHF thousands	Note	2017	2016
Group net profit		**23,071**	**17,197**
Other comprehensive (loss)/income that will not be reclassified to the income statement			
Remeasurement of the defined benefit plan	33	10,181	396
Change in own credit		—	—
Income tax on items that will not be reclassified	33	(2,153)	(84)
Total other comprehensive (loss)/income that will not be reclassified to the income statement		**8,028**	**312**
Other comprehensive (loss)/income that may be reclassified to the income statement			
Currency translation adjustments	33	460	(176)
Hedge accounting reserves	33	130	(130)
Total other comprehensive (loss)/income that may be reclassified to the income statement		**590**	**(306)**
Total other comprehensive (loss)/income	**33**	**8,618**	**6**
Total comprehensive income		**31,689**	**17,203**
of which allocated to shareholders of Leonteq AG		31,689	17,203

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

Leonteq AG

Consolidated statement of financial position as of 31 December 2017 and 2016

CHF thousands	Note	31.12.2017	31.12.2016
Assets			
Cash in hand		—	—
Amounts due from banks	16	900,931	524,276
Amounts due from securities financing transactions	18	13,533	41,481
Amounts due from customers	17	108,048	37,860
Trading financial assets	19	2,344,410	2,238,601
Trading inventories	20	88,962	—
Positive replacement values of derivative financial instruments	21	1,629,717	1,694,772
Other financial assets designated at fair value through profit or loss	22	1,141,602	908,374
Accrued income and prepaid expenses		18,005	16,730
Current tax assets	15	1,003	964
Deferred tax assets	15	2,362	3,719
Long-lived assets	23	52,451	55,495
Other assets	24	46,921	35,933
Total assets		**6,347,945**	**5,558,205**
Total subordinated claims		6,666	803
of which subject to mandatory conversion and/or debt waiver		—	—
Liabilities			
Amounts due to banks	25	534,460	439,754
Liabilities from securities financing transactions	18	377,397	324,127
Amounts due to customers	26	168,109	302,282
Trading financial liabilities	27	101,246	90,993
Negative replacement values of derivative financial instruments	21	1,563,016	1,464,126
Other financial liabilities designated at fair value through profit or loss	28	3,040,531	2,422,805
Accrued expenses and deferred income		115,854	96,765
Current tax liabilities	15	1,167	680
Deferred tax liabilities	15	234	264
Other liabilities	29	17,345	23,017
Expected credit loss provision	30	1,310	1,435
Provisions	31	8,890	6,674
Total liabilities		**5,929,559**	**5,172,922**
Equity			
Share capital	32	15,945	15,945
Share premium		172,532	172,532
Retained earnings		224,787	205,121
Accumulated other comprehensive income/(loss)	33	(2,614)	(11,232)
Own shares	32	(15,335)	(14,280)
Group net profit		23,071	17,197
Total shareholders' equity		**418,386**	**385,283**
Total liabilities and equity		**6,347,945**	**5,558,205**
Total subordinated liabilities		—	—
of which subject to mandatory conversion and/or debt waiver		—	—

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

Leonteq AG
Consolidated statement of changes in equity for the years ended 31 December 2017 and 2016

CHF thousands	Note	Share capital	Share premium	Retained earnings reserves
Balance as of 31 December 2015		**15,945**	**200,172**	**146,571**
Impact of change in accounting principle		—	—	(1,746)
Balance as of 1 January 2016		**15,945**	**200,172**	**144,825**
Reallocation of retained earnings		—	—	68,635
Employee participation schemes	13	—	—	5,368
Capital increase / decrease	32	—	—	—
Acquisition of own shares	32	—	—	—
Dividends and other distributions [1, 2]	32	—	(27,640)	—
Other allocations to / (transfers from) other comprehensive income	33	—	—	(13,707)
Group net profit / (loss)		—	—	—
Balance as of 31 December 2016		**15,945**	**172,532**	**205,121**

CHF thousands	Note	Share capital	Share premium	Retained earnings reserves
Balance as of 31 December 2016		**15,945**	**172,532**	**205,121**
Reallocation of retained earnings		—	—	17,197
Employee participation schemes	13	—	—	2,469
Capital increase / decrease	32	—	—	—
Acquisition of own shares	32	—	—	—
Dividends and other distributions [1, 2]	32	—	—	—
Other allocations to / (transfers from) other comprehensive income	33	—	—	—
Group net profit / (loss)		—	—	—
Balance as of 31 December 2017		**15,945**	**172,532**	**224,787**

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

OCI				Own shares	Group net profit / (loss)	Total shareholders' equity
Defined benefit plans	Change in own credit	Hedge accounting reserve	Currency translation adjustments			
(10,861)	**—**	**—**	**(377)**	**(4,025)**	**68,635**	**416,060**
—	—	—	—	—	—	(1,746)
(10,861)	**—**	**—**	**(377)**	**(4,025)**	**68,635**	**414,314**
—	(13,707)	—	—	—	(68,635)	(13,707)
—	—	—	—	—	—	5,368
—	—	—	—	—	—	—
—	—	—	—	(10,255)	—	(10,255)
—	—	—	—	—	—	(27,640)
312	13,707	(130)	(176)	—	—	6
—	—	—	—	—	17,197	17,197
(10,549)	**—**	**(130)**	**(553)**	**(14,280)**	**17,197**	**385,283**

OCI				Own shares	Group net profit / (loss)	Total shareholders' equity
Defined benefit plans	Change in own credit	Hedge accounting reserve	Currency translation adjustments			
(10,549)	**—**	**(130)**	**(553)**	**(14,280)**	**17,197**	**385,283**
—	—	—	—	—	(17,197)	**—**
—	—	—	—	—	—	**2,469**
—	—	—	—	—	—	**—**
—	—	—	—	(1,055)	—	**(1,055)**
—	—	—	—	—	—	**—**
8,028	—	130	460	—	—	**8,618**
—	—	—	—	—	23,071	**23,071**
(2,521)	**—**	**—**	**(93)**	**(15,335)**	**23,071**	**418,386**

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

Leonteq AG
Consolidated statement of cash flows for the years ended 31 December 2017 and 2016

CHF thousands	2017	2016
Cash flow from operating activities		
Group net profit	23,071	17,197
Reconciliation to net cash flows from operating activities		
Non-cash positions in Group net profit		
Depreciation	17,229	16,772
Impairment of long lived assets	1,929	905
Deferred tax expense / (benefit)	1,327	(160)
Change in expected credit loss provision	(125)	1,435
Share-based benefit programs	2,469	5,368
Change of general provision	9,259	4,474
Other non-cash income and expenses	8,644	(1,564)
Net (increase)/decrease in assets related to operating activities		
Amounts due from banks	(241,655)	36,244
Amounts due from securities financing transactions	27,948	15,143
Amounts due from customers	(70,188)	41,203
Trading financial assets	(105,809)	212,143
Trading inventories	(88,962)	—
Positive replacement values of derivative financial instruments	65,055	202,124
Other financial assets designated at fair value through profit or loss	(233,228)	451,744
Accrued income and prepaid expenses	(1,275)	2,934
Other assets	(10,988)	(8,461)
Net increase/(decrease) in liabilities related to operating activities		
Amounts due to banks	128,209	9,037
Liabilities from securities financing transactions	(134,173)	17,262
Amounts due to customers	53,270	(192,187)
Trading financial liabilities	10,253	(37,457)
Negative replacement values of derivative financial instruments	98,890	(128,763)
Other financial liabilities designated at fair value through profit or loss	617,726	(782,378)
Accrued expenses and deferred income	19,089	(4,172)
Other liabilities	(5,672)	1,086
Utilisation of general provision	(7,329)	—
Current taxes, non-cash adjustment	848	294
Current taxes paid	(400)	1,540
Cash flow from operating activities	**185,413**	**(118,237)**
Cash flow from investing activities		
Purchases of long-lived assets	(16,108)	(33,397)
Proceeds from long-lived assets	30	—
Cash flow from investing activities	**(16,078)**	**(33,397)**
Cash flow from financing activities		
Distribution of capital reserves	(0)	(27,640)
Purchases of own shares	(5,166)	(11,591)
Transfer out of own shares	4,111	1,336
Cash flow from financing activities	**(1,055)**	**(37,895)**
Exchange rate differences	224	(176)

CHF thousands	2017	2016
Net (decrease) / increase in cash and cash equivalents	**168,503**	**(189,705)**
Cash and cash equivalents, beginning of the year	85,477	275,182
Cash and cash equivalents at the balance sheet date	**253,980**	**85,477**
Cash and cash equivalents		
Due from banks on demand[3]	356,094	221,094
Due to banks on demand	(102,114)	(135,617)
Net cash and cash equivalents at the balance sheet date	**253,980**	**85,477**
Further information:		
Dividends received	54,378	62,209
Interest received	2,142	2,026
Interest paid	10,860	9,886

Fund of cash

CHF thousands	Note	2017	2016
Due from banks on demand[3]		356,094	221,094
Cash overdrafts		(102,114)	(135,617)
Total fund of cash		**253,980**	**85,477**

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

The notes on pages 76 to 143 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

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

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

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

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

These consolidated financial statements were approved for issue by the Board of Directors on 5 February 2018.

2 Basis of presentation

The Group prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and they are prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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

3 Critical accounting estimates and judgments in applying accounting policies

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

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

The most relevant areas of judgment for the Group include the application of the Group's assumptions with respect to the revenue recognition as well as the deferral period applied to fee income (Note 4), fair value of financial instruments and trading inventory especially level 2 and 3 including own credit (Note 8), depreciation period and testing for impairments of long-lived assets (Note 23), provisions and expected credit loss provisions (Notes 30 and 31), share-based payments (Note 13) and retirement benefit obligations (Note 34).

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

4 Changes to critical accounting estimates and changes to presentation

Deferral period applied to fee income

Revenues from primary market transactions are attributable to distribution and production & platform services. Fee income for distribution services is recognised immediately whereas fee income for production & platform services is recognised over the period deemed earned. Such estimated deferral period is regularly reassessed to reflect market developments and changes in the product mix. An observed increase of the average duration of products lead Mangement to extend the deferral period from five to six months effective 1 January 2017 under IAS 18. This change in the average duration of products led to a reduction in fee income of CHF 2.3 million for the period ending 31 December 2017.

Observability of significant input parameters for the valuation of derivative financial instruments

The fair value of level 3 financial instruments is based on a valuation method which uses at least one significant input parameter which cannot be observed directly or indirectly in the market. These estimated input parameters are reviewed during the monthly independent price verification process. During the first half of 2017, Management judged that the volatility of certain long term interest rates did no longer meet the criteria to qualify for observability of a significant estimated input parameter. This lead to a reclassification of certain financial instruments out of level 2 into level 3. The reclassification has no impact on the fair value of the financial instruments and therefore has no impact on the consolidated statement of financial position or the consolidated income statement. For further details we refer to Note 8.

5 Principal accounting policies

5.1 Consolidation principles

Subsidiaries

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

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

5.2 General principles

Foreign currency translation

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

The Group uses the following main FX rates:

	Spot rate 2017	Spot rate 2016	Average rate 2017	Average rate 2016
EUR / CHF	1.1692	1.0720	1.1117	1.0902
USD / CHF	0.9744	1.0184	0.9845	0.9852
GBP / CHF	1.3155	1.2551	1.2683	1.3371
JPY / CHF	0.0086	0.0087	0.0088	0.0092
HKD / CHF	0.1247	0.1313	0.1264	0.1269
SGD / CHF	0.7285	0.7032	0.7122	0.7153

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

exchange differences are recognised in the statement of comprehensive income. Non-monetary assets and liabilities not measured at fair value through profit or loss are translated into the functional currency at the historical exchange rate.
Assets and liabilities of the Group companies that are denominated in a foreign currency are translated into Swiss francs at the closing exchange rates. Average exchange rates for the period under review are used for items in the statement of comprehensive income, statement of other comprehensive income and statement of cash flows. Exchange differences arising from the use of closing exchange rates and average exchange rates are recognised as currency translation adjustments in other comprehensive income.

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

Fee income
Sales fee income is earned on the issuance of new partner and Leonteq products as well as transactions with existing partner and Leonteq products distributed and/or performed by Leonteq Sales. Sales fee income on initial margin earned on the issuance of new products is allocated to distribution services and production and platform services (i.e. development, structuring, hedging and settlement). Sales fee income for distribution services is recognised immediately whereas fee income for production and platform services is recognised over the period deemed earned, with the current estimate being six months. Sales fee income related to services (i.e. market making and distribution) rendered during a transaction with an existing product is recognised immediately.

Platform partners fee income relates to income earned when the Group provides specific services to its platform partners. Services provided to platform partners include services provided within the Group's structured products (i.e. product design & launch; issuance, settlement & order management; risk management; life-cycle management; product documentation & reporting; risk, regulatory & financial reporting and other services) and Insurance & Wealth Planning Solutions business (i.e. design and management of structured certificates; variable annuity products as well as the respective hedge strategy). For the structured products business, the fee income is deferred and recognised analogous to the sales fee income. For the Insurance & Wealth Planning Solutions business, the fee income for services rendered is generally recorded over the duration of the services provided and/or fulfilled on a pro rata basis.

The Group presents the fee income net of any costs that are directly attributable to the issuance of partner and Leonteq products.

The deferred fee income is reflected in "accrued expenses and deferred income".

5.3 Financial instruments

Initial recognition and derecognition
The Group uses trade date accounting to record financial transactions. The Group recognises a financial asset or financial liability at the transaction date (i.e. trade date) at the fair value of the consideration given or received. Costs that are directly attributable to the transaction are recognised in "result from trading activities and the fair value option". At the date the Group enters into a sales contract for financial assets, the relevant financial instrument is derecognised from the statement of financial position.

Determination of fair value and recognition of "day-1 profit"
The transaction price represents the best indication for the fair value of financial instruments unless the fair value for this instrument can be better determined by comparison with other observable current market transaction involving the same instrument (level 1 instrument) or is based on a valuation method using observable market data (level 2 instrument). For level 1 or 2 instruments, any difference between the fair value and a transaction price is recognised as day-1 profit "Result from trading activities and the fair value option". For level 3 instruments, the day-1 profit is deferred.

Please refer to Note 8 "Fair Values of Financial Instruments and Trading Inventories" for information on the determination of the fair value of financial instruments and trading inventories, the fair value hierarchy, the valuation methods and day-1 profits.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, receivables due from banks on demand (including clearing credit balances at recognised clearing centres and clearing banks). Bank overdrafts, if applicable, are shown within amounts due to banks. The cash and cash equivalents are used as fund cash in the cash flow statement.

Amounts due from banks
Amounts due from banks include receivables from banks on demand (including clearing debit balances with regulated clearing institutions), term deposits and settlement receivables. Amounts due from banks are recognised initially at fair value and subsequently at amortised cost, less provision for impairment.

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

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

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

Financial assets and financial liabilities
Financial assets are allocated based on type, instrument test and business model test into the following categories: Fair value through OCI, fair value through profit or loss and amortised cost. Financial liabilities are allocated based on type and designation to the fair value option into the following categories: 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 change 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 presented in the lines "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 statement of comprehensive income is analogous to the treatment of the trading financial assets or liabilities. The Group's issued products meet these criteria. The issued products contain hybrid financial instruments, certificates (including actively managed certificates) and mini-futures. The hybrid financial instruments are composed of debt components and embedded derivatives. The certificates could be composed of an underlying instrument (or a basket of underlying instruments) combined with derivatives. Alternatively, the pay-off of a certificate could be achieved by the combination of a debt host and an embedded derivative (similar to a hybrid financial instrument). The Group has designated all its issued products as financial liabilities designated at fair value through profit or loss.

Under IFRS 9, changes in the fair value related to own credit risk for financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income (OCI). Subsequently, the OCI changes in own credit risk are transferred within equity into 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 recorded in PnL.

In addition to the products issued, the Group applies the fair value option to selected receivables from customers and 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 the offsetting liabilities, the issued products as well as issued derivative instruments that are measured at fair value or designated at fair value through profit or loss.

Securities lending and borrowing

The Group generally enters into securities lending and securities borrowing transactions on a collateralised basis. In such transactions, the Group typically lends or borrows securities in exchange for securities or cash collateral. Additionally, the Group's lending and borrowing activities are done in exchange for a fee. The majority of securities lending and borrowing agreements involve shares, funds and bonds. The transactions are conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to the Group's normal credit risk control processes. The Group monitors the market value of the securities received or delivered on a daily basis and requests or provides additional collateral or returns, or recalls surplus collateral in accordance with the underlying agreements.

The securities that have been transferred, whether in a lending/borrowing transaction or as collateral, are not recognised on or derecognised from the statement of financial position unless the risks and rewards of ownership are also transferred. In such transactions where the Group transfers owned securities and where the borrower is granted the right to sell or repledge them, the securities are presented as "trading financial assets" or "other financial assets designated at fair value through profit or loss" of which pledged as collateral, see Note 18. 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" Cash collateral delivered is derecognised with a corresponding receivable reflecting the right to receive it back. The cash collateral delivered is disclosed in the line item "Amounts due from securities refinancing transactions". Additionally, the sale of securities received in a lending or borrowing transaction triggers the recognition of a trading financial liability (short sale), see Note 18.

Consideration exchanged in financing transactions (i.e. interest received or paid) is recognised on an accrual basis and recorded as interest income or interest expense.

Repurchase and reverse repurchase agreements

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

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

In repurchase agreements where the Group transfers owned securities and where the recipient is granted the right to resell or repledge them, the securities are presented in the statement of financial position "trading financial assets" or "other financial assets designated at fair value through profit or loss", of which pledged as collateral. Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if the Group has the right to resell or repledge them, with securities that the Group has actually resold or repledged disclosed if applicable, see Note 18. Additionally, the sale of securities received in reverse repurchase transactions triggers the recognition of a trading financial liability (short sale), see Note 18.

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

Derivative financial instruments

The replacement values of all derivative instruments are reflected at the fair value on the statement of financial position and are reported as positive replacement values or negative replacement values. As the Group enters into derivatives 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 the embedded derivatives are presented with the host debt as financial liabilities designated at fair value. Gains and losses from financial liabilities are reported in the statement of comprehensive income as “result from trading activities and the fair value option”.

In certain circumstances, the Group uses derivative financial instruments to hedge risks associated with foreign exchange movements. The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking the hedging transactions. At the hedge inception and on an ongoing basis, the Group documents the hedge effectiveness. For the hedge of fixed foreign currency denominated costs, the associated derivatives may be designated as cash flow hedges. Effective unrealised gains or losses on these instruments are recognised within the hedge accounting reserve in other comprehensive income. The Group transfers the hedge accounting reserves into the statement of comprehensive income, when the hedged cash flows occur or when hedge accounting is terminated. The Group currently does not apply hedge accounting.

Impairment of financial assets
For all debt financial assets measured at amortised cost and/or measured at fair value through OCI, the Group applies the expected credit loss methodology:

- Stage 1, performing assets: At the initial recognition, for all assets the 12-months expected credit loss is recognised.
- Stage 2, under-performing assets: If the credit risk has increased significantly since initial recognition, the 12 months expected credit loss is increased to the life-time expected credit loss. In case of significant decrease of credit risk the life-time expected credit loss is reduced to 12 months expected credit loss and the assets re-classed 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 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 months expected credit loss as well as life time expected credit loss is recognised in “expected credit loss provision”. The additional impairment is directly deducted from the carrying value of the asset. The Group calculates the expected loss allowance on a portfolio basis.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5.4 Other basic principles

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

Own shares
The Leonteq AG shares held by the Group are deducted from shareholder’s equity as “own shares” in the statement of equity at average cost. The Group does not record changes in fair value of own shares. A profit or loss arising on disposal of own shares is recognised through equity. The Group purchases its own shares to hedge its employee share-based benefit/restricted stock unit (RSU) programs.

Long-term incentive plans

The Group implemented long-term incentive plans whereby employees were communicated a potential award to be earned and paid in cash over a three-year period in three equal instalments. The communication of any such award is made prior to the first earnings period (year) and the first payment is expected only in the following year. The award is subject to the condition of employment at the date of payment of the variable compensation. Any outstanding award is subject to the condition that neither party has given notice to terminate the employment relationship before or at the date of payment of the variable compensation.

Compensation expenses under the plan are recognised using the bonus plan's benefit formula, with a third of the expense recognised in each year earned using a straight-line attribution model.

Since 2014, deferred compensation awards from the long-term incentive plan will be partially paid in cash and partially settled in shares, both over the period deemed earned.

Employee share-based benefit/restricted stock unit (RSU) programs

The fair value of the expected employee services rendered in exchange for Leonteq AG shares is recognised as an expense over the vesting period for shares or RSU granted under these plans and the period in which the shares are deemed earned.

The total amount to be expensed over the vesting period is determined by the fair value of the Leonteq shares at the grant date. The number of required shares or RSU depends on the fair value of Leonteq AG shares at the grant date. An entitled employee receives the shares or RSU over a vesting period in equal tranches (i.e. stage vesting) or all shares or RSU at the end of the vesting period (i.e. cliff vesting). The expense recognised during each period is the amount of the fair value of shares that are expected to fully vest, plus the impact of any revision to the estimates. The expense is recognised in the statement of comprehensive income with a corresponding entry to equity over the remaining vesting period.

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. The balance is reviewed periodically for impairment, with any impairment charge being recognised in the statement of comprehensive income.

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.

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

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

- furniture and equipment: 5 to 10 years
- leasehold improvements: 5 to 10 years
- internally developed software: 3 to 5 years
- purchased IT software: 3 to 5 years
- IT equipment: 3 to 5 years

Impairment of non-financial assets

For all non-financial assets not measured at fair value, the Group assesses at the end of each reporting period whether there is objective evidence that a non-financial asset or a group of non-financial assets is impaired. A non-financial asset or a group of non-financial assets are 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 the estimated future cash flows of the non-financial asset or group of non-financial assets that can be reliable estimated.

Leasing

In the case of operating leasing, the Group does not recognise the leased assets on its balance sheet since the related ownership rights and obligations remain with the lessor. The expenses resulting from operating leasing are recorded in the position "other operating expenses". The Group does not have any significant finance leasing agreements.

Income taxes
Current income taxes are calculated on the basis of the applicable tax laws in individual countries and recognised as an expense in the period in which the related profits are made. Assets or liabilities related to current income taxes are reported in the statement of financial position as applicable.

Tax effects arising from temporary differences between the carrying amounts of assets and liabilities in the Group's statement of financial position and their corresponding tax values are recognised, respectively recorded, as deferred tax assets and deferred tax liabilities. Deferred tax assets arising from temporary differences and from losses carry-forward 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 statement of comprehensive income.

Pension plans
The Group operates a defined benefit plan and defined contribution plans.

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

The Company's obligations for its Swiss pension scheme are to pay defined contributions. However, in accordance with the Swiss law "LPP/BVG", 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 the 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 which 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 statement of comprehensive income.

Provisions
The Group recognises a provision, if as a result of a past event, the Group has a current liability at the balance sheet date that will probably lead to an outflow of funds, at the level of which can be reliably estimated. The recognition and release of provisions are recorded in the 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 there is, as a result of a past event, a possible liability as of the balance sheet closing date whose existence depends on future developments that are not fully under the Group's control.

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 2017:

- IAS 12, Clarification to the recognition of deferred tax assets for unrealised losses (effective, 1 January 2017)
- IAS 7, Disclosure Initiative: Disclosure of a net debt reconciliation (effective, 1 January 2017)
- Annual Improvements to IFRSs 2014 – 2016 cycle (effective, 1 January 2017)

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

New standards and interpretations not yet adopted
Various other new and revised standards and interpretations must be applied with effect from 1 January 2018 or a later date:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 – effective, 1 January 2018)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4 – effective, 1 January 2018)
- Sale or Contribution of Assets between Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28 – deferred indefinitely)
- IFRS 15, Revenue from Contracts with Customers (effective, 1 January 2018)
- Revenue from Contracts with Customers (Clarification to IFRS 15 – effective, 1 January 2018)
- IFRS 16, Leases (effective, 1 January 2019)
- IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective, 1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective, 1 January 2019)
- Annual Improvements to IFRSs 2014 – 2016 cycle (effective, 1 January 2018)

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

IFRS 15, Revenue from Contract with Customers
IFRS 15 was issued in May 2014 by the IASB and establishes a single, comprehensive framework for revenue recognition. The framework of IFRS 15 must be applied consistently across transactions, industries and capital markets. The Standard will improve comparability in the revenue section of the financial statements of companies globally. The recognition of revenues from contracts with customers is based on a five step approach:

1. Identify the contract with the customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to separate performance obligations
5. Recognise revenue when a performance obligation is satisfied

The Group will adopt the new standard on its mandatory effective date of 1 January 2018 by applying the modified retrospective adoption method which allows accounting for the difference between the current and new framework through equity for prior periods. With the implementation of IFRS 15, the Group will change its revenue recognition model for sales fees earned in the Investment and Banking Solutions divisions. The new model aligns the extent and time of revenue recognition for the issuance of new products as well as transactions with existing products in line with the requirements of IFRS 15, specifically the allocation of the transaction price to the individual performance obligations and the time when these performance obligations are satisfied. The new revenue recognition framework is expected to result in an increase in deferred income of approximately CHF 21 million which will be recognised over a 12 months period going forward and consequently, leads to a decrease in the 1 January 2018 opening balance of retained earnings. No material impact is expected in the consolidated income statement if revenues remain at the level of the prior year period. For further information regarding the current fee recognition framework, reference is made to Note 5.2.

IFRS 16, Leases

In January 2016, the IASB issued the new standard on lease accounting. Under IFRS 16 lessees no longer distinguish between a finance lease (on balance sheet) and an operating lease (off balance sheet). Instead, for virtually all lease contracts the lessee recognises a lease liability reflecting future lease payments and a right-of-use asset. The Group is currently assessing the impact of the new requirements on the Group's financial statements and expects a substantial gross up of the consolidated statement of financial positions but no material impact on the net result reported in the consolidated income statement.

The mandatory effective date is 1 January 2019.

7 Financial risks and financial risk management

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

7.1 Risk management organisation and governance

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

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

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

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

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

The Risk Control department is responsible for ensuring that risk exposure remains within the appetite established by the Board of Directors. The main responsibilities of Risk Control include:

- risk identification to ensure that all material risks are identified and quantified;
- definition of appropriate risk measures to monitor all material risks;
- monitoring and controlling of risk exposures against all limits;
- independent oversight over Treasury activities in managing structural risks and liquidity risk;
- escalation of limit breaches to the authority holder;
- independent profit and loss verification of all trading activities on a daily basis;
- independent assessment of pricing models;
- independent price testing of all financial positions.

The choice of risk control measures and controls is driven by the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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

7.2 Guiding principles

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

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

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

7.3 Risk categories and risk framework

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

7.3.1 Reputational Risk

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

The implemented risk framework aims to identify, quantify and reduce primary and consequential risks that could have an adverse impact on the Company's reputation.

Leonteq believes that its reputational risk is further mitigated through strict compliance controls and a culture of ownership and responsibility across all levels of the Company, which is also supported by the shareholder structure and by a stringent and transparent communication policy towards all stakeholders.

7.3.2 Operational risk

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

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

Leonteq's Management considers operational risk as one of its major risks and therefore a broad Operational Risk Framework to manage and control operational risk has been established. In the framework, any operational risk is owned by Management as the first line of defence and Operational Risk Control independently monitors the effectiveness of operational risk management and oversees operational risk taking activities. The Board of Directors establishes the risk appetite for significant sources of operational risk. Management performs periodic self-assessments of the operational risk profile within their areas of responsibility and unmitigated risks together with mitigation actions are logged in a firm-wide inventory. Operational Risk Control independently assesses these self-assessments and collates the firm's overall operational risk profile to determine whether it is within the risk appetite established by the Board of Directors. Operational events are analysed to determine the root causes and adequate and sustainable mitigation actions are defined.

7.3.3 Market risk

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

- equity risk, i.e. the risk of adverse movements in share prices and related derivatives;
- interest rate risk, i.e. the risk of adverse movements in the yield curve and corresponding movements in the valuation of fixed-income-based assets;
- credit spread risk, i.e. the risk that the widening of credit spreads negatively impacts asset prices, credit spread risk relates primarily to the investment portfolio;
- FX risk, i.e. the risk of adverse movements in currency exchange rates and related derivative instruments;
- commodity risk, i.e. the risk of adverse movements in commodity prices and related derivatives.

The details of Leonteq's risk framework to measure and control market risks are outlined in section 7.5 "Risk Measurement". Liquidity risk is described in section 7.3.6 "Liquidity Risk".

7.3.4 Credit, counterparty, issuer and country risk

Credit risk is the general risk of financial loss if a counterparty or an issuer of a financial security does not meet its contractual obligations. The Group distinguishes the following credit risks:

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

Leonteq is exposed to credit risks related to over-the-counter (OTC) derivatives and securities lending and borrowing activities with counterparties, and through the investment of proceeds from the issuance of structured investment products in bonds or other fixed income instruments. Counterparty and country risk limits are set by Management and reviewed regularly by the Risk Committee of the Board of Directors.

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

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

7.3.5 Model risk

Model risk is the risk of financial loss due to inappropriate model assumptions or inadequate model usage. In Leonteq's business, the major model risks arise when models are used to value financial securities and to calculate hedging ratios. The consequence of an inadequate model could be a wrong valuation leading to incorrect risk measurement and wrong hedging positions, both of which could lead to a financial loss.

Leonteq mitigates these risks through a comprehensive model validation process performed independently by the Risk Control department. The process includes the assessment of conceptual aspects, model implementation and integration into the risk management system, valuation results and best market practices and is concluded by a formal approval. Further validation arises through continuous monitoring of model performance in daily market operations.

7.3.6 Liquidity risk

Leonteq differentiates between Market Liquidity Risk and Funding Liquidity Risk.

7.3.6.1 Market liquidity risk

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

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

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

- investment universe is presently only government, supranationals and agency credits with a minimum credit rating
- single asset duration of 2 years or less
- overall portfolio duration of 1 year or less
- diversification with respect to country and issuer
- minimum issue size
- maximum concentration per single issue

7.3.6.2 Funding liquidity risk

Funding liquidity risk represents the risk that Leonteq will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without impacting either daily operations or the financial condition of the Group. Funding consumption occurs mainly within Leonteq Securities AG Zurich and Leonteq Securities AG Amsterdam Branch. For further information please see section 7.6.4 "Funding Liquidity Risk".

7.3.7 Compliance and legal risk

Compliance risk and legal risk are the risks arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices or internal policies and procedures, or the non-enforceability of legal, including contractual, rights.

This exposes Leonteq to the risk of fines, civil financial penalties, payment of damages and the voiding of contracts. Compliance and legal risks can lead to diminished reputation, limited business opportunities, reduced expansion potential and an inability to enforce contracts. The Group's Compliance department is responsible for ensuring compliance with applicable rules and regulations. Changes in the regulatory environment are monitored, and directives and procedures are adapted as required.

7.3.8 Tax risk

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

7.4 Risk appetite framework

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

7.5 Risk measurement

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

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

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

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

VaR estimates the potential one-day loss from market risk exposure based on historically observed changes in risk factors applied to the current positions and a predefined confidence level. We use a confidence level of 99% and a historical time window of 300 business days.

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

Leonteq does not use any approximation techniques to calculate risk sensitivities or the results of sensitivity and stress scenarios. Full revaluation of all positions, including derivatives priced using Monte Carlo techniques, is used for risk related calculations.

The resulting risk exposure and limit consumption on all established risk limits is reported to senior management on a daily basis. Risk limits are applied to credit exposure and market risk sensitivities. All exposures were within the limits as of 31 December 2017.

7.6 Risk disclosure

7.6.1 Market Risk

Sensitivity analysis

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

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

A dedicated risk framework for Pension Solutions is in place:

- IR Vega is the sensitivity of the derivative value with respect to changes in the implied volatility of interest rates and is measured based on a change in the normal implied volatility of +1 bps.

On 31 December 2017 the Group carried the following exposures, which include the interest rate exposure from the investment portfolio.

Structured Products

CHF thousands	31.12.2017 Exposure	31.12.2016 Exposure
Risk Factor		
Equity Delta	17,509	(4,119)
Equity Vega	5,061	4,733
Equity correlation	(4,583)	(4,295)
Equity dividend	7,398	4,774
FX G10 Delta	(6,158)	5,452
FX EM Delta	7,266	(994)
IR G10 DV100	3,107	252
IR EM DV100	319	358

Pension Products

CHF thousands	31.12.2017 Exposure	31.12.2016 Exposure
Risk Factor		
IR DV100	(402)	671
IR Vega	23	58

Scenario analysis

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

- **9/11** is a 1-day crash scenario that happened on 11 September 2001 after the terrorist attack on the Twin Towers in NYC. Equity prices decreased significantly and equity volatilities increased.
- **Rally** is a 1-day rally scenario that happened two weeks after 11 September 2001, i.e. on 24 September 2001. Equity prices increased and equity volatilities decreased.
- **Dot-com** is a 1-day bear scenario that happened on 5 April 2000 immediately after the dot-com bubble reached its peak in March 2000. Equity prices decreased and equity volatilities increased.
- **SNB-day** is a 1-day scenario reproducing the SNB decision to remove the EUR/CHF 1.20 cap on 15 January 2015. It is characterised by the SMI Index crash following the CHF appreciation against all main currencies and by a general market rally. This scenario was introduced in 2015.
- **China black Monday** is a 1-day crash scenario that happened on 24 August 2015 when a sell off on Chinese stocks propagated its effects at global level. Equity prices decreased significantly and equity volatilities increased.

A dedicated risk framework for Pension Solutions is in place with the historic stress scenario:

- **Pension SNB** is a 1-month scenario that represents the CHF swap rate and volatility changes between 31 December 2014 and 30 January 2015. The Swiss interest rates decreased and their volatilities increased.

The following tables give an indication of the overall risk exposure as of 31 December 2017:

Structured Products

CHF thousands	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	-68,379	-30,541	-10,513	5,795	24,340	41,555
Spot -5%	-39,523	-15,149	-1,618	10,090	24,419	41,800
Spot -2%	-27,485	-10,425	-133	8,981	20,775	38,179
Spot 0%	-20,746	-7,881	—	7,607	18,252	35,929
Spot +2%	-14,972	-5,856	397	6,881	18,096	39,331
Spot +5%	-6,754	-2,559	2,711	10,702	23,919	46,629
Spot +10%	17,428	14,585	16,202	21,330	32,895	57,065

Pension Products

CHF thousands	Vol. –20bp	Vol. –10bp	Vol. 0bp	Vol. +10bp	Vol. +20bp
Spot -50bp	-1,194	-1,126	-516	460	1,692
Spot -25bp	295	-218	-107	433	1,281
Spot 0bp	1,069	213	—	236	801
Spot +25bp	1,090	86	-307	-260	115
Spot +50bp	816	-321	-852	-945	-710

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

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

7.6.2 Credit risk

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

The largest exposures for OTC trading activities were:

Counterparty	Credit Rating	31.12.2017 Exposure (CHF million)	Counterparty	Credit Rating	31.12.2016 Exposure (CHF million)
OTC Counterparty 1	A3	25.0	OTC Counterparty 1	A3	42.0
OTC Counterparty 2	A1	23.0	OTC Counterparty 2	A3	35.1
OTC Counterparty 3	not rated	21.2	OTC Counterparty 3	not rated	22.7

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

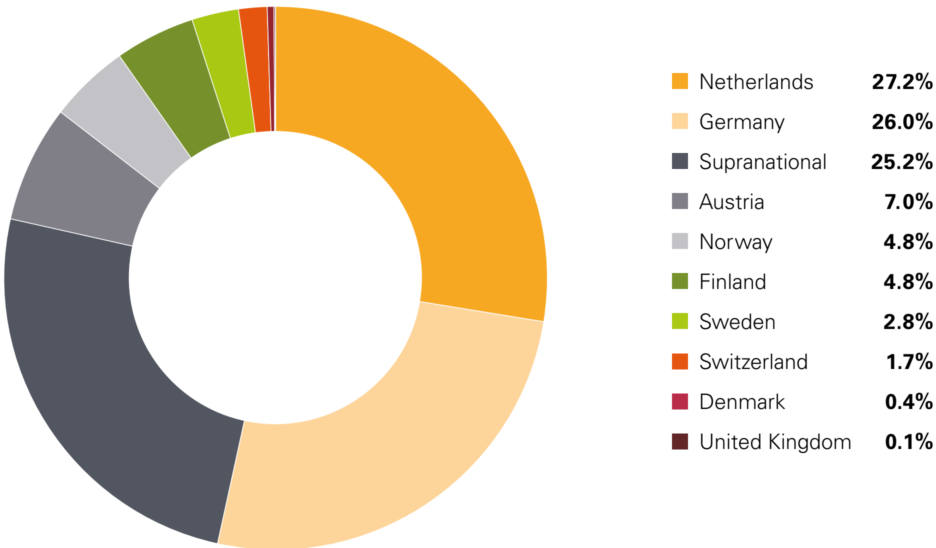
Counterparty	Credit Rating	31.12.2017 Exposure (CHF million)	Counterparty	Credit Rating	31.12.2016 Exposure (CHF million)
SLB Counterparty 1	A1	44.9	SLB Counterparty 1	A1	15.7
SLB Counterparty 2	Aa3	14.2	SLB Counterparty 2	A3	5.9
SLB Counterparty 3	A3	4.5	SLB Counterparty 3	Baa1	4.6

7.6.3 Investment portfolio

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

The chart shows the country split of the investment portfolio.

Country allocation as of 31 December 2017



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

CHF million	Moody's LT rating	Maturity 0–6 months	Maturity 6–12 months	Maturity 12–18 months	Maturity > 18 months	Total 31.12.2017	Total 31.12.2017 in %	Total 31.12.2016	Total 31.12.2016 in %
Netherlands	Aaa	196.3	71.4	10.1	0.0	277.8	27.2%	208.8	25.7%
Germany	Aaa	170.2	34.6	60.4	0.0	265.2	26.0%	199.0	24.5%
Supranational[4]	Aaa – Aa1	86.7	89.1	76.3	5.2	257.3	25.2%	152.1	18.7%
Austria	Aa1	17.7	53.5	0.0	0.0	71.2	7.0%	78.5	9.7%
Norway	Aaa	29.7	0.0	14.7	4.8	49.2	4.8%	55.7	6.9%
Finland	Aa1	12.7	36.2	0.0	0.0	48.9	4.8%	80.1	9.9%
Sweden	Aaa	15.1	0.0	13.0	0.0	28.1	2.8%	1.0	0.1%
Switzerland	Aaa	12.4	5.0	0.0	0.0	17.4	1.7%	33.8	4.2%
Denmark	Aaa	0.0	4.0	0.0	0.0	4.0	0.4%	1.5	0.2%
United Kingdom	Aa2	1.0	0.0	0.0	0.0	1.0	0.1%	1.0	0.1%
Total		**541.8**	**293.8**	**174.5**	**10.0**	**1,020.1**	**100.0%**	**811.6**	**100.0%**

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

All issuers have a Moody's rating of at least Aa2. The total investment amounted to CHF 1,020.1 million as of 31 December 2017, including accrued interest, compared to 811.6 million as of 31 December 2016. In prior year, accrued interest was excluded. The prior year figures were amended accordingly to reflect the investments including accrued interest.

7.6.4. Funding liquidity risk

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

The liquidity management framework requires Leonteq to maintain sufficient liquidity reserves across the locations, thereby allowing for adequate liquidity during general market, industry specific or Group specific stress conditions. Under the framework, Leonteq is required to maintain certain levels of available or onshore liquidity, excluding funding that may not be repatriated to Switzerland. The framework metrics are independently verified by Risk Control each business day.

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

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

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

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

CHF thousands	Due				Total 31.12.2016
	Up to 1 month	1–3 months	3–12 months	Over 12 months	
Assets					
Amounts due from banks	524,276	—	—	—	524,276
Amounts due from securities financing transactions	41,481	—	—	—	41,481
Amounts due from customers	37,860	—	—	—	37,860
Trading financial assets	2,149,190	11,914	16,418	63,410	2,240,932
Positive replacement values of derivative financial instruments	46,999	807,971	334,121	505,681	1,694,772
Other financial assets designated at fair value through profit or loss	63,842	139,994	440,491	255,153	899,480
Accrued income	7,952	3,615	—	—	11,567
Total financial assets	**2,871,600**	**963,494**	**791,030**	**824,244**	**5,450,368**
Liabilities					
Amounts due to banks	439,754	—	—	—	439,754
Liabilities from securities financing transactions	324,127	—	—	—	324,127
Amounts due to customers	302,282	—	—	—	302,282
Trading financial liabilities	89,451	—	102	1,025	90,578
Negative replacement values of derivative financial instruments	77,071	178,398	472,702	735,955	1,464,126
Other financial liabilities designated at fair value through profit or loss	382,404	435,301	487,227	1,151,539	2,456,471
Accrued expenses	25,274	25,968	—	—	51,242
Total financial liabilities	**1,640,363**	**639,667**	**960,031**	**1,888,519**	**5,128,580**

7.7 Offsetting financial assets and financial liabilities

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

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

CHF thousands	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amount of financial assets as reported in IFRS balance sheet	Effect of Master Netting Agreements	Effect of collateral received	Net amount
Amounts due from banks	524,276	—	524,276	—	(115,896)	408,380
Amounts due from securities financing transactions	41,481	—	41,481	—	(41,481)	—
Amounts due from customers	37,860	—	37,860	(14,114)	(21)	23,725
Positive replacement values of derivative instruments	1,694,772	—	1,694,772	(1,112,492)	(352,247)	230,033
Other financial assets designated at fair value through profit or loss	908,374	—	908,374	(106,432)	—	801,942
Total as of 31 December 2016	**3,206,763**	**—**	**3,206,763**	**(1,233,038)**	**(509,645)**	**1,464,080**

In addition to the above amounts, the exposure to credit risk from trading financial assets is reduced via credit protection through structured products issued. The effect of the credit protection is a reduction to the trading assets presented on the statement of financial position of CHF 62,881 thousand for the year ended 31 December 2017 (2016: CHF 72,885 thousand).

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

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

CHF thousands	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amount of financial liabilities as reported in IFRS balance sheet	Effect of Master Netting Agreements	Effect of collateral paid	Net amount
Amounts due to banks	439,754	—	439,754	—	(238,896)	200,858
Liabilities from securities financing transactions	324,127	—	324,127	—	(324,127)	—
Amounts due to customers	302,282	—	302,282	(14,114)	(252,962)	35,206
Negative replacement values of derivative financial instruments	1,464,126	—	1,464,126	(1,201,452)	(99,770)	162,904
Other financial liabilities designated at fair value through profit or loss	2,422,805	—	2,422,805	(17,472)	(546,736)	1,858,597
Total as of 31 December 2016	**4,953,094**	**—**	**4,953,094**	**(1,233,038)**	**(1,462,491)**	**2,257,565**

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

7.8 Capital risk management

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

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

Swiss capital adequacy requirements are applicable to the consolidated Group under the supervision of FINMA and to Leonteq Securities AG as required for a licensed securities dealer. Both the Group and Leonteq Securities AG have been in compliance with these rules and the minimum total capital ratio of 10.5% of risk-weighted assets as of 31 December 2017 and at all times in 2017.

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

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

Market risk: Standardised approach

Capital charges for market risks increased in 2017 driven by the increase in issuance volume. They were CHF 106.4 million and CHF 80.9 million as of 31 December 2017 and 31 December 2016, respectively. Due to the Group's hedging strategy, the market risks are primarily related to interest rates and equities. Interest rates contributed CHF 52.9 million and CHF 36.4 million as of 31 December 2017 and 31 December 2016, respectively. General interest rate risk added up to CHF 27.3 million and CHF 21.1 million as of 31 December 2017 and 31 December 2016, respectively, and specific interest rate capital charges were CHF 22.1 million and CHF 13.2 million. Interest derivative related capital charges equalled CHF 3.5 million and CHF 2.2 million as of 31 December 2017 and 31 December 2016, respectively. Equities contributed CHF 41.4 million and CHF 38.2 million as of 31 December 2017 and 31 December 2016, respectively. Equity derivative related capital charges were CHF 31.0 million and CHF 30.5 million as of 31 December 2017 and 31 December 2016, respectively. Specific equity capital charges added up to CHF 8.1 million and CHF 6.0 million as of 31 December 2017 and 31 December 2016, and general equity risk equalled CHF 2.3 million and CHF 1.7 million respectively.

Credit risk: International standardised approach

Capital requirements for credit risks also increased in 2017 driven by the higher issuance volume. They added up to CHF 28.5 million and CHF 19.9 million as of 31 December 2017 and 31 December 2016, respectively. Large credit risks are primarily with banks and insurance companies as a result of the Company's cash holdings, securities transactions, derivative exposures arising from positions in OTC and listed derivatives, as well as securities lending and borrowing activities.

Operational risk: Basic indicator approach

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

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

The tables below summarise the eligible capital, required capital and the capital ratios computed as of 31 December 2017 and 31 December 2016:

CHF thousands	31.12.2017	31.12.2016
BIS eligible capital		
Total shareholders' equity	418,386	385,283
Capital deductions	—	—
Other adjustments	—	—
Tier 1 capital	**418,386**	**385,283**
Tier 2 capital	1,310	1,435
Total BIS eligible capital	**419,696**	**386,718**

Tier 2 capital takes the general provisions for default risk into account (Expected credit loss, Note 30). The prior year figures were amended accordingly which has no impact on the capital ratios.

CHF thousands	31.12.2017	31.12.2016
BIS required capital		
Market risk (incl. derivatives)	106,379	80,915
Interest rates	52,927	36,448
Equities	41,409	38,201
Foreign exchange and gold	8,235	4,121
Commodities	3,808	2,145
Credit risk	28,501	19,889
Operational risk	31,928	30,773
Non-counterparty-related risk	4,196	4,440
Total BIS required capital	**171,004**	**136,017**
BIS risk-weighted assets	**2,137,551**	**1,700,207**
BIS capital ratios (%)		
Tier 1 ratio	19.6%	22.7%
Total capital ratio	**19.6%**	**22.7%**

7.9 Leverage ratio

CHF thousands	31.12.2017	31.12.2016
Tier 1 capital	418,386	385,283
Total consolidated assets as per published financial statements	6,347,945	5,558,205
Adjustments	(331,737)	(561,002)
Leverage ratio exposure	6,016,208	4,997,203
Leverage ratio	**7.0%**	**7.7%**

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

7.10 Risk concentrations

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

Under Swiss banking law, banks and securities dealers are required to manage risk concentration ('large exposures') within specific limits. Aggregated credit exposure to any single counterparty or a group of related counterparties must bear an adequate relationship to the bank's eligible capital, taking into account counterparty risks and risk mitigating instruments. As of 31 December 2017, the Group identified three large exposures (as of 31 December 2016, two large exposures).

Credit risk concentrations are reflected in section 7.6.2 "Credit risk".

8 Fair values of financial instruments and trading inventories

Measurement methodologies

Derivative financial instruments, traded financial assets and liabilities, other financial assets designated at fair value, other financial liabilities designated at fair value and trading inventories are recorded at fair value in the statement of financial position. Changes in the fair values of these instruments are recorded as a result from trading activities and the fair value option in the income statement.

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

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

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

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

There were no significant changes in the valuation models used for the period ending 31 December 2017.

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 market-observable, either directly or indirectly
- level 3 – valuation techniques which include significant inputs that are not based on observable market data

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

Fair value of financial instruments

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

Financial assets and liabilities at amortised costs

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

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

Own credit

Leonteq determines its own credit spread based on model using observable (market) inputs such as market capitalisation, debt as well as product type specific adjustments. The management compared the determined credit spread with observable and paid credit spreads for public distributed products of Leonteq to ensure that all available market information is reflected in the determined credit spread. Leonteq's Management determines the own credit spread on a regular basis. In 2017, no own credit spread adjustment was required.

Valuation adjustments

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

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

Level 1 instruments

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

Level 2 instruments

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

Level 3 instruments

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

No day 1 gains or losses were recognised resulting from transactions involving level 3 instruments during the year. Unrealised gain of CHF 650 thousand for fair value movements have been recorded within result recognised as result from trading activities and the fair value option for the year 2017. The ending balance of level 3 financial liabilities as of 31 December 2017 totaled CHF 14,975 thousand (as of 31 December 2016 totaled CHF 2,178 thousand).

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

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

CHF thousands	31.12.2017	31.12.2016	Valuation technique	Significant unobservable input[5]	Range of unobservable inputs 31.12.2017 low	31.12.2017 high	31.12.2016 low	31.12.2016 high	Unit[5]
Negative replacement values of derivative financial instruments	**14,975**	2,178	SABR Model[6]	Volatility of interest rates	**63**	**72**	60	100	basis points

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

Significant unobservable inputs in level 3 positions

This section discusses the significant unobservable inputs used in the valuation of level 3 instruments and assesses the potential effect that a change in each unobservable input in isolation may have on a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown. Relationships between observable and unobservable inputs have not been included in the summary below.

Volatility of interest rates

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

Sensitivity of level 3 fair values

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

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

CHF thousands	31.12.2017	31.12.2016
Impact of shifts of unobservable input parameters on fair values		
Increase of volatility of interest rates (+5 bps)	(115)	(132)
Decrease of volatility of interest rates (-5 bps)	115	132

Day 1 result

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

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

CHF thousands	Level 1	Level 2	Level 3	Total 31.12.2017
Financial assets				
Trading financial assets				
Debt securities (listed)	59,571	9,940	—	69,511
Equity securities	1,866,021	393	—	1,866,414
Funds	223,172	155,883	—	379,055
Other securities	—	29,430	—	29,430
- of which hybrid financial instruments	—	29,430	—	29,430
Total trading financial assets	2,148,764	195,646	—	2,344,410
Positive replacement values of derivative instruments	982,901	646,816	—	1,629,717
Other financial assets designated at fair value through profit or loss	1,006,703	134,899	—	1,141,602
Total financial assets	**4,138,368**	**977,361**	**—**	**5,115,729**
Trading inventories	88,962	—	—	88,962
Total trading inventories	**88,962**	**—**	**—**	**88,962**
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	1,382	—	—	1,382
Equity securities	98,261	—	—	98,261
Funds	977	—	—	977
Other securities	—	626	—	626
- of which hybrid financial instruments	—	626	—	626
Total trading financial liabilities	100,620	626	—	101,246
Negative replacement values of derivative instruments	754,039	794,002	14,975	1,563,016
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	497,244	—	497,244
Equities	—	2,405,208	—	2,405,208
Foreign currency	—	4,358	—	4,358
Commodities (incl. precious metals)	—	133,721	—	133,721
Total other financial liabilities designated at fair value through profit or loss	—	3,040,531	—	3,040,531
Total financial liabilities	**854,659**	**3,835,159**	**14,975**	**4,704,793**

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

CHF thousands	Level 1	Level 2	Level 3	Total 31.12.2016
Financial assets				
Trading financial assets				
Debt securities (listed)	63,727	8,272	—	71,999
Equity securities	1,867,500	2,102	—	1,869,602
Funds	182,686	91,202	—	273,888
Other securities	—	23,112	—	23,112
- of which hybrid financial instruments	—	23,112	—	23,112
Total trading financial assets	2,113,913	124,688	—	2,238,601
Positive replacement values of derivative instruments	921,588	773,184	—	1,694,772
Other financial assets designated at fair value through profit or loss	801,942	106,432	—	908,374
Total financial assets	**3,837,443**	**1,004,304**	**—**	**4,841,747**
Trading inventories	—	—	—	—
Total trading inventories	**—**	**—**	**—**	**—**
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	1,413	—	—	1,413
Equity securities	86,928	—	—	86,928
Funds	2,518	—	—	2,518
Other securities	—	134	—	134
- of which hybrid financial instruments	—	134	—	134
Total trading financial liabilities	90,859	134	—	90,993
Negative replacement values of derivative instruments	852,449	609,499	2,178	1,464,126
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	443,939	—	443,939
Equities	—	1,966,675	—	1,966,675
Foreign currency	—	11,390	—	11,390
Commodities (incl. precious metals)	—	801	—	801
Total other financial liabilities designated at fair value through profit or loss	—	2,422,805	—	2,422,805
Total financial liabilities	**943,308**	**3,032,438**	**2,178**	**3,977,924**

During 2016, there have not been any significant reclassifications of positions between level 1 and level 2 and vice versa.

Level 3 financial instruments

CHF thousands	31.12.2017	31.12.2016
Statement of financial position		
Balance at the beginning of the year	2,178	1,784
Additions	3,214	459
Disposals	(495)	(119)
Result recognised as trading income	154	548
Result recognised as other comprehensive income	—	—
Reclassifications to level 3	11,045	—
Reclassifications from level 3	(1,121)	(494)
Translation differences	—	—
Total balance at the end of the year	**14,975**	**2,178**
Income in the financial year on holdings on balance sheet date		
Unrealised income/(loss) recognised in the trading income	650	667
Unrealised income/(loss) recognised in other income	—	—
Unrealised income/(loss) recognised in other comprehensive income	—	—

The reclassification of financial instruments into / out of level 2 and 3 is made based on the change in the observability of the significant input parameter "volatility of interest rates" for the valuation of financial instruments.

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

- CHF 11,045 thousand level 2 financial instruments have been reclassified to level 3 (CHF 0 thousand in 2016)
- CHF 1,121 thousand level 3 financial instruments have been reclassified to level 2 (CHF 494 thousand in 2016)

9 Net result from interest operations

CHF thousands	2017	2016
Interest and discount income	1,623	2,026
Total interest income from assets at fair value	**1,623**	**2,026**
Interest expense	(10,546)	(9,798)
Total interest expense from financial liabilities at fair value	**(10,546)**	**(9,798)**
Gross result from interest operations	**(8,923)**	**(7,772)**
Changes in value adjustments for default risks and losses from interest operations	125	311
Net result from interest operations	**(8,798)**	**(7,461)**

10 Net fee income

CHF thousands	2017	2016
Leonteq Sales fee income[7]	194,153	170,329
Platform Partner Sales fee income	50,252	32,957
Other fee income	6,462	10,127
Total fee income from securities trading and investment activities	**250,867**	**213,413**
Fee expense	(3,850)	(4,421)
Total fee expense	**(3,850)**	**(4,421)**
Net fee income	**247,017**	**208,992**

[7] Please refer to Note 4 "Changes to critical accounting estimates and changes to presentation".

Net fee income increased by 18% compared to 2016. Contributors were both, Leonteq sales and Platform Partner sales fee income. The relative larger growth, in line with Leonteq's strategy, relates to Platform Partner sales fee up 52% compared to 2016. This growth in Partner sales fees is predominantly driven by Banking and Insurance & Wealth Planning Solutions. Other fee income and fee expenses were largely impacted by lower fees for SLB transactions.

11 Result from trading activities and the fair value option

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

CHF thousands	2017	2016
Debt securities (incl. funds)	37,407	21,104
Equity securities (incl. funds)	(31,419)	(47,279)
Forex	3,886	50,277
Precious metals / commodities / crypto-currencies	(17,270)	(2,911)
Trading related costs	(18,380)	(15,729)
Result from trading activities and the fair value option	**(25,776)**	**5,462**
whereof result due to financial assets designated at fair value	17,186	12,009
whereof result due to financial liabilities designated at fair value	(677,244)	(424,502)

In 2017 volatility was on historically low levels which led to negative contribution from hedging activities of CHF -13.2 million whereas in 2016 market experienced significant shocks leading to positive hedging synergies of CHF 22.4 million. On the other hand, compared to 2016, the negative treasury carry decreased significantly by 25% to CHF -12.6 million.

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

The results of financial instruments designated at fair value are compensated with results from other financial instruments measured at fair value.

12 Other ordinary income

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

13 Personnel expenses

CHF thousands	2017	2016
Salaries and bonuses	98,651	92,538
thereof share based compensation	6,981	7,787
Social contributions	6,053	8,552
Pension plan expense	6,339	6,090
Other personnel expense	2,618	4,428
Total personnel expenses	**113,661**	**111,608**

The Group employed 450 and 518 employees as of 31 December 2017 and 2016, respectively.

In full-time equivalents 440 and 510 as of 31 December 2017 and 2016, respectively.

Mid-/Long-term incentive plan
The personnel expenses for 2017 of CHF 113,661 thousand (2016: CHF 111,608 thousand) contain deferred benefits earned for the mid-/long-term incentive plan granted in prior years. Commitments for future period arising from such compensation plans totalling CHF 19.5 million (2016: CHF 19.2 million) for the year ending 2017.

Employee share-based benefit programs
The personnel expenses contain the impact of the two equity-settled, employee share-based compensation plans operated by the Group.

Share-based compensation – plans

Since 2014 the Group operates a share-based compensation plan for certain Leonteq employees.

A part of the deferred compensation of participating employees is settled with Leonteq shares. The share-based compensation plan links the long-term performance of the Company with the deferred compensation of such employees. The number of shares is determined by deferred compensation as well as the fair value of Leonteq shares at the grant date.

The basis for the allocation of this plan is the deferred compensation for services rendered in the financial year ending on the 31 December prior to the grant date. Any such employee will earn one third of the shares over the next three years ('stage vesting'), depending on the plan, if the employee fulfills vesting conditions in March of the following years.

Number of shares	Employees	Executive Committee	Total 2017
Leonteq shares at the beginning of the year	19,174	3,936	23,110
Allotted rights and transfers (additions)	2,029	—	2,029
Forfeited rights and transfers (reductions)	(556)	(1,546)	(2,102)
Settlement by Leonteq shares	(15,230)	(1,326)	(16,556)
Leonteq shares at the balance sheet date	**5,417**	**1,064**	**6,481**

CHF	
Average grant price of program 2015 to 2019	103.98

CHF thousands	Employees	Executive Committee	Total 2017
Personnel expenses recorded over the vesting period for shares	3,969	428	4,397
Market value of shares on the allocation date	3,969	428	4,397
Charged as personnel expense in the year under review	419	65	484
Cumulative charges recognised as personnel expenses up to the blance sheet date	3,520	417	3,937
Estimated personnel expenses for the remaining vesting periods without future terminations	65	11	76

Number of shares	Employees	Executive Committee[8]	Total 2016
Leonteq shares at the beginning of the year	32,564	4,838	37,402
Allotted rights and transfers (additions)	254	1,076	1,330
Forfeited rights and transfers (reductions)	(1,986)	—	(1,986)
Settlement by Leonteq shares	(11,658)	(1,978)	(13,636)
Leonteq shares at the balance sheet date	**19,174**	**3,936**	**23,110**

CHF	
Average grant price of program 2015 to 2019	132.76

CHF thousands	Employees	Executive Committee	Total 2016
Personnel expenses recorded over the vesting period for shares	3,409	793	4,202
Market value of shares on the allocation date	3,409	793	4,202
Charged as personnel expense in the year under review	1,207	320	1,527
Cumulative charges recognised as personnel expenses up to the blance sheet date	3,135	565	3,700
Estimated personnel expenses for the remaining vesting periods without future terminations	392	110	502

[8] Includes allocations to former members of the Executive Committee who have left Leonteq Group.

Restricted stock units (RSU) plans

Since 2016 the Group operates RSU plans for certain Leonteq employees. A part of the deferred compensation of participating employees is settled with RSUs that are converted into Leonteq shares. The RSU plans links the long-term performance of the Company with the deferred compensation of such employees. The number of shares is determined by deferred compensation as well as the fair value of Leonteq shares at the grant date.

The basis for the allocation of this plan is the deferred compensation for services rendered in the financial year ending on the 31 December prior to the grant date. Any such employee will earn one third to one fifth of the RSUs over the pre-defined vesting period ('stage vesting'), if the employee fulfills vesting conditions at 31 March of the following years.

The members of the Executive Committee participate in an additional RSU plan. Any member will earn all RSUs after three years ('cliff vesting'), if the vesting conditions are fulfilled.

Number of RSUs	Employees	Executive Committee	Total 2017
RSUs at the beginning of the year	97,133	22,599	119,732
Allotted rights and transfers (additions)	118,974	52,600	171,574
Forfeited rights and transfers (reductions)	(3,060)	(16,649)	(19,709)
Settlement of RSUs by Leonteq shares	(40,801)	(1,555)	(42,356)
RSUs at the balance sheet date	**172,246**	**56,995**	**229,241**

CHF	
Average grant price of program 2016 to 2022 – both plans	57.84

CHF thousands	Employees	Executive Committee	Total 2017
Personnel expenses recorded over the vesting period for RSUs	14,129	2,151	16,280
Market value of RSUs on the allocation date	14,129	2,151	16,280
Charged as personnel expenses in the year under review	4,560	1,045	5,605
Cumulative charges recognised as personnel expenses up to the balance sheet date	9,496	1,260	10,756
Estimated personnel expenses for the remaining vesting periods without future terminations	3,736	891	4,627

Number of RSUs	Employees	Executive Committee[9]	Total 2016
RSUs at the beginning of the year	—	—	—
Allotted rights and transfers (additions)	106,367	22,599	128,966
Forfeited rights and transfers (reductions)	(9,234)	—	(9,234)
Settlement of RSUs by Leonteq shares	—	—	—
RSUs at the balance sheet date	**97,133**	**22,599**	**119,732**

CHF	
Average grant price of program 2016 to 2021 – both plans	90.35

CHF thousands	Employees	Executive Committee	Total 2016
Personnel expenses recorded over the vesting period for RSUs	8,813	1,964	10,777
Market value of RSUs on the allocation date	8,813	1,964	10,777
Charged as personnel expenses in the year under review	3,676	1,497	5,173
Cumulative charges recognised as personnel expenses up to the balance sheet date	3,676	1,497	5,173
Estimated personnel expenses for the remaining vesting periods without future terminations	5,507	467	5,974

[9] Includes allocations to former members of the Executive Committee who have left Leonteq Group.

14 Other operating expenses

CHF thousands	2017	2016
Rent and accommodation	9,622	12,555
Information and communications technology	17,822	14,659
Vehicles, Equipment, Furniture and other accommodation expenses	653	2,412
Audit fees	1,420	1,377
thereof for financial and regulatory audit	938	1,128
thereof for other services	482	249
Other administrative expenses	20,525	25,622
thereof for professional sevices other than audit fees	6,242	6,479
Total other operating expenses	**50,042**	**56,625**

The decrease of other operating expenses was due to recurring and one-off effects which can be summarised as follows:

- Rent and accommodation expenses decreased mainly due to assignment of the office lease at The Shard, London to an external party. Due to the assignment the deferred rent expense could be released, leading to a lower overall rent expense.
- Efforts to broadening and deepening Leonteq's global banking and insurance partnership base lead to higher information and communication technology expense.
- Mainly due to the office move in Zurich, expenses related to equipment and furniture were exceptionally high in 2016.

15 Taxes

Income taxes

CHF thousands	2017	2016
Income tax (benefit)/expense		
Switzerland	—	—
Foreign	1,047	602
Current income tax expense	1,047	602
Switzerland	(553)	(469)
Foreign	(272)	228
Deferred income tax (benefit)/expense	(825)	(241)
Total income tax (benefit)/expense	**222**	**361**
Profit before tax	**23,293**	**17,558**
Income tax expense computed at the swiss statutory tax rate	4,926	3,713
Explanations for higher (lower) tax expense		
Participation income tax relief	(2,019)	(5)
Tax rate differential	(7,341)	(4,162)
De-recognition of lease	1,399	—
Transfer pricing adjustments	855	1,045
Tax losses carried forward not recognised	2,198	673
Own credit spread	—	(598)
Changes to expected credit loss provision	—	(324)
Other impacts	204	19
Income tax (benefit)/expense	**222**	**361**
Capital tax expense	450	353
Corporate tax (benefit)/expense	**672**	**714**

The statutory tax rate of the Group's main operating entity, Leonteq Securities AG, was 21.15% and 21.15% for the years ended 31 December 2017 and 2016, respectively. Any income generated by Leonteq AG is generally taxed in accordance with preferential holding company tax rules in Switzerland. The Group's foreign operations are taxed at varying rates. The tax rate differential presented relates primarily to the income of the Group's Guernsey Branch, which is taxed at the Guernsey company standard rate of 0%.

The main operating entity Leonteq Securities AG, Zurich applied for participation income tax exemption in line with the applicable Swiss tax legislation. The effect amounted to CHF 2,019 thousand for the tax period 2017 and CHF 5 thousand for the prior year tax period 2016. The size of the benefit of the income tax exemption is, amongst others, directly linked to the taxable profits of the company.

The adjustment in "De-recognition of lease" relate to differences in relation to the de-recognition of the lease of the former office premises in London.

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

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

In the year 2017 there have been no adjustments to the own credit spread and no accounting differences in the expected credit loss movements

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

Deferred taxes

CHF thousands	Assets 31.12.2017	Assets 31.12.2016	Liabilities 31.12.2017	Liabilities 31.12.2016
Composition of deferred taxes				
Pension liability	2,119	3,719	—	—
Share based payment expenses	—	—	—	—
Timing differences in depreciation of long-lived assets	243	—	(234)	(264)
Other	—	—	—	—
Total deferred taxes	**2,362**	**3,719**	**(234)**	**(264)**

CHF thousands	Assets 31.12.2017	Assets 31.12.2016	Liabilities 31.12.2017	Liabilities 31.12.2016
Changes in deferred taxes				
Balance at the beginning of the year	3,719	3,334	(264)	(39)
Changes affecting the income statement	—	—	—	—
Revaluation of share based payment plans	—	—	—	—
Movement in pension liability	553	469	—	—
Other temporary differences	243	—	30	(228)
Changes recognised trough equity related to share based payment plans	—	—	—	—
Translation adjustment	—	—	—	3
Changes affecting the statement of other comprehensive income from pension liability	(2,153)	(84)	—	—
Total as of 31 December	**2,362**	**3,719**	**(234)**	**(264)**

16 Amounts due from banks

CHF thousands	31.12.2017	31.12.2016
Due from banks on demand (cash & cash equivalents)	367,587	221,094
Due from banks on demand (precious metals)	7,056	6,844
Cash collateral paid to banks or regulated financial institutions	212,768	115,427
Settlement receivables with banks or regulated financial institutions	304,376	178,837
Settlement receivables with platform partners – banks or regulated financial institutions	9,144	2,074
Total amounts due from banks	**900,931**	**524,276**

Amounts with related parties are reflected in Note 36.

17 Amounts due from customers

CHF thousands	31.12.2017	31.12.2016
Settlement receivables with platform partners – non-banks	98,635	21,360
Other amounts due from platform partners – non-banks	6,501	8,994
Cash collateral paid to non-banks	912	2,894
Other amounts due from customers	2,000	4,612
Total amounts due from customers	**108,048**	**37,860**

Amounts with related parties are reflected in Note 36.

18 Securities financing transactions (assets and liabilities)

CHF thousands	Book value of assets as reported on balance sheet	Cash collateral received	Securities lent or used for collateralisation [10]	Total 31.12.2017 Net amount
Amounts due from securities financing transactions	13,533	—	—	13,533
Trading portfolio	2,344,410	377,397	(1,554,728)	1,167,079
Other financial instruments at fair value	1,141,602	—	(762,373)	379,229
Total as of 31 December 2017	**3,499,545**	**377,397**	**(2,317,101)**	**1,559,841**
With unrestricted right to resell or pledge	—	—	(75,299)	(75,299)

CHF thousands	Book value of liabilities as reported on balance sheet	Cash collateral paid	Securities borrowed or received for collateralisation	Total 31.12.2017 Net amount
Amounts due in respect of securities financing transactions	377,397	—	—	377,397
Trading portfolio	101,246	13,533	(144,156)	(29,377)
Liabilities from other financial instruments at fair value	3,040,531	—	—	3,040,531
Total as of 31 December 2017	**3,519,174**	**13,533**	**(144,156)**	**3,388,551**
of which repledged	—	—	—	—
of which resold	—	—	—	—

CHF thousands	Book value of assets as reported on balance sheet	Cash collateral received	Securities lent or used for collateralisation [10]	Total 31.12.2016 Net amount
Amounts due from securities financing transactions	41,481	—	—	41,481
Trading portfolio	2,238,601	324,127	(1,242,068)	1,320,660
Other financial instruments at fair value	908,374	—	(693,364)	215,010
Total as of 31 December 2016	**3,188,456**	**324,127**	**(1,935,432)**	**1,577,151**
With unrestricted right to resell or pledge	—	—	(136,131)	(136,131)

CHF thousands	Book value of liabilities as reported on balance sheet	Cash collateral paid	Securities borrowed or received for collateralisation	Total 31.12.2016 Net amount
Amounts due in respect of securities financing transactions	324,127	—	—	324,127
Trading portfolio	90,993	(41,481)	(97,442)	(47,930)
Liabilities from other financial instruments at fair value	2,422,805	—	—	2,422,805
Total as of 31 December 2016	**2,837,925**	**(41,481)**	**(97,442)**	**2,699,002**
of which repledged	—	—	—	—
of which resold	—	—	—	—

[10] Securities lent or used for collateralisation of securities financing transactions are equal to the amounts of collateral received or paid (considering haircuts). The remaining amount is used as collateral for other purposes (i.e. initial margin for ETD's or add-ons).

19 Trading financial assets

CHF thousands	31.12.2017	31.12.2016
Debt securities (listed)	69,511	71,998
of which pledged as collateral	32,376	9,664
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	—	—
Equity securities	1,866,414	1,869,603
of which pledged as collateral	1,161,062	882,091
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	57,034	111,886
Funds	379,055	273,888
of which pledged as collateral	284,856	214,182
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	18,265	24,245
Precious metals / commodities	—	—
Other securities	29,430	23,112
of which hybrid financial instruments	29,430	23,112
of which pledged as collateral	1,135	—
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	—	—
Total trading financial assets	**2,344,410**	**2,238,601**
whereof based on valuation-model (see Note 8)	195,646	124,688
whereof repo-eligible securities	2,483	—

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

20 Trading inventories

In 2017 Leonteq issued tracker certificates which replicate the performance of crypto-currencies. In order to hedge the exposure resulting from the issuance of the tracker, Leonteq purchases the respective underlying. As the characteristics of a crypto-currency does not match with the existing classification criteria, IAS 8.10 is applicable. IAS 8.10 requires management to use its own judgement in developing and applying an accounting policy. Management must consider i.a. IFRSs dealing with similar topics and accepted industry practices. Based on the assessment performed, management decided to classify crypto-currencies held as an asset as "trading inventories" and apply the commodity broker-trader exemption (IAS 2.3) and therefore measure crypto-currencies at fair value less costs to sell. The changes in fair value are recognised in the line item "result from trading activities and the fair value option".

21 Replacement values of derivative instruments

CHF thousands	Trading instruments			Hedging instruments		
	Positive RV	Negative RV	Contract volume	Positive RV	Negative RV	Contract volume
Interest rate instruments						
Forward contracts incl. FRAs	—	—	—	—	—	—
Swaps	54,980	53,766	5,668,950	—	—	—
Futures	—	—	9,570,447	—	—	—
Options (OTC)	27,470	103,333	4,070,382	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Foreign currencies/precious metals						
Forward contracts	34,419	31,340	3,161,045	—	—	—
Swaps	6,247	2,034	923,188	—	—	—
Futures	—	—	—	—	—	—
Options (OTC)	19,341	37,692	2,705,321	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Precious metals						
Forward contracts	—	—	—	—	—	—
Swaps	269	55	10,059	—	—	—
Futures	—	—	46,115	—	—	—
Options (OTC)	21	1,356	12,842	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Equities/indices						
Forward contracts	—	—	—	—	—	—
Swaps	294,008	99,679	7,620,780	—	—	—
Futures	—	—	516,495	—	—	—
Options (OTC)	126,121	301,167	7,047,669	—	—	—
Options (exchange traded)	990,561	838,499	23,150,310	—	—	—
Credit instruments						
Credit default swap	72,257	91,642	2,896,075	—	—	—
Total return swap	—	—	—	—	—	—
First to default swaps	—	—	—	—	—	—
Other credit derivatives	—	—	—	—	—	—
Other						
Forward contracts	—	—	—	—	—	—
Swaps	2,361	520	86,497	—	—	—
Futures	—	—	134,408	—	—	—
Options (OTC)	1,662	1,933	20,361	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Total before deduction of netting agreements (incl. cash collaterals) as of 31 December 2017	**1,629,717**	**1,563,016**	**67,640,944**	**—**	**—**	**—**
thereof based on valuation-model (see Note 8)	646,816	808,977	—	—	—	—
Total after deduction of netting agreements (incl. cash collaterals) as of 31 December 2017	**1,293,715**	**1,301,927**	**—**	**—**	**—**	**—**
thereof balances against central clearing institutions	691,909	692,108	—	—	—	—
thereof balances against banks or securities dealers	315,151	460,469	—	—	—	—
thereof balances against other customers	286,655	149,350	—	—	—	—

CHF thousands	Trading instruments			Hedging instruments		
	Positive RV	Negative RV	Contract volume	Positive RV	Negative RV	Contract volume
Interest rate instruments						
Forward contracts incl. FRAs	—	—	—	—	—	—
Swaps	70,224	71,610	9,260,477	—	—	—
Futures	—	—	2,076,692	—	—	—
Options (OTC)	31,941	96,078	3,230,156	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Foreign currencies/precious metals						
Forward contracts	51,558	34,812	3,481,378	—	130	2,270
Swaps	13,708	638	728,009	—	—	—
Futures	—	—	—	—	—	—
Options (OTC)	37,526	52,660	3,094,186	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Precious metals						
Forward contracts	—	—	—	—	—	—
Swaps	470	—	1,601	—	—	—
Futures	—	—	23,318	—	—	—
Options (OTC)	—	233	1,691	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Equities/indices						
Forward contracts	—	—	—	—	—	—
Swaps	340,471	55,886	5,446,101	—	—	—
Futures	—	—	781,228	—	—	—
Options (OTC)	161,468	175,493	5,667,980	—	—	—
Options (exchange traded)	931,994	894,273	19,611,642	—	—	—
Credit instruments						
Credit default swap	53,782	81,947	2,854,885	—	—	—
Total return swap	—	—	—	—	—	—
First to default swaps	—	—	—	—	—	—
Other credit derivatives	—	—	—	—	—	—
Other						
Forward contracts	—	—	—	—	—	—
Swaps	117	3	6,976	—	—	—
Futures	—	—	86,811	—	—	—
Options (OTC)	1,513	363	7,888	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Total before deduction of netting agreements (incl. cash collaterals) as of 31 December 2016	**1,694,772**	**1,463,996**	**56,361,019**	**—**	**130**	**2,270**
thereof based on valuation-model (see Note 8)	773,184	611,677	—	—	130	—
Total after deduction of netting agreements (incl. cash collaterals) as of 31 December 2016	**230,033**	**251,864**	**—**	**—**	**—**	**—**
thereof balances against central clearing institutions	199,837	161,816	—	—	—	—
thereof balances against banks or securities dealers	17,960	5,868	—	—	—	—
thereof balances against other customers	12,236	84,180	—	—	—	—

22 Other financial assets designated at fair value through profit or loss

CHF thousands	31.12.2017	31.12.2016
Term deposits with financial institutions	—	—
Debt securities (listed)	1,011,728	801,942
of which pledged as collateral	686,848	667,873
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	75,525	25,491
Receivables from Insurance & Wealth Planning Solutions counterparties	129,874	106,432
Total financial assets designated at fair value through profit or loss	**1,141,602**	**908,374**
whereof based on valuation-model (see Note 8)	134,899	106,432
whereof repo-eligible securities	817,575	542,639

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

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

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

23 Long-lived assets

CHF thousands	Property and Equipment		Total
	Furniture / equipment	Leasehold improvements	31.12.2017
Historical cost			
Balance as of 1 January 2017	5,233	13,118	18,351
Additions	1	629	630
Disposals	(786)	(1,841)	(2,627)
Reclassifications	—	—	—
Other value adjustments/impairments	—	—	—
Translation adjustments	65	115	180
Balance as of 31 December 2017	**4,513**	**12,021**	**16,534**
Accumulated depreciation			
Balance as of 1 January 2017	1,527	748	2,275
Depreciation [11]	882	1,993	2,875
Disposals	(730)	(1,841)	(2,571)
Reclassifications	—	—	—
Other value adjustments/impairments [12]	434	1,495	1,929
Translation adjustments	47	73	120
Balance as of 31 December 2017	**2,160**	**2,468**	**4,628**
Net book value as of 31 December 2017	**2,353**	**9,553**	**11,906**

CHF thousands	Property and Equipment		Total
	Furniture / equipment	Leasehold improvements	31.12.2016
Historical cost			
Balance as of 1 January 2016	4,148	10,395	14,543
Additions	3,124	10,918	14,042
Disposals	(2,008)	(7,365)	(9,373)
Reclassifications	—	—	—
Other value adjustments/impairments	—	(441)	(441)
Translation adjustments	(31)	(389)	(420)
Balance as of 31 December 2016	**5,233**	**13,118**	**18,351**
Accumulated depreciation			
Balance as of 1 January 2016	2,883	4,250	7,133
Depreciation [11]	692	3,885	4,577
Disposals	(2,008)	(7,365)	(9,373)
Reclassifications	—	—	—
Other value adjustments/impairments	—	—	—
Translation adjustments	(40)	(22)	(62)
Balance as of 31 December 2016	**1,527**	**748**	**2,275**
Net book value as of 31 December 2016	**3,706**	**12,370**	**16,076**

[11] Currently all internally developed and purchased software is depreciated over a period of five years.
[12] Impairments were made in connection with the onerous office leases in Zurich and London. For further details please refer to Note 31.

Leonteq's IT-platform consists of different elements: Leonteq developed the front-end tools for product construction, product setup and product documentation by itself. The position keeping and risk management system is based on off-the-shelf software. Leonteq enhanced the software with self-developed Leonteq specific functionalities such as in-built model libraries. As back-office tools, Leonteq uses standard software.

Information Technology and Systems			Total	Total
Internally developed software	Purchased software	IT equipment	31.12.2017	31.12.2017
58,183	23,777	5,936	87,896	106,247
10,095	1,477	3,906	15,478	16,108
—	—	(1)	(1)	(2,628)
—	—	—	—	—
—	—	—	—	—
—	—	15	15	195
68,278	**25,254**	**9,856**	**103,388**	**119,922**
30,014	15,291	3,172	48,477	50,752
8,829	4,255	1,270	14,354	17,229
—	—	(1)	(1)	(2,572)
—	—	—	—	—
—	—	—	—	1,929
—	—	13	13	133
38,843	**19,546**	**4,454**	**62,843**	**67,471**
29,435	**5,708**	**5,402**	**40,545**	**52,451**

Information Technology and Systems			Total	Total
Internally developed software	Purchased software	IT equipment	31.12.2016	31.12.2016
42,419	24,848	9,753	77,020	91,563
15,983	2,390	1,158	19,531	33,573
(219)	(3,461)	(4,962)	(8,642)	(18,015)
—	—	—	—	—
—	—	—	—	(441)
—	—	(13)	(13)	(433)
58,183	**23,777**	**5,936**	**87,896**	**106,247**
23,738	14,172	6,745	44,655	51,788
6,495	4,387	1,313	12,195	16,772
(219)	(3,268)	(4,872)	(8,359)	(17,732)
—	—	—	—	—
—	—	—	—	—
—	—	(14)	(14)	(76)
30,014	**15,291**	**3,172**	**48,477**	**50,752**
28,169	**8,486**	**2,764**	**39,419**	**55,495**

With regards to the office move in Zurich the effect of various added and disposed assets was only partially reflected in Note 22 of the Annual Report 2016. The prior year figures in the current report have been adjusted accordingly to reflect the correct figures in 2016. The net book value of the long-lived assets as of 31 December 2016 was correct, adjustments have an overall impact (in thousands) on the line items Additions (CHF 176) and Disposals (CHF 176), in the table presenting the historical costs. Further changes to the detailed presentation of the line items Depreciation (CHF 8), Disposals (CHF 99) and FX Translations (CHF 107), were made without impacting the respective profit and loss items.

Commitments arising from operational leases

CHF thousands	31.12.2017	31.12.2016
Due within one year	9,516	12,371
Due between two and five years	38,872	39,693
Due later than five years	22,192	41,057
Commitments for minimum payments under operational leases	**70,580**	**93,121**

The lower commitments arising from operating leases can mainly be referred to the closer end date of all existing lease agreements and also to the termination of UK office lease agreement (CHF -11 million).

Commitments arising from operational sublease rental income

CHF thousands	31.12.2017	31.12.2016
Due within one year	2,614	—
Due between two and five years	8,274	—
Due later than five years	—	—
Commitments for minimum payments under operational leases	**10,888**	**—**

In 2017, the Group subled office space which it expects not to be used in the next years.

24 Other assets

CHF thousands	31.12.2017	31.12.2016
Withholding and other tax receivables	46,744	34,905
Other assets	177	1,028
Total other assets	**46,921**	**35,933**

25 Amounts due to banks

CHF thousands	31.12.2017	31.12.2016
Cash overdrafts	102,114	135,617
Cash collateral received from banks or regulated financial institutions	63,447	109,033
Settlement liabilities with banks or regulated financial institutions	365,118	193,684
Settlement liabilities with platform partners – banks or regulated financial institutions	3,781	1,420
Total amounts due to banks	**534,460**	**439,754**

Amounts with related parties are reflected in Note 36.

26 Amounts due to customers

CHF thousands	31.12.2017	31.12.2016
Cash collateral received from non-banks	151,208	254,001
Settlement and other payables to platform partners – non-banks	15,996	48,236
Other fees payable	905	45
Total amounts due to customers	**168,109**	**302,282**

Amounts with related parties are reflected in Note 36.

27 Trading financial liabilities

CHF thousands	31.12.2017	31.12.2016
Debt securities (listed)	1,382	1,413
Equity securities	98,261	86,928
Funds	977	2,518
Other securities	626	134
Total trading financial liabilities	**101,246**	**90,993**
thereof based on valuation-model (see Note 8)	626	134

Trading financial liabilities represent short positions of securities, primarily government bonds, equity securities and exchange traded funds which are temporary short positions entered into if facilities to borrow the respective securities are in place.

28 Other financial liabilities designated at fair value through profit or loss

CHF thousands	31.12.2017	31.12.2016
Other financial liabilities designated at fair value through profit or loss		
Interest rate instruments	497,244	443,939
with own debt component	497,244	443,307
without own debt component	—	632
Equities	2,405,208	1,966,675
with own debt component	2,372,888	1,927,216
without own debt component	32,320	39,459
Foreign currency	4,358	11,390
with own debt component	4,344	10,515
without own debt component	14	875
Commodities (incl. precious metals)	133,721	801
with own debt component	42,575	692
without own debt component	91,146	109
Total other financial liabilities designated at fair value through profit or loss[9]	**3,040,531**	**2,422,805**
thereof based on valuation-model (see Note 8)	3,040,531	2,422,805

Financial liabilities designated at fair value include the Group's issued products. The issued products contain hybrid financial instruments, certificates (including actively managed certificates) and mini-futures. These products can be allocated to different categories, such as: capital protection products, yield enhancement products, participation products and leverage products.

The hybrid financial instruments are composed of debt component and embedded derivatives. The certificates could be composed of an underlying instrument (or a basket of underlying instruments) combined with derivatives. Alternatively, the pay-off of a certificate could be achieved by the combination of a debt host and an embedded derivative (similar to a hybrid financial instrument). Warrants are usually derivatives replicating the performance of a position in the underlying instruments.

The contractual amounts to be paid at maturity of the structured products may differ from the fair values recognised at the respective balance sheet dates.

CHF thousands	31.12.2017	31.12.2016
Classification in accordance with SVSP Swiss Derivative Map		
Capital protection	248,536	183,005
Yield enhancement	1,835,414	1,448,578
Participation	897,302	750,427
Leverage	59,279	40,795
Total other financial liabilities designated at fair value through profit or loss[13]	**3,040,531**	**2,422,805**

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

Any changes in the Group's own credit risk are reflected in financial liabilities designated at fair value, where the Group's own credit risk would be considered by market participants.

Changes in the estimate of the Group's own credit risk of CHF 13.7 million were recognised during 2016.

29 Other liabilities

CHF thousands	31.12.2017	31.12.2016
Other tax liabilities	6,613	5,285
Pension liability	10,012	17,578
Other liabilities	720	154
Total other liabilities	**17,345**	**23,017**

The change in the net pension liability is further explained in Note 34.

30 Expected credit loss

In accordance with IFRS 9, Leonteq applies the expected credit loss methodology to calculate and recognise an impairment provision for its financial assets measured at amortised cost. These assets contain the balance sheet items "cash in hand", "amounts due from banks", "amounts due from securities transactions" and "amounts due from customers".

Credit risk management

Assets measured at amortised costs mainly consist of cash balances which are liquidity stock or cash collateral in connection with Leonteq's business operations. Leonteq holds cash collateral in connection with its tracking activities in derivative instruments and/or securities financing transactions.

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

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

Expected credit loss calculation

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

Development of expected credit loss allowance

CHF thousands	31.12.2017	31.12.2016
Statement of financial position		
Balance at the beginning of the reporting period	1,435	1,746
Change in 12 months expected credit loss	(125)	(311)
Change in lifetime expected credit loss	—	—
for not credit impaired financial assets with significant increased credit risk	—	—
for credit impaired financial assets	—	—
for trade receivables, contract assets or lease receivables	—	—
Purchased or originated credit impaired assets	—	—
Balance at the end of the reporting period	**1,310**	**1,435**

Leonteq calculates the ECL provision on a portfolio basis. Due to the short duration of financial assets measured at amortised cost no discounting of the ECL provision is needed.

31 Provisions

CHF thousands	31.12.2017 Total provisions	31.12.2016 Total provisions
Balance as of 1 January	6,674	2,200
Utilisation in conformity with designated purpose	(7,329)	—
Increase in provisions recognised in the income statement	10,293	4,474
Release of provisions recognised in the income statement	(1,033)	—
Translation differences	285	—
Balance as of 31 December	**8,890**	**6,674**
Short-term provisions	1,299	1,174
Long-term provisions	7,591	5,500
Total	**8,890**	**6,674**

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

In 2017 management reassessed the office space required in the future. Lease contracts subject to overcapacities were deemed onerous contracts in accordance with IAS 37. In 2017, the Group has built provisions of CHF 6,858 thousand in relation to onerous office leases in Zurich and London. CHF 6,200 thousand were used to settle the lease contract in London and CHF 921 thousand could be released through the income statement which is partially due to the successful sublease of the office space in Zurich. Additionally related long-lived assets have been impaired by CHF 1,864 thousand accounted for in the line item "depreciation of long-lived assets". At year end no provisions for onerous lease contracts were required anymore.

The provision related to the pending Swiss VAT litigation was increased by CHF 1,000 thousand, totaling CHF 6,500 thousand as of 31 December 2017.

In addition CHF 2,390 thousand are provisions in relation to various potential disputes and litigations.

An agreement regarding the former office leases at the Hürlimann areal has been reached. The respective liability has been settled and the remaining provision was released through the income statement.

32 Shareholders' equity

Share capital

	31.12.2017 Total par value (CHF)	31.12.2017 Number of shares	31.12.2017 Capital eligible for dividends	31.12.2016 Total par value (CHF)	31.12.2016 Number of shares	31.12.2016 Capital eligible for dividends
Share capital	15,944,504	15,944,504	15,944,504	15,944,504	15,944,504	15,944,504
whereof fully paid in	15,944,504	15,944,504	—	15,944,504	15,944,504	—
Total share capital	**15,944,504**	**15,944,504**	**15,944,504**	**15,944,504**	**15,944,504**	**15,944,504**
Authorised capital	3,000,000	3,000,000	—	3,000,000	3,000,000	—
whereof capital increase completed	—	—	—	—	—	—
Conditional share capital	100,000	100,000	—	100,000	100,000	—
whereof capital increase completed	18,584	18,584	—	18,584	18,584	—

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

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

Own shares

	2017 Number of shares	2017 Total purchase value CHF thousands	2017 Average Price CHF	2016 Number of shares	2016 Total purchase value CHF thousands	2016 Average Price CHF
Balance at the beginning of the period	152,959	14,279	93	38,961	4,025	103
Purchases	156,184	4,667	30	128,250	11,591	90
Disposal	(58,912)	(3,611)	61	(14,252)	(1,337)	94
Balances at the end of the period	**250,231**	**15,335**	**61**	**152,959**	**14,279**	**93**

Own shares are kept in relation to the Group's share-based payment programs. For further information see Note 13.

Capital distribution
On 23 March 2017 the shareholders decided to not pay a dividend or a capital distribution. The Board of Directors plans to propose a distribution from capital contribution reserves / dividend of CHF 0 per registered share to the General Meeting of Shareholders of Leonteq AG on 28 March 2018.

Proposed appropriation of capital contribution reserves

CHF thousands		Total
Ordinary registered shares		
Distribution from capital contribution reserves paid for the year ending 31 December 2014	CHF 3.00	23,889
Distribution from capital contribution reserves paid for the year ending 31 December 2015	CHF 1.75	27,639
Distribution from capital contribution reserves paid for the year ending 31 December 2016	CHF 0.00	—
Proposed distribution from capital contribution reserves for the year ending 31 December 2017	CHF 0.00	—

33 Other comprehensive income/(loss)

CHF thousands	Currency translation adjustments	Defined benefit cost	Change in own credit	Hedge Accounting Reserve	Deferred tax	Accumulated other comprehensive income/(loss)
31 December 2015	(377)	(13,776)	—	—	2,915	(11,238)
Increase/(decrease)	(176)	396	—	(130)	(84)	6
31 December 2016	(553)	(13,380)	—	(130)	2,831	(11,232)
Increase/(decrease)	460	10,181	—	130	(2,153)	8,618
31 December 2017	**(93)**	**(3,199)**	**—**	**—**	**678**	**(2,614)**

The Currency translation adjustments (CTA) impact results from the translation of entities with other functional currencies than the Swiss franc and its translation into the Group reporting currency as of the balance sheet date. Defined benefit cost pre-dominantly decreased due to an increase of long-term corporate bond yields. Leonteq Group does currently not apply hedge accounting.

34 Retirement benefit obligations

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

The Group also contributes to pension schemes on behalf of employees domiciled in other locations and as required by the various jurisdictions. These pension schemes qualify as defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Contributions totalling CHF 836 thousand and CHF 1,065 thousand for the years ended 31 December 2017 and 2016, respectively, related to contribution plans in other jurisdictions were also recognised within staff costs.

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

The characteristics of the plan as of 31 December 2017 were as follows:

- employees insured up to a salary of CHF 250 thousand
- financing by employee contributions = 50%
- financing by employer contributions = 50%
- conversion rate = 5.7% – 7.6% (increasing with retirement age)

The pension plan is maintained by a foundation that is a separate legal entity from the Company. The plan provides coverage to all Swiss employed staff for retirement, death and disability. No pensioners are yet included in the Group's pension plan.

The foundation is governed by a board of trustees and supervised by the BVG und Stiftungsaufsicht (BVS) of the canton of Zürich. The pension scheme also includes the Leonteq Pension Committee, which consists of three employee and three employer representatives.

The collective foundation was maintained by Zürich Lebensversicherungs-Gesellschaft AG for the year ended 31 December 2017 and 2016, respectively. It covers all actuarial and investment risks. The foundation has chosen to fully insure the death and disability insurance risk within the Swiss pension plan with a third-party insurance company. The insurance contract is renewable on an annual basis.

In addition to the risks mentioned above, the pension plan is exposed to other risks such as asset volatility, changes in bond yields and life expectancy. These risks have a significant impact on the pension plan: The asset volatility could increase or decrease 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 Management of the pension plan responses to these risks with the ambition of a consistency and sustainability of the pension plan's assets and liabilities, based on diversified investment strategy correlating with the volatility and maturity of the pension obligation.

The table below outlines where the Group's post-employment amounts related to the Swiss pension scheme are included in the financial statements.

CHF thousands	31.12.2017	31.12.2016
Reconciliation of the amount recognised in the statement of financial position		
Defined benefit obligation	48,778	62,902
Fair value of plan assets	(38,766)	(45,324)
Adjustment to asset ceiling	—	—
Net defined benefit liability/(asset)	**10,012**	**17,578**
Thereof recognised as separate (asset)	**—**	**—**
Thereof recognised as separate liability	**10,012**	**17,578**

CHF thousands	31.12.2017	31.12.2016
Components of defined benefit cost in profit or loss		
Current service cost (employer)	5,992	5,971
Past service cost	—	—
(Gains) and losses on settlement	—	—
Interest expense on defined benefit obligation	299	578
Interest (income) on plan assets	(204)	(419)
Interest expense/(income) on effect of asset ceiling	—	—
Interest (income) on reimbursement right	—	—
Administration cost (excl. cost for managing plan assets)	31	29
Others	—	—
Net expense recognised in the income statement	**6,118**	**6,159**
Thereof service cost and administration cost	**6,024**	**6,000**
Thereof net interest on the net defined benefit liability/(asset)	**94**	**159**

CHF thousands	31.12.2017	31.12.2016
Components of defined benefit cost in OCI		
Actuarial (gain)/loss on defined benefit obligation	(8,171)	(576)
Return on plan assets (excl. interest income)	(2,010)	180
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	**(10,181)**	**(396)**

The discount rate applied in determining the actuarial gains and losses on defined benefit obligations increased from 0.5% as of 31 December 2016 to 0.8% as of 31 December 2017. The impact of this increase in the discount rate is reflected as an actuarial gain of CHF 8,171 thousand on the defined benefit obligation and therefore recognised in other comprehensive income.

CHF thousands	31.12.2017	31.12.2016
Reconciliation in net defined benefit liability (asset)		
Net defined benefit liability/(asset) as of 1 January	17,578	15,754
Defined benefit cost recognised in profit or loss	6,118	6,159
Defined benefit cost/(income) recognised in OCI	(10,181)	(396)
Contributions by the employer	(3,503)	(3,940)
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	**10,012**	**17,578**

CHF thousands	31.12.2017	31.12.2016
Reconciliation of defined benefit obligation		
Defined benefit obligation as of 1 January	62,902	58,834
Interest expense on defined benefit obligation	299	578
Current service cost employer	5,992	5,971
Contribution by plan participants	2,622	3,026
Benefits (paid)/deposited	(14,897)	(4,960)
Past service cost	—	—
(Gains) and losses on settlement	—	—
Effect of business combinations and disposal	—	—
Administration cost (excl. cost for managing plan assets)	31	29
Others	—	—
Actuarial (gain)/loss on defined benefit obligation	(8,171)	(576)
Defined benefit obligation as of 31 December	**48,778**	**62,902**

CHF thousands	31.12.2017	31.12.2016
Components of actuarial gain/losses on obligations		
Actuarial (gain)/loss arising from changes in financial assumptions	(1,508)	2,989
Actuarial (gain)/loss arising from changes in demographical assumptions	—	(4,243)
Actuarial (gain)/loss arising from experience adjustments	(6,663)	678
Actuarial (gain)/loss on defined benefit obligation	**(8,171)**	**(576)**

CHF thousands	31.12.2017	31.12.2016
Reconciliation of fair value of plan assets		
Fair value of plan assets	45,324	43,079
Interest income on plan assets	205	419
Contribution by employer	3,503	3,940
Contribution by plan participants	2,622	3,026
Benefits (paid)/deposited	(14,897)	(4,961)
(Gains) and losses on settlement	—	—
Effect of business combinations and disposal	—	—
Others	—	—
Return on plan assets (excl. interest income)	2,010	(180)
Fair value of plan assets as of 31 December	**38,766**	**45,324**

CHF thousands	31.12.2017	31.12.2016
Actual return on plan assets		
Interest income on plan assets	205	419
Return on plan assets (excl. interest income)	2,010	(180)
Actual return on plan assets	**2,215**	**239**

The significant actuarial assumptions were as follows:

CHF thousands	31.12.2017	31.12.2016
Significant actuarial assumptions		
Discount rate	0.80%	0.50%
Salary growth rate	1.00%	1.00%
Pension growth rate	0.00%	0.00%

Assumptions regarding future mortality as set forth below are based on Swiss BVG / LLP 2015 mortality tables, which include generational mortality rates allowing for future projections of increasing longevity.

	31.12.2017	31.12.2016
Assumptions regarding future mortality		
Longevity at age 65/64 (use plan retirement age) for current pensioners:		
male	22.4	22.3
female	24.4	24.3
Longevity at age 65/64 (use plan retirement age) for future pensioners (age 45):		
male	24.3	24.2
female	26.3	26.2
Weighted average duration of defined benefit obligation in years	**17.4**	**18.5**

Assumptions regarding staff turnover have been determined using the BVG 2015 standard tables.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	DBO after increase in assumption (CHF thousand)	DBO after decrease in assumption (CHF thousand)
Sensitivity analysis			
Discount rate	0.25%	46,725	51,017
Salary growth rate	0.25%	49,277	48,282
Life expectancy	1 year	49,294	48,263

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

CHF thousands	Quoted	Unquoted	Total	In %
Plan assets are comprised as follows				
Cash and cash equivalents	6,194	191	6,385	16.47%
Equity instruments	12,073	—	12,073	31.14%
Debt instruments	15,963	—	15,963	41.18%
Real Estate	3,356	—	3,356	8.66%
Other	989	—	989	2.55%
Total plan assets as of 31 December 2017	**38,575**	**191**	**38,766**	**100.00%**

CHF thousands	Quoted	Unquoted	Total	In %
Plan assets are comprised as follows				
Cash and cash equivalents	7,242	223	7,465	16.47%
Equity instruments	14,116	—	14,116	31.14%
Debt instruments	18,663	—	18,663	41.18%
Real Estate	3,924	—	3,924	8.66%
Other	1,156	—	1,156	2.55%
Total plan assets as of 31 December 2016	**45,101**	**223**	**45,324**	**100.00%**

CHF thousands	31.12.2017	31.12.2016
Best estimate of contributions of next year		
Contributions by the employer	2,941	3,650
Contributions by plan participants	2,164	2,834

35 Significant shareholders

	31.12.2017		31.12.2016	
	Current Number of share holding	Current Number of voting rights in %	Current Number of share holding	Current Number of voting rights in %
Raiffeisen Switzerland Cooperative [14]	4,626,397	29.02%	4,624,835	29.01%
Jan Schoch [17]	—	—	1,124,253	7.05%
Lukas Ruflin family interests [15, 16, 17]	1,283,762	8.05%	1,035,429	6.49%
Sandro Dorigo [17]	390,082	2.45%	365,001	2.29%
Subtotal shareholders' agreement	**6,300,241**	**39.51%**	**7,149,518**	**44.84%**
Rainer-Marc Frey [18, 19]	1,015,000	6.37%	N/A	N/A
Credit Suisse Funds AG [20]	478,750	3.00%	N/A	N/A
Government of Singapore	—	—	516,528	3.24%
VERAISON SICAV – Engagement Fund	—	—	798,361	5.01%
Other shareholders including own shares	8,150,513	51.12%	7,480,097	46.91%
Total	**15,944,504**	**100.00%**	**15,944,504**	**100.00%**

[14] 158,879 shares are directly held by Notenstein La Roche Private Bank Ltd, St. Gallen as a wholly owned subsidiary of Raiffeisen Switzerland Cooperative, St. Gallen.

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

[16] In addition holds 462,325 call options, written by Raiffeisen, with the following conditions: strike CHF 210 (adjusted by cumulative dividends per share from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style.

[17] Founding partner.

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

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

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

36 Related-party transactions

The Group entered into various transactions and agreements with its related parties. The significant transactions and agreements can be categorised into financial and platform partner agreements with Raiffeisen and its group companies Notenstein La Roche Private Bank Ltd. as well as Notenstein Finance (Guernsey) Ltd.

CHF thousands	Amount due from 31.12.2017	Amount due from 31.12.2016	Amount due to 31.12.2017	Amount due to 31.12.2016	Income from 2017	Income from 2016	Expense to 2017	Expense to 2016
Significant shareholders Raiffeisen Switzerland Cooperative								
Net settlement receivables/liabilities	8,452	—	—	—	—	—	—	—
Due from banks on demand (precious metal)	11,991	6,798	—	—	—	—	—	—
Net cash collateral	28,254	—	—	4,431	—	—	—	—
Net positive replacement value	—	—	—	—	—	—	—	—
Net negative replacement value	—	—	17,417	956	—	—	—	—
Platform partner service fee income	—	—	—	—	13,985	8,756	—	—
Interest expense	—	—	—	—	—	—	2,885	2,292
Secured and unsecured credit facility[21]	—	—	97,435	132,392	—	—	—	—
Affiliated companies Raiffeisen Switzerland B.V. Amsterdam								
Net settlement receivables/liabilities	78,240	225	—	—	—	—	—	—
Due from banks	4,001	—	—	—	—	—	—	—
Net cash collateral	—	4,360	24,080	—	—	—	—	—
Net positive replacement value	30,885	4,544	—	—	—	—	—	—
Net negative replacement value	—	—	—	—	—	—	—	—
Platform partner service fee income	—	—	—	—	27,662	—	—	—
Notenstein La Roche Private Bank Ltd								
Net settlement receivables/liabilities	—	553	3,139	—	—	—	—	—
Due from banks	120	—	—	—	—	—	—	—
Net cash collateral	—	36,900	—	—	—	—	—	—
Net positive replacement value	102	38,893	—	—	—	—	—	—
Net negative replacement value	—	—	—	—	—	—	—	—
Platform partner service fee income	—	1,035	—	—	1,308	13,993	—	—
Notenstein Finance (Guernsey) Ltd								
Net settlement receivables/liabilities	—	10,631	—	—	—	—	—	—
Net cash collateral	—	39,800	—	—	—	—	—	—
Net positive replacement value	—	40,409	—	—	—	—	—	—
Net negative replacement value	—	—	—	—	—	—	—	—
Platform partner service fee income	—	2,072	—	—	2,158	32,731	—	—
Transactions with members of governing bodies	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other related parties[22]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**58**

[21] The credit facility with Raiffeisen allows for unsecured borrowing of CHF 400 millions and secured borrowing of CHF 200 million.
[22] Transaction with Other related parties include transaction with Hotel Bären AG, which is owned by the founding partner Jan Schoch.

During 2017 the migration from all Notenstein La Roche Private Bank products to Raiffeisen has been completed and affected balance sheet and fees of both parties significantly.

Business activities with related parties are in line with normal market rates.

Governing bodies

The governing bodies of the Group consist of the Board of Directors and the Executive Committee. The governing bodies are considered the key management personnel.

As of 31 December 2017, the Board consists of eight members (including the Chairman), all of whom are non-executive directors. The table below sets out the name, position, committee membership, the date from which the individual became a director and the term of each member of the Board.

Name	Position	Committee membership	Director since	Term expires
Christopher M. Chambers[24]	Chairman	—	2017	2018
Lukas T. Ruflin[23]	Vice-Chairman	AC, NRC	2009	2018
Jörg Behrens[24]	Member	AC, RC (Chair)	2012	2018
Paulo Brügger[25]	Member	—	2017	2018
Vince Chandler[24]	Member	NRC (Chair)	2012	2018
Patrick de Figueiredo[23]	Member	AC, RC	2010	2018
Hans Isler[24]	Member	AC (Chair), NRC, RC	2012	2018
Thomas R. Meier[24]	Member	—	2017	2018

[23] Representative of Founding Partners.
[24] Independent directors.
[25] Representative of Raiffeisen.

As of 31 December 2017, the Executive Committee of the Group consists of six members. The table below sets out the name, position and date of appointment of the current members of the Executive Committee.

Name	Year of Birth	Nationality	Function	Appointment
Marco Amato	1981	Italian/Swiss	Chief Executive Officer ad interim (CEO a.i.)	10.2017
Marco Amato	1981	Italian/Swiss	Chief Financial Officer (CFO)	09.2016
Jochen Kühn	1977	German	Head of Insurance & Wealth Planning Solutions	01.2017
Manish Patnaik	1973	German	Chief Operating Officer	03.2014
Reto Quadroni	1963	Swiss	Chief Risk Officer	10.2017
David Schmid	1982	Swiss	Head of Investment & Banking Solutions	01.2016
Ingrid Silveri	1976	Italian/Venezuelan	General Counsel	10.2017

Remuneration

Compensation committed to the Board of Directors and the Executive Committee is determined by the Group's Nomination & Remuneration Committee and is reviewed annually. The Nomination & Remuneration Committee provides the Board with recommendations on the remuneration of Board members, the Executive Committee and the basic principles for the establishment, amendment and implementation of incentive plans. Within the amount approved by the AGM for maximum remuneration for the members of the Board of Directors and the members of the Executive Committee, the Board makes final decisions regarding remuneration.

The members of the Board of Directors, including the Chairman, receive a non-performance-related compensation in the form of a director's fee. When assessing and determining the director's fee, the Nomination & Remuneration Committee take into consideration the different functions and individual accountability of the respective members of the Board of Directors.

No additional compensation was made to members of the Board of Directors for attendance of meetings.

The annual director's fee is paid in cash and in shares of Leonteq AG; a minimum amount of 40% of the compensation is to be paid in Leonteq AG shares. The shares are locked up for a period of three years.

The base salary for the EC members is assessed annually against responsibility and experience, and adjusted if required. Variable compensation is awarded annually based on either contractual agreements or based on Company's and individual's performance assessments by the Board of Directors. Lower than anticipated Company performance assessed based on measured KPIs can result in a significant reduction, or even the elimination, of the partly discretionary variable compensation for senior executives.

The total personnel expenses for the Board of Directors and the Executive Committee of the Group for the year ending 31 December 2017 amounted to:

CHF thousands Name	Director's fee					
	Cash	Share-based payment [26]	Post employment benefits [27]	Advisory services	Total compensation 2017	Total compensation 2016
Christopher M. Chambers (Chairman since 2017 EGM)	14	15	—	—	29	—
Pierin Vincenz (Chairman until 2017 EGM)	6	303	13	—	322	497
Lukas T. Ruflin (Vice-Chairman)	152	211	21	—	384	459
Jörg Behrens (Chairman RC)	68	137	12	—	217	263
Paulo Brügger (Member since 2017 EGM)	8	5	—	—	13	—
Vince Chandler (Chairman NRC)	123	82	13	—	218	359
Patrick de Figueiredo (Member)	81	81	8	—	170	209
Hans Isler (Chairman AC)	52	153	12	—	217	263
Patrik Gisel (Member until 2017 EGM)	90	60	—	—	150	203
Thomas R. Meier (Member since 2017 EGM)	6	6	1	—	13	—
Peter Forstmoser (Chairman until 2016 AGM)	—	—	—	—	—	102
Total	**600**	**1,053**	**80**	**—**	**1,733**	**2,355**

[26] These share-based payments amounts reflect the fair value of the shares at time of attribution.
[27] These charges comprise the employer's part in contributions to AHV/IV.

CHF thousands		Remuneration [28]	Other compensation [29]	Total
Executive Committee	**2017**	**6,522**	**789**	**7,311**
Executive Committee	**2016**	**8,268**	**1,036**	**9,304**

[28] Remuneration contain payments in cash and recognised expenses related to deferred bonuses in cash and shares from prior years.
[29] Other benefits comprise the employer's part in contributions to AHV/ IV and Swiss Pension Plan on fixed and variable compensation and other benefits such as housing and relocation allowances.

Ownership of shares and options

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 2017 and 31 December 2016, respectively. Members of the Board of Directors did not hold any options to acquire shares as of 31 December 2017. RSUs issued to Executive Committee members convert into shares upon vesting. See Note 32, Shareholder's equity.

	Shares 31.12.2017	Granted Shares 31.12.2017[35]	Restricted Stock Units 31.12.2017[34]	Call Options 31.12.2017	Shares 31.12.2016	Granted Shares 31.12.2016[35]	Restricted Stock Units 31.12.2016[34]	Call Options 31.12.2016[40]
Board of Directors								
Christopher M. Chambers[30]	5,968	—	—	—	N/A	N/A	N/A	N/A
Lukas T. Ruflin[31, 33]	10,424	—	—	—	4,500	—	—	—
Jörg Behrens	9,350	—	—	—	5,887	—	—	—
Paulo Brügger[30]	—	—	—	—	N/A	N/A	N/A	N/A
Vince Chandler	16,223	—	—	—	13,244	—	—	—
Patrick de Figueiredo	6,069	—	—	—	3,886	—	—	—
Hans Isler	12,259	—	—	—	7,806	—	—	—
Thomas R. Meier[30]	415	—	—	—	N/A	N/A	N/A	N/A
Patrik Gisel[30]	N/A	N/A	N/A	N/A	1,800	—	—	—
Pierin Vincenz[30]	N/A	N/A	N/A	N/A	29,234	—	—	—
Total	**60,708**	**—**	**—**	**—**	**66,357**	**—**	**—**	**—**
Executive Committee								
Marco Amato	7,500	—	3,152	—	1,500	—	3,152	—
Jochen Kühn[39]	—	—	50,201	—	N/A	N/A	N/A	N/A
Manish Patnaik	3,844	706	—	—	3,138	1,412	—	—
Reto Quadroni[36]	699	—	1,420	—	N/A	N/A	N/A	N/A
David Schmid	13,640	358	1,243	—	7,660	716	1,865	—
Ingrid Silveri[36]	288	—	979	—	N/A	N/A	N/A	N/A
Justin Arbuckle[38]	N/A	N/A	N/A	N/A	—	—	—	—
Sandro Dorigo[38]	N/A	N/A	N/A	N/A	365,001	—	377	—
Steven Downey[38]	N/A	N/A	N/A	N/A	—	—	—	—
Ulrich Sauter[37]	N/A	N/A	N/A	N/A	8,024	524	2,631	—
Jan Schoch[32]	N/A	N/A	N/A	N/A	1,124,253	—	1,798	462,325
Tobias Wohlfarth[38]	N/A	N/A	N/A	N/A	1,350	—	—	—
Total	**25,971**	**1,064**	**56,995**	**—**	**1,510,926**	**2,652**	**9,823**	**462,325**

30 Patrik Gisel and Pierin Vincenz resigned from and Christopher M. Chambers, Paulo Brügger and Thomas R. Meier joined the Board of Directors as per 22 November 2017.

31 This excludes 1,273,338 shares as of 31 December 2017 (1,030,929 as of 31 December 2016) held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas T. Ruflin.

32 As per 6 October 2017 Jan Schoch stepped down from his function as CEO and left the EC. He sold all of his 1,053,527 Leonteq shares (representing 6.61% of the outstanding Leonteq shares) by way of a private placement as follows: 946,527 shares with institutional investors; 82,000 shares with Lukas Ruflin family interests and 25,000 shares with Sandro Dorigo. Jan Schoch does no longer hold any options on Leonteq shares as of 31 December 2017 either.

33 Excluding 462,325 call options as of 31 December 2017 (462,325 call options as of 31 December 2016) held by Thabatseka LP; call options have the following conditions: strike CHF 210 (adjusted by cumulative dividends per share from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

34 Balance of unvested restricted stock units granted for prior year variable compensation or contractually agreed with vesting periods 2018 – 2021.

35 Balance of unvested shares granted in 2015 for prior year variable compensation with vesting periods 2016 - 2018.

36 Ingrid Silveri and Reto Quadroni joined the EC as per 1 October 2017.

37 Ulrich Sauter resigned from EC as per 30 September 2017.

38 Steven Downey, Tobias Wohlfarth, Justin Arbuckle and Sandro Dorigo resigned from EC as per 9 February 2017.

39 Jochen Kühn joined the EC as per 9 January 2017.

40 Call Options have the following conditions: strike CHF 210; 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.

37 Earnings per share

	31.12.2017	31.12.2016
Group net profit (CHF thousands)	23,071	17,197
Weighted average number of shares outstanding (undiluted)	15,691,953	15,805,935
Dilution effect (number of shares)	236,614	127,699
Weighted average number of shares outstanding (diluted)	15,928,567	15,933,634
Basic earnings per share	**1.47**	**1.09**
Diluted earnings per share	**1.45**	**1.08**

The dilution effect number of shares include effects of employee share-based benefit plans as per Note 13.

38 Off-balance

CHF thousands	31.12.2017	31.12.2016
Off-balance-sheet transactions		
Contingent liabilities	35,669	35,890
Irrevocable commitments	28	14
Obligations to pay up shares and make further contributions	—	—
Credit commitments	—	—

Irrevocable commitments relate to the Swiss Deposit Insurance.

Contingent liabilities of CHF 19.5 million (as of 31 December 2016 of CHF 18.9 million) arise from deferred payments in relation with long-term incentive plans.

On 10 April 2015 Leonteq AG signed a letter of undertaking with SFM HK Management Limited relating to the lease of the office premises of Leonteq Securities (Hong Kong) Ltd. As of 31 December 2017 the total commitment relating to future rental payments under this lease amounted to HKD 2.8 million (CHF 0.3 million) (for 2016 of HKD 9.4 million or CHF 1.2 million, respectively), excluding taxes.

On 10 August 2015 Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017 the lease has been assigned to a third party. In connection with the transfer it was agreed that this deed of guarantee will remain with Leonteq AG. As of 31 December 2017 the total commitment relating to future rental payments under the original lease contract amounted to GBP 11.4 million (CHF 15.0 million) (for 2016 of GBP 12.5 million or CHF 15.8 million, respectively), excluding taxes.

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

39 Segment reporting

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

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

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

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

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

Banking Solutions
Banking Solutions allows the Group's network partners a flexible, fast, state-of-the-art and cost efficient manufacturing and distribution of structured investment products. It provides modular IT solutions to fully enable or enhance its partners' structured investment product capabilities. Depending on the level of integration and individual needs of the issuance partners, the services may include product pricing, risk management (hedging), market marking, advice on structuring, provision of digital tools, production of term sheets and additional support documents like product reports, listing, life cycle management and settlement as well as corporate center services like risk and regulatory reporting or financial accounting.

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

Insurance & Wealth Planning Solutions
Insurance & Wealth Planning Solutions offers a digital platform to life insurers, enabling unit-linked retail products with financial protection. This provides a viable alternative to traditional guarantee product approaches, which are no longer economically sustainable. Partners and their end customers benefit from attractive and transparent long-term savings and draw down solutions with both upside potential and downside protection. Partners get the advantage of high capital and cost efficiency, based on third party-guarantees, upfront hedging and scalable straight through digital processes covering the full policy lifecycle on individual policy level.

Beyond the platform business, Leonteq provides structured solutions with downside protection both to life insurers for their single premium business and to insurance brokers.

Corporate Center
Costs related to functions such as Operational Services, Finance, Legal & Compliance, Risk Control, Human Resources, Marketing and Information Technology are allocated to a large extent to the business lines based on cost allocation keys. The unallocated support functions are presented within Corporate Center.

CHF thousands	Investment Solutions	Banking Solutions	Insurance & Wealth Planning Solutions	Corporate Center	Total 31.12.2017
Net fee income	195,511	30,553	20,953	—	247,017
Net trading income/(loss)	(26,952)	—	1,176	—	(25,776)
Net interest income/(expense)	(7,725)	(1,592)	519	—	(8,798)
Other ordinary income	—	2,611	—	360	2,971
Total operating income	**160,834**	**31,572**	**22,648**	**360**	**215,414**
Personnel expenses	(79,978)	(15,437)	(7,322)	(10,924)	(113,661)
Other operating expenses	(33,740)	(5,277)	(2,319)	(8,706)	(50,042)
Depreciation of long-lived assets	(12,456)	(2,003)	(1,208)	(3,491)	(19,158)
Changes to provisions and other value adjustments, and losses	(872)	(128)	—	(8,260)	(9,260)
Total operating expenses	**(127,046)**	**(22,845)**	**(10,849)**	**(31,381)**	**(192,121)**
Result from operating activities	**33,788**	**8,727**	**11,799**	**(31,021)**	**23,293**

CHF thousands	Investment Solutions	Banking Solutions	Insurance & Wealth Planning Solutions	Corporate Center	Total 31.12.2016
Net fee income	172,774	23,840	12,378	—	208,992
Net trading income/(loss)	(3,365)	—	8,827	—	5,462
Net interest income/(expense)	(7,274)	(1,087)	900	—	(7,461)
Other ordinary income	44	—	—	—	44
Total operating income	**162,179**	**22,753**	**22,105**	**–**	**207,037**
Personnel expenses	(79,958)	(11,194)	(4,262)	(16,194)	(111,608)
Other operating expenses	(38,788)	(6,150)	(1,551)	(10,136)	(56,625)
Depreciation of long-lived assets	(11,901)	(1,847)	(1,140)	(1,884)	(16,772)
Changes to provisions and other value adjustments, and losses	(2,904)	(396)	—	(1,174)	(4,474)
Total operating expenses	**(133,551)**	**(19,587)**	**(6,953)**	**(29,388)**	**(189,479)**
Result from operating activities	**28,628**	**3,166**	**15,152**	**(29,388)**	**17,558**

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

Compared to 2016, the net fee income in the segment Insurance & Wealth Planning Solutions increased by 69%. This positive development was supported by the unique product proposition and platform approach of Leonteq which combines investment opportunities and highly sought-after guarantee components in a unit-linked concept. The products were specifically designed to benefit from the changing market environment characterised by sustained low market interest rates and a continuous drop in technical interest rates. Thus, traditional life insurance guarantee products lost their relative attractiveness compared to Leonteq enabled unit-linked life insurance guarantee products which are directly linked to market returns. Increased client demand for structured investment products contributed to double-digit growth rates in net fee income in both segments, Investment Solutions and Banking Solutions. Net trading loss in the segment Investment Solutions (down to CHF -23.6 million compared to 2016) was significantly affected by the record low volatility environment. The Group's other ordinary income was at CHF 3.0 million due to onboarding and other project related costs recharged to banking partners as well as rental income on subleased office space.

Personnel expenses in the segments Banking Solutions and Insurance & Wealth Planning Solutions increased compared to 2016 driven by the underlying business growth and increased scope related to the maintenance of existing and onboarding of new platform partners. Investment Solutions' overall cost base has decreased in 2017, mainly due to the reduced staff base compared to 2016 which positively impacted other operating expenses. Corporate Center's total operating expenses include one-offs in the amount of CHF 8.3 million provisions and CHF 1.9 million deprecation, predominantly related to the completed office optimization during 2017; the remaining cost base decreased compared to 2016, driven substantially by the staff base reduction.

Information by geographic location

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2017
Net fee income	102,314	108,547	36,156	247,017
Net trading income/(loss)	(9,111)	(9,683)	(6,982)	(25,776)
Net interest income/(expense)	(3,466)	(4,093)	(1,239)	(8,798)
Other ordinary income	2,390	581	—	2,971
Total operating income	**92,127**	**95,352**	**27,935**	**215,414**

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

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2016
Net fee income	81,686	97,323	29,983	208,992
Net trading income/(loss)	7,685	(1,623)	(600)	5,462
Net interest income/(expense)	(2,104)	(3,943)	(1,414)	(7,461)
Other ordinary income	44	—	—	44
Total operating income	**87,311**	**91,757**	**27,969**	**207,037**

CHF thousands	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2016
Accrued income and prepaid expenses	6,712	9,444	574	16,730
Current tax assets	964	—	—	964
Deferred tax assets	3,719	—	—	3,719
Long-lived assets	48,365	4,440	2,690	55,495
Other assets	34,944	524	465	35,933

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

Compared to 2016, net fee income grew in all three regions due to higher demand for structured investment products. In Switzerland, the large demand for unit-linked life insurance policies also substantially contributed to the net fee income increase. Current year's net trading loss is shared between the regions whereas Switzerland's net trading income in 2016 was positively influenced by Insurance & Wealth Planning Solutions' non-recurring net trading income in the amount of CHF 8.8 million.

40 Shares in subsidiary undertakings

The following is a listing of the Group's subsidiaries as of 31 December 2017:

Name	Line of business	Country of incorporation	Currency	Share capital	Share of votes and capital in %
Leonteq Securities AG[41]	Securities dealer	Switzerland	CHF	15,000,000	100
Leonteq Securities (Monaco) SAM	Financial services provider	Monaco	EUR	500,000	99.9
Leonteq Securities (Hong Kong) Ltd.	Financial services provider	Hong Kong	HKD	10,000,000	100
Leonteq Securities (Europe) GmbH[42]	Financial services provider	Germany	EUR	200,000	100
Leonteq Securities (Singapore) PTE Ltd.	Financial services provider	Singapore	SGD	1,000,000	100
Leonteq Securities (Japan) Preparation Ltd.[43]	Financial services provider	Japan	JPY	20,000,000	100

[41] Leonteq Securities AG has branches in Amsterdam and Guernsey.
[42] Leonteq Securities (Europe) GmbH has branches in London and Paris.
[43] Leonteq Securities (Japan) Preparation Ltd. was incorporated on 1 November 2017. In January 2018 the share capital was increased to JPY 250 million.

41 Post-balance sheet events

No events were incurred after the balance sheet date which would adversely affect the financial statements.

42 Statutory banking regulations

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

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

Pensions and post-retirement benefits
Under IFRS, the liability and related pension expense are determined based on the projected unit credit acturial calculation of the benefit obligation. The Swiss accounting regulation for banks, the liability and related pension expense are determined primarily on the pension plan valuation. A pension asset is recorded if a statutory overfunding of a pension plan leads to a future economic benefit, and a pension liability is recorded if a statutory underfunding of pension plan leads to a future economic obligation. Pension expenses include the required contributions defined by Swiss accounting regulation for banks, any additional contribution mandated 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 the share based payments is recognised in the income statement with a corresponding entry to accrued expenses and deferred income.

Deferred taxes
The Swiss accounting rules for banks do generally not recognise deferred tax assets. Deferred tax liabilities are recognised as provisions. Leonteq Securities AG does not recognise any deferred taxes for its stand-alone financial statement in accordance with 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 the fair value related to own credit risk for financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income (OCI). Subsequently, the OCI changes in own credit risk are transferred within equity into 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 recorded in PnL.

Under Swiss accounting regulations for banks, the changes in own credit risk are recognised through the compensation account and amortised through the PnL over the same period as the sales fee income is deemed earned. Any fair value impact not related to changes in own credit risk are also recorded in PnL.

Assets under management

CHF thousands	31.12.2017	31.12.2016
Type of managed assets		
Assets in collective investment schemes managed by the bank	—	—
Assets under discretionary asset management agreements	10,297	8,859
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	8,859	12,243
+/- Net new money inflow / -outflow	981	(3,592)
+/- effect of fair value movements, currency translation, interest	457	208
+/- other	—	—
Total assets under management at the end of the period	**10,297**	**8,859**

Assets are considered managed if the Group provides investment advisory or discretionary portfolio management services. This includes, in particular, certain issued certificates where the Group offers such services. Structured products where no investment advice or discretionary portfolio management services are provided, including rule-based investment certificates, do not meet the definition of assets under management according to the Group.

Report of the statutory auditor
to the General Meeting of Leonteq AG, Zurich

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Leonteq AG and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements, for the year ended 31 December 2017.

In our opinion, the consolidated financial statements (pages 69 to 143) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Our audit approach

Overview

Overall Group materiality: CHF 1.8 million

- We conducted full scope audit work at two reporting units in Zurich, Switzerland: Leonteq AG (Holding) and Leonteq Securities AG (including its branches in Amsterdam and Guernsey).
- The two reporting units where we performed full scope audits, accounted for 99% of the Group's total assets.
- In addition, we have performed analytical procedures over the remaining five reporting units in Frankfurt am Main (including its branches in London and Paris), Hong Kong, Monaco, Singapore and Japan. These subsidiaries are not considered material for consolidation purposes.

The following are the key audit matters that we identified:

- Valuation of financial instruments held at fair value,
- Recognition of fee income,
- Provision for indirect taxes, and
- Portfolio and risk management system

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Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 1.8 million
How we determined it	5% of the 3-year average of profit before tax
Rationale for the materiality benchmark applied	We chose the 3-year average of profit before tax because, in our view, it is the commonly applied measure for a profit-orientated entity with highly volatile profits. The 5% benchmark is a generally accepted auditing practice and there were no significant unusual elements that merited adjustments to this benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 180’000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of financial instruments held at fair value The valuation of the Group's financial instruments held at fair value was a key audit area due to the management judgement involved and its significance. The structured products presented as other financial liabilities designated at fair value (CHF 3.0bn) require significant judgement due to limited observable market data such as the calculation of the Group's own credit risk and the correlations used in the valuation processes. The Group's Pension Solution liabilities require management's judgement due to the long-dated nature of its interest rates and interest rates volatility inputs. See Note 8 to the financial statements on pages 100 to 106.	We assessed and tested the design and effectiveness of the controls applied by the Group supporting the fair valuation of financial instruments. Our work covered the Group's product approval controls, controls over the accuracy of market prices, valuation models, model shifts and model parameters. We performed an independent valuation of a sample of observable input parameters as well as testing over the independent price verification control the quality and completeness of pricing inputs. We developed our own valuation models to examine the Group's valuations. This enabled us to assess the reasonableness of the valuations including the assumptions and methodologies applied.

Key audit matter	*How our audit addressed the key audit matter*
Recognition of fee income We focused on this area because management applied significant judgement to determine the fee income components to be deferred and the deferral period. Management recognise fee income for distribution services and brokerage immediately. Fee income for production and platform services from primary market transactions is deferred over time. Using historic data and further qualitative criteria, Management estimated and the Board of Directors approved a six months deferral period (2016: five months) to be appropriate for fee income for structured products production and platform services from primary market transactions. See Note 10 to the financial statements on page 107.	We assessed and tested the design and effectiveness of the controls applied by the Group ensuring the appropriate recognition of fee income. Our work covered the Group's controls over the completeness of revenue recognised, the accuracy of the revenue splits performed and management's review and approval of the underlying assumptions. We determined that we could rely on the controls operated by the Group for the purposes of the audit. We tested the appropriateness and consistency of the methodology used to derive the deferral period including an assessment over the underlying economic inputs and the parameters applied. We performed substantive testing over the classification of trades between distribution services, brokerage and production and platform services.

Key audit matter	*How our audit addressed the key audit matter*
Provisions for indirect taxes We focused on this area because management applied significant judgement in its assessment of provisions for Swiss Value Added Tax (VAT) and Swiss Withholding Tax (WHT). The Group reassessed its potential VAT obligations in relation to distribution payments from its Swiss entity to distribution partners outside of Switzerland. The Group provided for CHF 6.5m (2016: CHF 5.5m) for this potential obligation. Management's assessment included judgements in the classification of underlying data to estimate the VAT recoverability amount. The Group assessed the recoverability of the outstanding WHT receivable with the Federal Tax Authority (FTA). Management assessment considered the characteristics of the Group's product offering against the known characteristics of the FTA. Based on its assessment, management concluded no provision to be required. See Note 31 to the financial statements on page 125.	We assessed and tested the design and operating effectiveness of the key controls applied by the Group over the calculations of the provisions for VAT and WHT. We determined that we could rely on the key controls operated by the Group for the purposes of the audit. In relation to the potential VAT obligation, we have examined the completeness of the calculations underlying data including the accuracy of related assumptions. We assessed management's VAT scope assessment and its assumptions on the VAT recoverability amount. We further considered the opinion of management's experts and auditor's specialists. We have evaluated the Group's WHT assessment by independently assessing the product attributes. We examined the existing correspondence and supporting evidences between the Group and the FTA.

Key audit matter	*How our audit addressed the key audit matter*
Portfolio and risk management system We focussed on this area because the Group's financial accounting and reporting system is dependent on a complex system and there is a risk that the IT system architecture, the interfaces controls and business continuity measures used are not designed and operating effectively. See Note 23 to the financial statements on pages 120 to 122.	We critically assessed and tested the design and operating effectiveness of the key controls on the Group's IT systems relating to financial reporting. The system's suitability was tested by means of inquiry with management and users and by considering the Group's IT strategy and its implementation status. We further tested logical and physical access restrictions in place.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Leonteq AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Rolf Birrer	Roman Schnider
Audit expert Auditor in charge	Audit expert

Zurich, 7 February 2018

STATUTORY FINANCIAL STATEMENTS

To further support the growth of the business and focus on an increase in available capital, the Board of Directors proposes no distribution from reserves from capital contribution/no dividend for 2017.

Leonteq AG
Income statement

CHF thousands	Note	2017	2016
Operating income			
Dividend income from Leonteq Securities AG		—	30,000
Interest income from Leonteq Securities AG	6	9,252	11,726
Interest expense on cash overdrafts		(2)	(6)
Interest expense to Leonteq Securities AG		—	(8)
Total operating income		**9,250**	**41,712**
Operating expenses			
Personnel expenses	7	2,002	3,120
Other operating expenses	8	2,839	754
Total operating expenses		**4,841**	**3,874**
Profit/(loss) before taxes		**4,409**	**37,838**
Taxes	9	114	108
Net profit/(loss)		**4,295**	**37,730**

Leonteq AG
Balance sheet

Assets

CHF thousands	Note	31.12.2017	31.12.2016
Current assets			
Due from banks	1	6,855	1,271
Due from subsidiaries	2	345	259
Accrued income and prepaid expenses	3	2,395	3,496
Total current assets		**9,595**	**5,026**
Non-current assets			
Due from Leonteq Securities AG		7,000	7,000
Financial investments	4	100,000	150,000
Investments in subsidiaries	5	192,179	135,825
Total non-current assets		**299,179**	**292,825**
Total assets		**308,774**	**297,851**
whereof subordinated in favour of Leonteq Securities AG		109,147	160,191

Liabilities & Shareholders' equity

CHF thousands	Note	31.12.2017	31.12.2016
Short-term liabilities			
Due to banks		—	3
Due to Leonteq Securities AG		7,256	—
Accrued expenses		725	293
Total short-term liabilities		**7,981**	**296**
Total liabilities		**7,981**	**296**
Shareholders' equity			
Share capital	13	15,945	15,945
Legal reserves		185,761	185,761
whereof general legal reserves		3,189	3,189
whereof reserves from capital contributions		182,572	182,572
Own shares	13	(15,336)	(14,279)
Profit carried forward		110,128	72,398
Net profit/(loss)		4,295	37,730
Total shareholders' equity		**300,793**	**297,555**
Total liabilities and shareholders' equity		**308,774**	**297,851**

Proposal to the Annual General Meeting

Proposed appropriation of retained earnings

The Board of Directors proposes the following allocation of retained earnings:

CHF thousands	2017	2016
Net profit	4,295	37,730
Profit carried forward	110,128	72,398
Accumulated profit	**114,423**	**110'128**
Distribution of profit		
Allocation to general legal reserves	—	—
Allocation to other reserves	—	—
Profit carried forward	**114,423**	**110,128**

Proposed distribution from reserves from capital contribution

Subject to the approval by the Annual General Meeting, the Board of Directors proposes the distribution from reserves from capital contributions/dividend of CHF 0 per share (2016 CHF 0 per share):

CHF thousands	31.12.2017	31.12.2016
Reserves from capital contributions		
Balance carried forward	182,572	182,308
Distribution from reserves from capital contributions on treasury shares relating to the prior year period	—	264
Proceeds from capital increase	—	—
Balance before distribution	**182,572**	**182,572**
whereof confirmed by the tax authorities	168,997	168,997
Proposed distribution from reserves from capital contributions	—	—
Balance after distribution	**182,572**	**182,572**

NOTES

Accounting policies and valuation principles

The financial statements of Leonteq AG, Zurich, have been prepared in accordance with the Swiss Code of Obligations. The most significant accounting policies are summarised below:

Recognition of transactions
All transactions are accounted for at the time of their contractual initiation. Spot and forward transactions are recorded as off-balance sheet items until their value date becomes effective.

Foreign currency transactions and translation
Assets and liabilities denominated in foreign currencies are converted at exchange rates prevailing at year-end. Transactions occurring during the year are recorded at the actual exchange rate of the respective date. The differences between the year-end exchange rate and the average rate are recorded as a foreign exchange difference in the net trading income.

Major exchange rates used in CHF

	Balance sheet rate as of 31.12.2017	Balance sheet rate as of 31.12.2016
EUR	1.1692	1.0720
GBP	1.3155	1.2551
HKD	0.1247	0.1313
SGD	0.7285	0.7032
JPY	0.0086	N/A

Risk assessment
The risk assessment of Leonteq AG is performed regularly according to Swiss Code of Obligations Art. 961c and was approved by the Board of Directors on 5 December 2017.

Balance sheet disclosures

1 Due from banks

CHF thousands	31.12.2017	31.12.2016
Due from banks at sight	6,855	1,271
Total due from banks	**6,855**	**1,271**

2 Due from subsidiaries

CHF thousands	31.12.2017	31.12.2016
Leonteq Securities (Japan) Preparation Ltd. – other receivables	265	—
Leonteq Securities AG – other receivables	80	259
Total due from subsidiaries	**345**	**259**

3 Accrued income and prepaid expenses

CHF thousands	31.12.2017	31.12.2016
Accrued interest income from Leonteq Securities AG	2,147	3,242
Prepaid expenses	248	254
Total accrued income and prepaid expenses	**2,395**	**3,496**

4 Financial investments

CHF thousands	31.12.2017	31.12.2016
Leonteq Securities AG – Tier 1 Contingent Convertible Loan Notes – Tranche 1 – subordinated	50,000	50,000
Leonteq Securities AG – Tier 1 Contingent Convertible Loan Notes – Tranche 2 – subordinated [1]	—	50,000
Leonteq Securities AG – Tier 1 Contingent Convertible Loan Notes – Tranche 4 – subordinated	50,000	50,000
Total financial investments	**100,000**	**150,000**

[1] Has been redeemed on 13 December 2017.

5 Investments in subsidiaries

CHF thousands Name	Domicile	Business activity	Equity interest in %	Share capital	
				31.12.2017	31.12.2016
Leonteq Securities AG [2]	Zurich, Switzerland	Securities dealer	100%	15,000	15,000
Leonteq Securities (Monaco) SAM	Monte Carlo, Monaco	Financial services provider	99.9%	759	759
Leonteq Securities (Europe) GmbH [3]	Frankfurt, Germany	Financial services provider	100%	256	256
Leonteq Securities (Hong Kong) Ltd.	Central, Hong Kong	Financial services provider	100%	1,224	1,224
Leonteq Securities (Singapore) Pte Ltd.	Singapore, Singapore	Financial services provider	100%	741	741
Leonteq Securities (Japan) Preparation Ltd. [4]	Tokyo, Japan	Financial services provider	100%	175	N/A

[2] Leonteq Securities AG has a branches in Amsterdam and in Guernsey.
[3] Leonteq Securities (Europe) GmbH has branches in London and Paris.
[4] Leonteq Securities (Japan) Preparation Ltd. was incorporated on 1 November 2017. In January 2018 the share capital was increased to JPY 250 million.

Income statement disclosures

6 Interest income from Leonteq Securities AG

CHF thousands	2017	2016
Subordinated interest income from Leonteq Securities AG	554	556
Contingent convertible loan interest income from Leonteq Securities AG	8,698	11,170
Total interest income from Leonteq Securities AG	**9,252**	**11,726**

7 Personnel expenses

CHF thousands	2017	2016
Board remuneration	1,750	2,169
Recruitment costs	252	951
Total personnel expenses	**2,002**	**3,120**

8 Other operating expenses

CHF thousands	2017	2016
Intercompany service recharges	1,037	(517)
Marketing expenses	486	188
Banking fees	40	(53)
Consultancy	736	565
Insurances	486	477
Indirect taxes	(22)	(2)
Other	76	96
Total other operating expenses	**2,839**	**754**

9 Taxes

CHF thousands	2017	2016
Income taxes	—	—
Capital taxes	114	108
Total taxes	**114**	**108**

Other disclosures

10 Headcount

Leonteq AG did not have any employees during the financial year 2017 and 2016. All members of the executive committee are employed and paid by Leonteq Securities AG.

11 Guarantees and commitments

On 10 April 2015 Leonteq AG signed a letter of undertaking with SFM HK Management Limited relating to the lease of the office premises of Leonteq Securities (Hong Kong) Ltd. As of 31 December 2017 the total commitment relating to future rental payments under this lease amounted to HKD 2.8 million (CHF 0.3 million) (for 2016 of HKD 9.4 million or CHF 1.2 million, respectively), excluding taxes.

On 10 August 2015 Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017 the lease was assigned to a third party. In connection with the transfer it was agreed that this deed of guarantee will remain with Leonteq AG. As of 31 December 2017 the total commitment relating to future rental payments under the original lease contract amounted to GBP 11.4 million (CHF 15.0 million) (for 2016 of GBP 12.5 million or CHF 15.8 million, respectively), excluding taxes.

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

12 Significant shareholders

	31.12.2017		31.12.2016	
	Current Number of share holding	Current Number of voting rights in %	Current Number of share holding	Current Number of voting rights in %
Raiffeisen Switzerland Cooperative[5]	4,626,397	29.02%	4,624,835	29.01%
Jan Schoch[8]	—	—	1,124,253	7.05%
Lukas Ruflin family interests[6, 7, 8]	1,283,762	8.05%	1,035,429	6.49%
Sandro Dorigo[8]	390,082	2.45%	365,001	2.29%
Subtotal shareholders' agreement	**6,300,241**	**39.51%**	**7,149,518**	**44.84%**
Rainer-Marc Frey[9, 10]	1,015,000	6.37%	N/A	N/A
Credit Suisse Funds AG[11]	478,750	3.00%	N/A	N/A
Government of Singapore	—	—	516,528	3.24%
VERAISON SICAV – Engagement Fund	—	—	798,361	5.01%
Other shareholders including own shares	8,150,513	51.12%	7,480,097	46.91%
Total	**15,944,504**	**100.00%**	**15,944,504**	**100.00%**

5 158,879 shares are directly held by Notenstein La Roche Private Bank Ltd, St. Gallen as a wholly owned subsidiary of Raiffeisen Switzerland Cooperative, St. Gallen.
6 Lukas Ruflin family interests represents all holdings by Lukas T. Ruflin (founding partner), Clairmont Trust Company Limited and Thabatseka LP; Clairmont Trust Company Limited acts as trustee of a trust which holds shares in Leonteq AG through Thabatseka LP (which in turn is indirectly wholly owned by Clairmont Trust Company Limited); the trust was settled by Lukas T. Ruflin.
7 In addition holds 462,325 call options, written by Raiffeisen, with the following conditions: strike CHF 210 (adjusted by cumulative dividends per share from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style.
8 Founding partner.
9 H21 Macro Limited, Cayman Islands is the direct shareholder of the shares. Horizon21 AG, Pfäffikon SZ, Switzerland acts as fund management company.
10 Creation of obligation to notify: 13 March 2017.
11 Creation of obligation to notify: 25 October 2017.

13 Share capital

As of 31 December 2017 and 31 December 2016 respectively, the share capital of the Company consisted of 15,944,504 registered shares at a nominal value of CHF 1.00 each.

Authorised capital

On 23 March 2017, the AGM agreed to the creation of authorised capital of a maximum of CHF 3.0 million through the issuance of a maximum of 3.0 million registered shares with a nominal value of CHF 1.00 each for the purpose of a capital increase until no later than 22 March 2019.

Conditional share capital

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

Own shares

During the course of 2017 Leonteq AG increased its holding on own shares by 97,372 shares through purchases at the stock exchange. As of 31 December 2017 the company held 250,231 own shares for potential future share deliveries.

14 Ownership of shares and options by members of the Board 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 2017 and 31 December 2016, respectively. Members of the Board of Directors did not hold any options to acquire shares as of 31 December 2017. RSUs issued to Executive Committee members convert into shares upon vesting. See Note 32, Shareholder's equity.

	Shares 31.12.2017	Granted Shares 31.12.2017[17]	Restricted Stock Units 31.12.2017[16]	Call Options 31.12.2017	Shares 31.12.2016	Granted Shares 31.12.2016[17]	Restricted Stock Units 31.12.2016[16]	Call Options 31.12.2016[22]
Board of Directors								
Christopher M. Chambers[12]	5,968	—	—	—	N/A	N/A	N/A	N/A
Lukas T. Ruflin[13, 15]	10,424	—	—	—	4,500	—	—	—
Jörg Behrens	9,350	—	—	—	5,887	—	—	—
Paulo Brügger[12]	—	—	—	—	N/A	N/A	N/A	N/A
Vince Chandler	16,223	—	—	—	13,244	—	—	—
Patrick de Figueiredo	6,069	—	—	—	3,886	—	—	—
Hans Isler	12,259	—	—	—	7,806	—	—	—
Thomas R. Meier[12]	415	—	—	—	N/A	N/A	N/A	N/A
Patrik Gisel[12]	N/A	N/A	N/A	N/A	1,800	—	—	—
Pierin Vincenz[12]	N/A	N/A	N/A	N/A	29,234	—	—	—
Total	**60,708**	**–**	**–**	**–**	**66,357**	**–**	**–**	**–**
Executive Committee								
Marco Amato	7,500	—	3,152	—	1,500	—	3,152	—
Jochen Kühn[21]	—	—	50,201	—	N/A	N/A	N/A	N/A
Manish Patnaik	3,844	706	—	—	3,138	1,412	—	—
Reto Quadroni[18]	699	—	1,420	—	N/A	N/A	N/A	N/A
David Schmid	13,640	358	1,243	—	7,660	716	1,865	—
Ingrid Silveri[18]	288	—	979	—	N/A	N/A	N/A	N/A
Justin Arbuckle[20]	N/A	N/A	N/A	N/A	—	—	—	—
Sandro Dorigo[20]	N/A	N/A	N/A	N/A	365,001	—	377	—
Steven Downey[20]	N/A	N/A	N/A	N/A	—	—	—	—
Ulrich Sauter[19]	N/A	N/A	N/A	N/A	8,024	524	2,631	—
Jan Schoch[14]	N/A	N/A	N/A	N/A	1,124,253	—	1,798	462,325
Tobias Wohlfarth[20]	N/A	N/A	N/A	N/A	1,350	—	—	—
Total	**25,971**	**1,064**	**56,995**	**–**	**1,510,926**	**2,652**	**9,823**	**462,325**

[12] Patrik Gisel and Pierin Vincenz resigned from and Christopher M. Chambers, Paulo Brügger and Thomas R. Meier joined the Board of Directors as per 22 November 2017.

[13] This excludes 1,273,338 shares as of 31 December 2017 (1,030,929 as of 31 December 2016) 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.

[14] As per 6 October 2017 Jan Schoch stepped down from his function as CEO and left the EC. He sold all of his 1,053,527 Leonteq shares (representing 6.61% of the outstanding Leonteq shares) by way of a private placement as follows: 946,527 shares with institutional investors; 82,000 shares with Lukas Ruflin family interests and 25,000 shares with Sandro Dorigo. Jan Schoch does no longer hold any options on Leonteq shares as of 31 December 2017 either.

[15] Excluding 462,325 call options as of 31 December 2017 (462,325 call options as of 31 December 2016) held by Thabatseka LP; call options have the following conditions: strike CHF 210 (adjusted by cumulative dividends per share from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

[16] Balance of unvested restricted stock units granted for prior year variable compensation or contractually agreed with vesting periods 2018 – 2021.

[17] Balance of unvested shares granted in 2015 for prior year variable compensation with vesting periods 2016 - 2018.

[18] Ingrid Silveri and Reto Quadroni joined the EC as per 1 October 2017.

[19] Ulrich Sauter resigned from EC as per 30 September 2017.

[20] Steven Downey, Tobias Wohlfarth, Justin Arbuckle and Sandro Dorigo resigned from EC as per 9 February 2017.

[21] Jochen Kühn joined the EC as per 9 January 2017.

[22] Call Options have the following conditions: strike CHF 210; subscription ratio 1:1; maturity 19 October 2025; European style. These Call Options are written by Raiffeisen.

The Company has not granted any loans or guarantee commitments to members of the Board of Directors or members of the Executive Committee.

15 Auditor's remuneration

Audit fees
The Group paid PwC audit fees of CHF 0.9 million for the year 2017 and CHF 1.13 million for the year 2016.

Additional fees
Additional fees of CHF 0.3 million were paid to PWC in 2017 and CHF 0.2 million in 2016.

16 Collateralised assets

As of the balance sheet date, Leonteq AG has no transactions outstanding in relation to collateralisation or securitisation.

17 Events after the balance sheet date

No events were incurred after the balance sheet date which would adversely affect the financial statements.

18 Waiver due to publication of Consolidated Statements

In accordance with Swiss Code of Obligation Art. 961d we refer to the consolidated financial statements of the Group for the financial and operational review and the statement of cash flows.

Report of the statutory auditor

to the General Meeting of Leonteq AG, Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Leonteq AG (the Company), which comprise the income statement, balance sheet and notes for the year ended 31 December 2017.

In our opinion, the financial statements (pages 151 to 159) as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

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

We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Our audit approach

Overview

Overall materiality: CHF 3.1 million

We conducted full scope audit work at Leonteq AG.

The following are the key audit matter that we identified:

- Valuation of investments in subsidiaries

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Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 3.1 million
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as a critical measure because, in our view, it is the commonly applied measure for a holding company. The 1% benchmark is a generally accepted auditing practice and there were no significant unusual elements that merited adjustments to this benchmark.

We agreed with the Board of Directors that we would report to them misstatements above CHF 150’000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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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.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of investments in subsidiaries There is a risk that the investments in subsidiaries are overstated. See Note 5 to the financial statements on page 155.	We reviewed management's processes and controls in assessing whether there is an external or internal indication of impairment. For all subsidiaries we analysed the latest developments, the current and future profitability to independently assess whether there are any impairment indicators. We compared the individual subsidiaries carrying amount against the corresponding net assets. We critically assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the entity's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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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.

PricewaterhouseCoopers AG

Rolf Birrer	Roman Schnider
Audit expert Auditor in charge	Audit expert

Zurich, 7 February 2018

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