LEONTEQ

HALF YEAR REPORT 2020

CONTENT

Financial highlights

For the six months ended 30 June 2020, unless otherwise stated

	2020	2019	Change %
Group results (CHF million)			
Total operating income	103.5	124.6	(17%)
Profit before taxes	4.8	30.5	(84%)
Group net profit	5.5	30.2	(82%)
Key ratios			
Cost/income ratio	95%	76%	19 pp
Return on equity	2%	10%	(8 pp)
Investment Solutions			
Platform assets (CHF billion)[1]	13.1	14.7	(11%)
Turnover (CHF billion)	15.4	15.0	3%
Fee income margin (bps)	129	71	58 bps
Number of clients	884	841	5%
Insurance & Wealth Planning Solutions			
Number of outstanding policies[1]	49,746	47,237	5%
Net new policies	2,509	3,092	(19%)
Balance sheet (CHF million)[1]			
Total assets	13,449.1	9,076.8	48%
Total shareholders' equity	659.0	662.5	(1%)
Share information			
Market capitalisation (CHF million)[1]	753	622	21%
Number of shares outstanding[1]	18,934,097	18,934,097	N/A
Share price (CHF)[1]	39.75	32.84	21%
Basic earnings per share (CHF)	0.29	1.61	(82%)
Diluted earnings per share (CHF)	0.29	1.59	(82%)
Employees			
Number of full-time equivalent employees[1]	523	508	3%
Credit rating			
Long-term issuer default rating (Fitch)	BBB-/stable	BBB-/positive	N/A
Long-term issuer rating (JCR)	BBB+/stable	BBB+/stable	N/A

[1] As of 30 June 2020, and 31 December 2019, respectively.

Alternative performance measures

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

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

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

Dear shareholders

The first half 2020 results have proven that Leonteq can weather the storm in real periods of market stress and is able to safeguard its profitability. Whilst the bottom-line result is disappointing, we are encouraged by a strengthened client franchise and the significant progress achieved through diligently executing our strategic priorities we defined two years ago. SHIP is now up and running, we are expanding our white-labelling partner network and further transforming our digital marketplace.

Group results for the first half of 2020

Leonteq's financial results were significantly impacted by Covid-19 crisis in the first half of 2019. We continued to deliver our full-service offering to our clients and recorded a substantial growth in net fee income of 76% to a record CHF 213.0 million. At the same time, our net trading result was CHF -107.1 million as a result of hedging-related losses driven by the oil price shock and the wide-spread cancellation of previously announced dividend payments, and an increase in hedging-related costs which were only partially offset by positive hedging contributions from Leonteq's structural long volatility position. Overall, we reported total operating income of CHF 103.5 million in the first half of 2020, compared to CHF 124.6 million in the first half of 2019. Total operating expenses increased by 5% year on year to CHF 98.7 million in the first half of 2020, reflecting the investments in key strategic initiatives, partly offset by strict cost management. In line with the guidance provided on 9 April 2020, Group net profit totalled CHF 5.5 million in the first half of 2020, compared to CHF 30.2 million in the prior-year period. Our shareholders' equity totalled CHF 659.0 million as of 30 June 2020 compared to CHF 662.5 million as of 31 December 2019.

Strategic progress

We continue to progress on our key strategic initiatives for business transformation defined in mid-2018 and have achieved major milestones in the first half of 2020 to enhance scalability and further growth, and to renew the investment experience for clients and partners through increased digitalisation of our offering. Included in these achievements, is our Smart Hedging Issuance Platform (SHIP), which is now operational. Designed to reduce hedging exposure by offering issuance partners the opportunity to enter into hedging transactions with external hedging partners, SHIP has a total of seven leading investment banks connected to the platform, of which five are already executing trades. We have also significantly expanded our network of white-labelling issuers. Onboarding projects with Basler Kantonalbank and Rand Merchant Bank, a division of FirstRand Bank, are progressing according to plan, and the cooperation with PostFinance is already live with product scopes and internal distribution capabilities being currently extended.

Following the successful launch of our digital marketplace in September 2019, we have further invested in LynQs which features an intuitive and responsive design and navigation system as well as several new functionalities for better portfolio management across the entire value chain. Alongside this, our LynQs mobile app was launched, allowing clients to access LynQs features on-the-go. Furthermore, we started a strategic partnership with BlackRock which is expected to further diversify our revenue base.

Nearshoring to Portugal

We have launched our initiative to consider nearshoring options to achieve savings and facilitate future growth in a more cost-efficient way as the business will continue to expand and transform. After an extensive assessment process, we have chosen Lisbon, Portugal as the location of choice due to several factors, including talent and sourcing opportunities, political stability, quality of life, time zone and cost considerations. Phase 1 of the nearshoring setup will consist of establishing a serviced office setup, expected to be completed by the end of the fourth quarter this year, employing a small number of external IT Development personnel and other shared services functions. In a second phase starting in the first quarter of next year, we plan to set up an office with up to 100 designated roles along the entire value chain. The setup of Phase 2 is targeted to be fully operational by the end of 2022.

Christopher M. Chambers
Chairman of the Board of Directors

Lukas T. Ruflin
Chief Executive Officer

Outlook

In the first half of 2020, we have demonstrated our ability to navigate through unprecedented market environments, underlining the strength of our client business, our solid capital position as well as our robust infrastructure and business continuity management. Our technology platform was fully operational throughout that period, allowing for delivering high quality service to our clients without any material interruption.

Considerable uncertainties around the duration and the global economic impact of the Covid-19 situation are likely to persist in the second half of 2020. At the same time, interest rates in all main currencies are at a historical low, providing an attractive environment in which to offer structured investment products. Against this backdrop and given our strategic momentum, we will continue to invest in key initiatives, with total operating expenses expected to amount to approx. CHF 200 million for the full year 2020. At the same time, we will closely monitor the situation and continue to safeguard our profitability. We will continue to focus on our strategic priorities to transform into a platform business and see ourselves well positioned for further growth.

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

L. Ruflin

Christopher M. Chambers
Chairman of the Board of Directors

Lukas T. Ruflin
Chief Executive Officer

MANAGEMENT REPORT

Strategic progress

The traditional global financial services landscape is being disrupted by the rapid advance of financial technology. As a contributor to the digital transformation of financial services, Leonteq is continuously reshaping its product and service offering to enhance the client experience as well as services for its white-labelling partners. In the first half of 2020, Leonteq made significant progress in the delivery of key strategic initiatives defined in 2018 in order to transform the business. As part of this process, Leonteq has focused on enhancing the scalability of its business lines and hedging offerings and on investing in expanded issuance capabilities by strengthening existing and establishing new collaboration agreements with platform partners. It has also renewed the investment experience for clients and partners through the increased digitisation of its offering and has invested in its technology platform for enhanced business functionality.

SHIP and third-party issuers

The scalability of Leonteq's hedging activities has been a priority since 2018, when it started implementing its Smart Hedging Issuance Platform (SHIP). Through SHIP's functionalities, the direct hedging of platform partners and the platform for third-party issuers, Leonteq aims to reduce hedging exposures by outsourcing option components to external counterparties. SHIP reduces Leonteq's hedging exposure by offering its issuance partners the opportunity to enter into hedging transactions for their issued products with external hedging partners. Now operational, SHIP is transforming Leonteq's position from a balance sheet business to a platform business.

Before SHIP was implemented, the Leonteq platform allowed clients to select their desired credit risk from 11 different issuers via the multi-issuer platform. However, the option component was mainly provided by Leonteq and internally hedged on an aggregated macro level, resulting in risks that had to be backed by capital. With SHIP, we are outsourcing the option component to third-party providers if they offer a better price. This micro hedging approach on a trade-by-trade basis has always existed but previously took the form of a manual process of price negotiations, confirmations and bookings. To address these constraints, Leonteq is extending its platform to enable the automated quoting, trading and booking of OTC derivative micro hedges through electronic messaging, as well as internal and external automation, providing a low-touch solution.

SHIP is one of the few platforms – if not the only one – to allow for the automation of both the bond and the option component from third-party providers. This creates benefits for our clients, who thus receive best execution for the option component and the zero bond component of a structured product for the same level of service, and for our issuance partners, who are able to diversify their counterparty risk away from Leonteq. It also benefits our employees and shareholders by making our business more scalable and profitable. Our ambition is to leverage our established client, partner and hedging franchise to become the leading marketplace for structured investment solutions worldwide.

As envisaged two years ago, SHIP is now up and running. A total of seven leading investment banks are connected to the platform, five of which are already executing trades. Leonteq has also extended its capabilities to enter into back-to-back hedging transactions on a bespoke basis. In addition, it has increased its offering of products manufactured outside of the Leonteq platform by adding a total of 15 third-party issuers to its marketplace. In the first half of 2020, a total notional volume of approximately CHF 895 million, or approximately 6% of total turnover, was directly hedged by an external counterparty compared to CHF 182 million, or approximately 1%, in the prior-year period.

White-labelling issuers

As SHIP becomes fully operational, offering Leonteq's issuance partners the opportunity to enter into hedging transactions for issued products with external hedging partners, Leonteq is also continuing to further expand and streamline its white-labelling issuance model. In the first half of 2020, Leonteq enhanced cooperation with its existing platform partners and held discussions and negotiations with new issuers. It welcomed new white-labelling issuance partners Rand Merchant Bank and Basler Kantonalbank to its platform and signed an agreement with PostFinance relating to their cooperation in the field of structured investment products.

Leonteq's collaboration with Rand Merchant Bank, a division of FirstRand Bank, covers the issuance and distribution of structured investment products with Leonteq providing a broad range of services along the entire value chain, including the launch of a structured product offering, structuring, product documentation, hedging of derivative components, market making, lifecycle management and processing. Under the terms of the collaboration with Rand Merchant Bank, it is intended that both Leonteq and Rand Merchant Bank will distribute structured investment products to their respective clients, with the first products expected to be issued at the end of 2020. Similarly, Basler Kantonalbank has become a new white-labelling partner of Leonteq and, as part of their broad cooperation agreement, the structured investment products issued by Basler Kantonalbank will be distributed by both companies to their respective clients in Switzerland.

In early 2020, in a comprehensive tender process, Leonteq competed successfully with well-known issuers of structured products and, in April 2020, signed an agreement to cooperate with PostFinance in the field of structured investment products. This agreement signalled the further expansion of the existing cooperation between Leonteq and PostFinance. Back in March 2017, Leonteq and PostFinance launched a pilot project to assess the market potential for PostFinance to issue structured investment products. In this pilot phase, more than 440 structured investment products with a turnover of around CHF 170 million were issued in monthly product series. As part of the new cooperation agreement with PostFinance, Leonteq will provide all services along the entire value chain, including issuing, product documentation, hedging, market making, secondary market services and lifecycle management.

LynQs

As part of the transformation of its platform and distribution capabilities, Leonteq is enabling clients to issue and distribute products via their own and captive channels through its digital marketplace LynQs, which was launched in September 2019. As an in-house developed technology, LynQs gives Leonteq clients digital access to one of the largest structured product universes available. LynQs is based on Leonteq's analytical library and financial product engine, providing Leonteq clients with a completely new investment experience. By gaining access to one of the largest structured product universes, clients benefit from unique lifecycle management and investment ideas, and they can invest in a tailor-made and optimised way. LynQs serves as a 'one-stop shop' and provides Leonteq's clients with external access to applications, services and market and product data that were previously only available internally.

In the first half 2020, Leonteq continued to invest in LynQs, which features an intuitive and responsive design and navigation system as well as several new functionalities, enabling Leonteq's clients to manage their portfolio of structured products more efficiently across the entire value chain, including facilitating the management of products issued outside the Leonteq platform. Leonteq also made investments to further enhance the visibility and transparency of its clients' structured products portfolio for real-time monitoring, especially during these challenging times, by launching a new mobile app that offers all the features of LynQs in a simplified form for their on-the-go needs.

Fund derivatives

In addition to its renewed digital investment offering for clients and partners, Leonteq provides dedicated trading and structuring expertise on mutual funds via its fund derivative desk and through its close collaboration with a wide range of fund management companies to deliver innovative solutions and competitive pricing. In June 2020, Leonteq entered into a strategic partnership with BlackRock, which is expected to further diversify Leonteq's revenue base. In this context, Leonteq will develop and market structured investment products with BlackRock's Luxembourg mutual funds and iShares ETFs as underlying assets. In addition to that, Leonteq will include BlackRock's Luxembourg mutual funds and iShares as underlyings in its digital marketplace for structured products, LynQs, and now generates monthly product ideas for distribution across its global salesforce. Combined with its structured products expertise, Leonteq is able to offer clients downside protection, upside potential or greater investment flexibility when investing in mutual funds.

Platform scalability

The volume of transactions executed on Leonteq's platform has grown significantly in the past few years. As the company continues to scale its hedging, issuance and distribution capabilities, Leonteq's platform scalability is also increasing and centres around enabling rapid and low-cost securitisation through automation by continuously upgrading its innovative technology platform and using the latest services that are available in the market for its infrastructure and development. To this end, Leonteq has entered into a collaboration with Google Cloud to augment its distributed (grid) computation capacities using infrastructure from Google Cloud Platform region in Switzerland. By leveraging Google Cloud infrastructure, Leonteq is able to increase its computation power by elasticising its grid capacity from two on-site data centres into the cloud and thus meet the higher computation demand that accompanies business growth and increased demand for the pricing and trading of structured investment products from its clients and white-labelling partners.

Group results

In the first half of 2020, the Covid-19 crisis impacted Leonteq's financial performance while its client business remained strong. In line with the guidance provided on 9 April 2020, Group net profit totalled CHF 5.5 million in the first half of 2020, compared to CHF 30.2 million in the prior-year period.

Income statement

CHF million	H1 2020	H2 2019	H1 2019	Change from H1 2019
Net fee income	213.0	144.0	120.9	76%
Net trading result	(107.1)	(10.7)	7.5	N/A
Net interest result	(5.0)	(3.1)	(5.2)	(4%)
Other ordinary income	2.6	1.4	1.4	86%
Total operating income	**103.5**	**131.6**	**124.6**	**(17%)**
Personnel expenses	(63.4)	(58.1)	(58.8)	8%
Other operating expenses	(23.0)	(21.5)	(19.3)	19%
Depreciation	(16.3)	(15.8)	(14.3)	14%
Changes to provisions	4.0	(1.6)	(1.7)	N/A
Total operating expenses	**(98.7)**	**(97.0)**	**(94.1)**	**5%**
Profit before taxes	**4.8**	**34.6**	**30.5**	**(84%)**
Taxes	0.7	(2.1)	(0.3)	N/A
Group net profit	**5.5**	**32.5**	**30.2**	**(82%)**

Total operating income

Leonteq achieved a strong start to the 2020 financial year with high levels of client activity and a positive trading result on the back of increased volatility towards the end of February. In March and April, the global spread of Covid-19 and the oil price shock resulted in exceptionally high levels of volatility and turmoil in the global capital markets that affected all asset classes underlying structured products. In May and June, the capital markets recovered significantly, with normalising volatility levels.

In this environment, Leonteq generated a significant increase in turnover and fee income, as it continued to deliver its full-service offering to clients, including liquid market making services. Net fee income rose by 76% to a record CHF 213.0 million. At the same time, net trading result was CHF -107.1 million for the first half of 2020, compared to CHF 7.5 million in the prior-year period. This was primarily due to hedging-related losses driven by the oil price shock in March (approximately CHF -20 million) as well as the widespread and unexpected cancellation of previously announced dividend payments, which affected cashflows from shareholdings owned by Leonteq for hedging purposes (approximately CHF -38 million). In addition, Leonteq recorded a significant increase in hedging-related costs as market risk exposures changed rapidly in an increasingly illiquid hedging market which were only partially offset by positive hedging contributions from Leonteq's structural long volatility position. Overall, Leonteq reported total operating income of CHF 103.5 million in the first half of 2020, compared to CHF 124.6 million in the first half of 2019.

Leonteq reported double-digit growth in all its regional operations. In its home market of Switzerland, net fee income increased by 56% to CHF 82.0 million in the first half of 2020, while the business in Europe grew by 105% to CHF 113.2 million. The Asia region saw a 34% increase in net fee income year on year to CHF 17.8 million.

Net fee income split by region

CHF million	H1 2020	H2 2019	H1 2019	Change from H1 2019
Switzerland	82.0	59.3	52.4	56%
Europe	113.2	69.8	55.2	105%
Asia	17.8	14.9	13.3	34%
Total net fee income	**213.0**	**144.0**	**120.9**	**76%**

Total operating expenses

Total operating expenses increased by 5% year on year to CHF 98.7 million in the first half of 2020, reflecting investments in key strategic initiatives, partly offset by strict cost management. Personnel expenses increased to CHF 63.4 million (up 8% from H1 2019) as a result of additional hires in the areas of Sales, IT and other shared services functions since end-June 2019.

Other operating expenses rose by 19% to CHF 23.0 million due to higher project related costs and other investments. Depreciation increased by 14% to CHF 16.3 million as a result of higher investments in Leonteq's IT technology platform. Based on a decision by the federal tax authorities in favour of Leonteq in connection with value added taxes, Leonteq released provisions in the amount of CHF 5.8 million which had a positive impact on total operating expenses.

FTEs split by region

	30.06.2020	31.12.2019	30.06.2019	Change from YE 2019
Switzerland	357	350	342	2%
Europe	95	85	79	12%
Asia	71	73	74	(3%)
Total FTEs	**523**	**508**	**495**	**3%**
of which IT	139	138	128	1%
of which sales	91	92	87	(1%)

Balance sheet

The market environment at end-June 2020 was characterised by higher volatility levels not recorded in prior year periods which significantly increased the positive and negative replacement values of derivatives instruments by 109% to CHF 6.3 billion and 95% to CHF 4.9 billion respectively. At the same time, cash collateral paid and settlement receivables saw a strong increase of 82% to CHF 2.0 billion whilst Leonteq's own issued products remained stable around CHF 4.1 billion at end-June 2020. As a result, total assets increased by 48% to CHF 13.4 billion as of 30 June 2020, compared to CHF 9.1 billion as of 31 December 2019 and total liabilities increased by 52% to CHF 12.8 billion. Shareholders' equity totalled CHF 0.7 billion as of 30 June 2020.

Balance sheet

CHF million	30.06.2020	31.12.2019	30.06.2019	Change from YE 2019
Cash and receivables	1,980.5	1,090.5	1,651.2	82%
Trading equities and indices[1]	2,298.3	2,181.7	2,062.4	5%
Financial assets / investments[2]	2,753.2	2,644.4	2,313.6	4%
Derivatives[3]	6,253.0	2,991.7	3,366.3	109%
Other assets	164.1	168.5	193.2	(3%)
Total assets	**13,449.1**	**9,076.8**	**9,586.7**	**48%**
Short-term credit and liabilities	3,295.2	1,082.8	1,729.9	204%
Own structured investment products[4]	4,097.0	4,092.5	4,001.0	0%
Derivatives and short positions[5]	5,171.9	2,961.0	2,991.2	75%
Other liabilities	145.1	171.1	155.4	(15%)
Deferred income	80.9	106.9	78.0	(24%)
Total liabilities	**12,790.1**	**8,414.3**	**8,955.5**	**52%**
Shareholders' equity	**659.0**	**662.5**	**631.2**	**(1%)**

1 Trading financial assets CHF 2,267.5 million and trading inventories CHF 30.8 million

2 Other financial assets designated at fair value through profit or loss CHF 1,110.8 million; Financial investments measured at fair value through other comprehensive income CHF 1,642.4 million

3 Positive replacement values of derivative financial instruments

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

5 Negative replacement values of derivative financial instruments CHF 4,927.3 million; Trading financial liabilities CHF 244.6 million

Regulatory framework

The Swiss Financial Institutions Act (FinIA) and the Financial Institutions Ordinance (FinIO) entered into force on 1 January 2020. FinIA regulates the licensing requirements and further organisational rules for certain financial institutions, including securities dealers such as Leonteq, which are now designated as securities firms. The new regime distinguishes between account-holding and non-account-holding securities firms for the application of capital requirements. Securities firms that do not hold accounts for clients are no longer subject to the Capital Adequacy Ordinance but must permanently hold capital of at least one quarter of the fixed costs of the last annual financial statement, up to a maximum of CHF 20 million. Leonteq does not hold client accounts and thus is no longer subject to the requirements of the Capital Adequacy Ordinance.

Under the new regulatory framework for securities firms, Leonteq significantly exceeded its regulatory capital requirement as of 30 June 2020. Leonteq will continue to operate under its existing risk management framework and will further strengthen its absolute capital base. For further details on Leonteq's risk management framework, please refer to the "Risk and Control" section on pages 14 to 31.

Segment results

Investment Solutions

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

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

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

Leonteq's Investment Solutions business line provided a full-service offering to its clients at all times under unprecedented market conditions in the first half of 2020. Leonteq recorded strong client activity with a high amount of secondary market transactions particularly driven by the Covid-19 situation which is reflected by a record 114,480 client transactions in the first half of 2020, up 53% from the same period in 2019. Fee income margin increased to 129 basis points compared to 71 basis points in the first half of 2019 on the back of the market turmoil and increased volatility. Turnover increased to CHF 15.4 billion in the first half of 2020 compared to CHF 15.0 billion in the prior-year period.

As a result of an increase in fee income which was offset by a negative trading result, total operating income in the Investment Solutions business line decreased by 28% to CHF 76.8 million in the first half of 2020 from CHF 107.3 million in the prior-year period. Total operating expenses increased 11% to CHF 82.3 million, driven largely by higher personnel expenses. For the first half of 2020, the Investment Solutions business line reported a loss before taxes of CHF 5.5 million compared to a profit before taxes of CHF 32.9 million in the first half of 2019.

Investment Solutions	H1 2020	H2 2019	H1 2019	Change from H1 2019
Total operating income (CHFm)	76.8	98.2	107.3	(28%)
Total operating expenses (CHFm)	(82.3)	(75.1)	(74.4)	11%
Profit/(loss) before taxes (CHFm)	**(5.5)**	**23.1**	**32.9**	**(117%)**
Platform assets (CHFbn)[1]	**13.1**	**14.7**	**13.8**	**(5%)**
of which platform partner business (CHFbn)[1]	9.0	10.6	9.8	(8%)
of which Leonteq business (CHFbn)[1]	4.1	4.1	4.0	2%
Turnover (CHFbn)	**15.4**	**15.3**	**15.0**	**3%**
of which platform partner business (CHFbn)	9.2	9.5	9.3	(1%)
of which Leonteq business (CHFbn)	6.2	5.8	5.7	9%
Fee income margin (bps)	**129**	**80**	**71**	**58bps**
Platform partner margin (bps)	130	78	64	66bps
Leonteq margin (bps)	127	84	83	44bps

[1] As of 30 June 2020, 31 December 2019, and 30 June 2019, respectively; change in percentage compared to 31 December 2019

Insurance & Wealth Planning Solutions

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

Our Insurance & Wealth Planning Solutions business line generates stable recurring fee income (in-force) and has seen steady growth in the underlying number of policies sold by our insurance partners. The technologically advanced services we provide in this business line have resulted in more than 49,000 individually-managed unit-linked life insurance policies being issued on our platform, with over 58,000 policy contract changes and over 1,500,000 individual transactions processed on an automated basis every year.

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

Despite the headwinds created by the significant reduction in long-term interest rates since November 2018, the number of outstanding policies serviced on the platform increased by 2,509 to 49,746 policies as of 30 June 2020. Total operating income increased by 53% to CHF 24.7 million in the first half of 2020 due to an increase in net trading result driven by positive contributions from hedging activities. Total operating expenses increased by 15% year on year to CHF 8.5 million as a result of higher personnel expenses and an increase in depreciation due to additional investments in IT infrastructure. The Insurance & Wealth Planning Solutions business line reported an increase in profit before taxes of CHF 7.5 million, or 86%, to CHF 16.2 million in the first half of 2020, compared to CHF 8.7 million in the first half of 2019.

Insurance & Wealth Planning Solutions	H1 2020	H2 2019	H1 2019	Change from H1 2019
Total operating income (CHFm)	24.7	32.2	16.1	53%
Total operating expenses (CHFm)	(8.5)	(8.0)	(7.4)	15%
Profit before taxes (CHFm)	**16.2**	**24.2**	**8.7**	**86%**
Number of outstanding policies[1]	**49,746**	**47,237**	**44,287**	**12%**

[1] As of 30 June 2020, 31 December 2019, and 30 June 2019, respectively; change in percentage compared to 31 December 2019

RISK AND CONTROL

Reviewed information

Risk and control disclosures provided form part of the financial statements included in the "Interim consolidated financial statements" section of this report and reviewed by the independent registered public accounting firm PricewaterhouseCoopers AG, Zurich. This information is marked as "Reviewed" within this section of the report.

Signposts

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

Risk management and control framework

Reviewed | The proper assessment and control of risks are critically important for Leonteq's business. In compliance with regulatory requirements in Switzerland and other applicable jurisdictions, the Group has established a comprehensive risk management and control framework covering market risk, credit risk, operational risk and liquidity risk. Established policies and procedures not only ensure that risks are identified and monitored throughout the organisation but also that they are controlled in an effective and consistent manner.

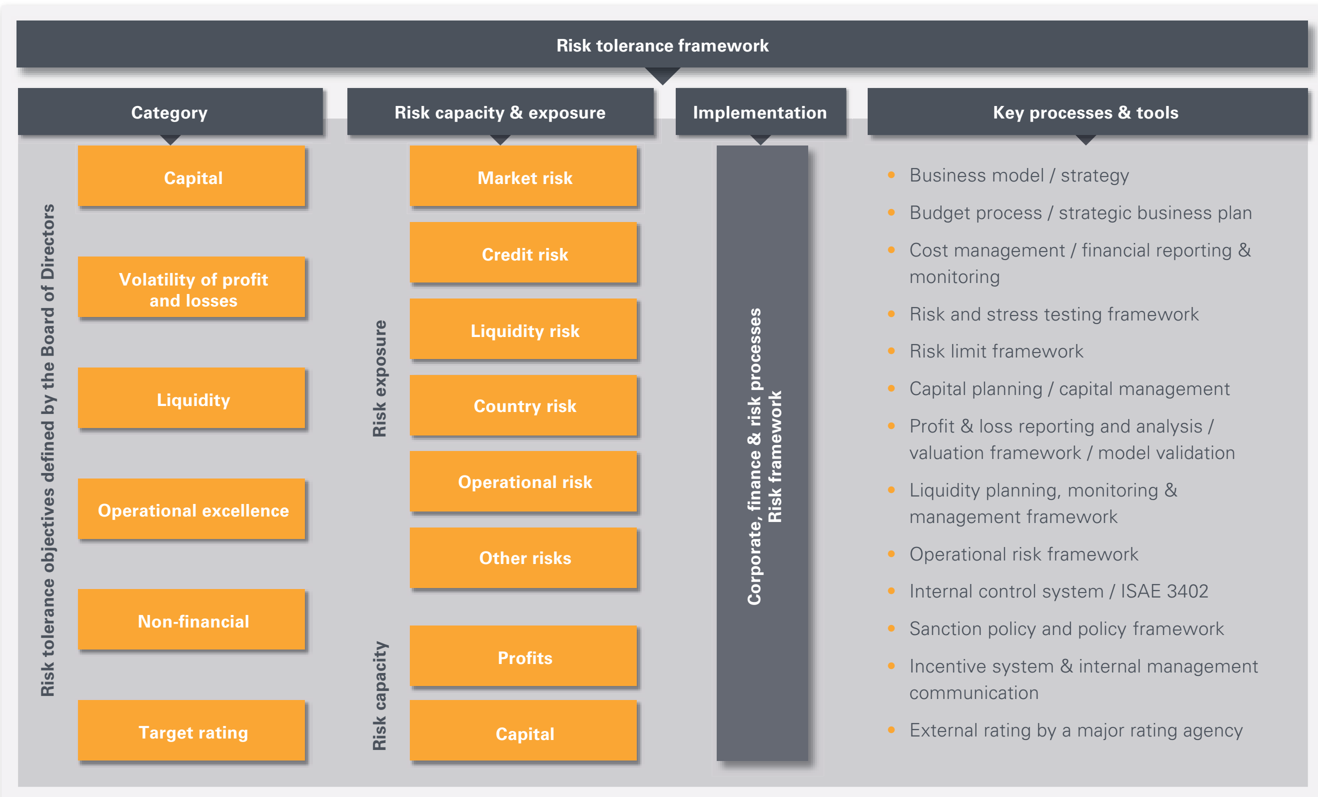
Risk management and control principles

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

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

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

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



Risk governance

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

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

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

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

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

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

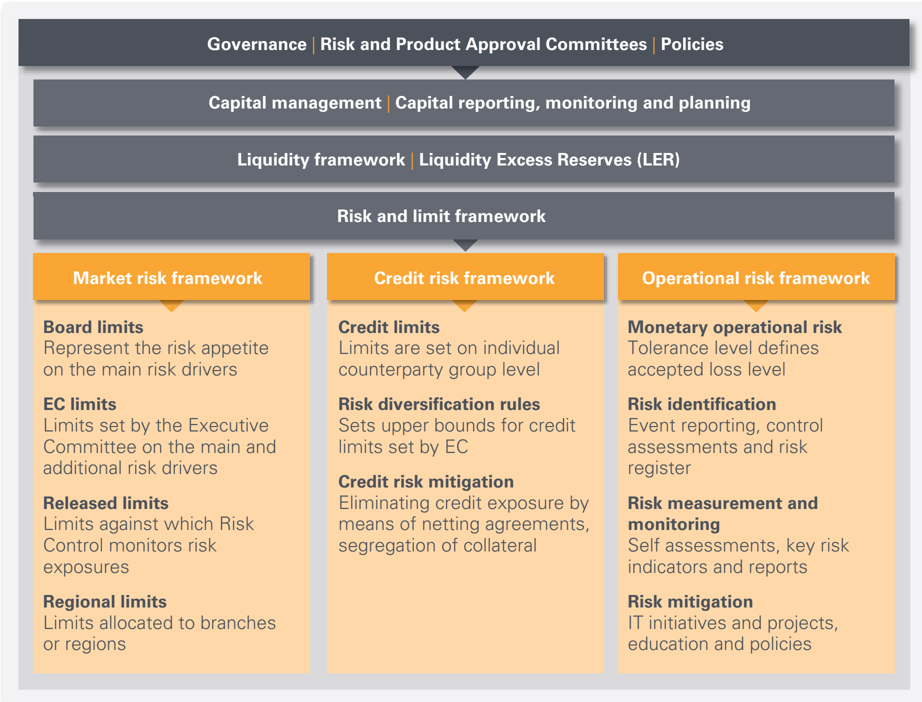
- The Product Approval Committee is responsible for approving new types of financial products before they are issued and new services before they are launched. The Product Approval Committee is composed of both members of the Executive Committee and employees responsible for operational risk control,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

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

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

Risk limit framework

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

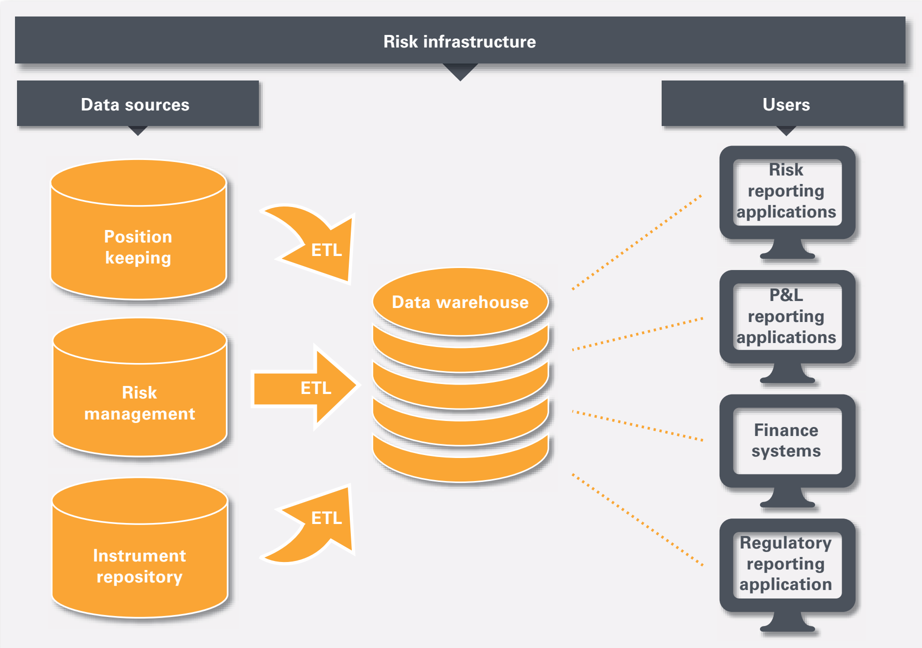


The limit framework has three different levels of limits:

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

Risk infrastructure

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



As of 30 June 2020, over 100 experienced IT professionals were responsible for maintaining and further developing the Group's systems. The same core information technology system is used across all asset classes, integrating important front-, mid- and back-office functions as well as risk management and risk control and quantitative modelling. Leonteq's structured investment service platform consists of its proprietary information technology systems and processes as well as standard hardware and software tools for non-differentiating and commoditized functions.

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

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

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

Risk control

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

Risk measures

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

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

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

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

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

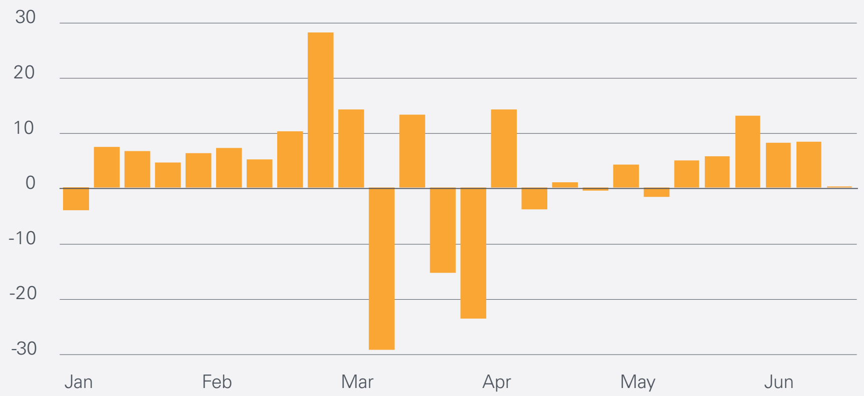
Profit and loss analysis

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

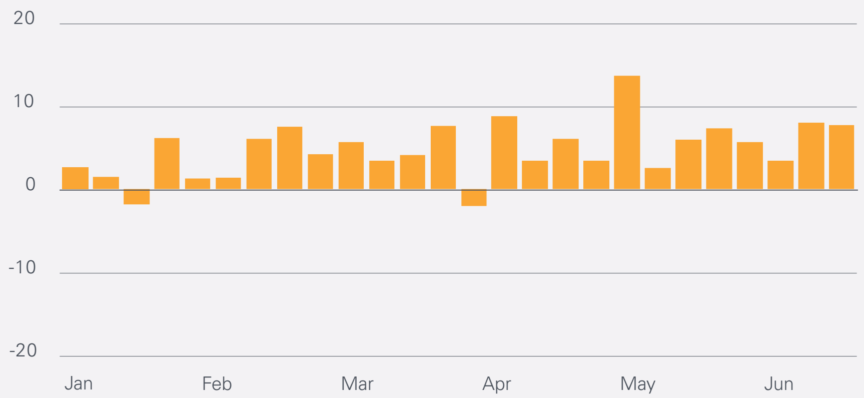
The below charts show the weekly economic revenues for the first half of 2020 and 2019. Leonteq achieved a strong start to the 2020 financial year with high levels of client activity and a positive trading result on the back of increased volatility towards the end of February. In March and April, the global spread of Covid-19 and the oil price shock resulted in exceptionally high levels of volatility and turmoil in the global capital markets that affected all asset classes underlying structured products. In May and June, the capital markets recovered significantly, with normalising volatility levels.

In this environment, Leonteq generated a significant increase in turnover and fee income. At the same time, Leonteq recorded hedging-related losses driven by the oil price shock in March (approximately CHF -20 million) as well as the widespread and unexpected cancellation of previously announced dividend payments, which affected cashflows from shareholdings owned by Leonteq for hedging purposes (approximately CHF -38 million). In addition, Leonteq recorded a significant increase in hedging-related costs as market risk exposures changed rapidly in an increasingly illiquid hedging market which were only partially offset by positive hedging contributions from Leonteq's structural long volatility position.

Weekly economic revenues | H1 2020 (CHFm)



Weekly economic revenues | H1 2019 (CHFm)



Market risk

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

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

Monitoring of market risk

Market risks are monitored and controlled through the daily calculation of various risk measures:

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

Sensitivity analysis
As of 30 June 2020, the Group had the following exposures relating to its financial assets and liabilities.

Impact on the income statement

CHF thousand	30.06.2020	31.12.2019
Risk factor		
Equity delta	(323)	65
Precious metal delta	(6)	134
Commodity delta	(75)	(43)
Equity vega	3,501	2,294
Precious metal vega	6	16
Commodity vega	(97)	223
Equity correlation	(12,185)	(4,570)
Equity dividend	(9,525)	(3,480)
FX G10 delta	103	(44)
FX EM delta	(61)	46
CS10 Credit linked products	12	437
CS10 Government and agencies	(1,017)	(1,866)
CS10 Corporations and banks	(798)	(1,039)
IR G10 DV100	(5,046)	(7,868)
IR EM DV100	(377)	(444)
IR Vega	80	(107)

Impact on equity

CHF thousand	30.06.2020	31.12.2019
Risk factor		
FX G10 delta	332	291
CS10 Government and agencies	(881)	(81)
CS10 Corporations and banks	(6,380)	(3,836)

During the first half of 2020, the risk profile of products issued by Leonteq and its partners changed significantly, primarily as a result of barriers being hit in products with such features and as a result of increases in implied volatility which have not returned to levels seen at the end of 2019. In addition, new products issued to clients during this period tended to have different risk characteristics than the existing portfolio. The resulting changes in the risk characteristics of the structured products issued by Leonteq and its partners has increased Leonteq's exposure to certain risks, including equity correlation and equity dividend risks.

In addition, Leonteq's continued investments into somewhat longer term bonds as part of its investment portfolio has resulted in an increase in the credit spread sensitivities, especially as it relates to bonds issued by banks and corporate issuers.

Stress analysis

Reviewed | Leonteq's risk control department run daily stress tests of the Group's portfolio in order to monitor and control exposures to various risk. In the first half of 2020, more than 300 daily stress tests and scenarios were calculated to ensure that the trading book remained within the defined risk limits. The Group reports the impact on its income statement when the following relevant historical stress scenarios are applied to its portfolio:

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

The following tables give an indication of the overall risk exposure as of 30 June 2020 and as of 31 December 2019.

Structured products

30 June 2020 CHF thousand	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	(23,215)	(17,243)	(14,371)	(12,394)	(11,035)	(11,687)
Spot -5%	(13,905)	(5,999)	(1,509)	2,494	7,738	13,561
Spot -2%	(16,004)	(5,821)	284	5,963	13,806	23,827
Spot 0%	(18,117)	(7,233)	—	6,880	16,393	29,202
Spot +2%	(20,427)	(8,885)	(719)	7,404	18,610	33,766
Spot +5%	(22,714)	(10,278)	(886)	8,545	21,949	40,463
Spot +10%	(15,693)	(2,740)	7,046	17,020	31,707	54,466

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

Pension products

30 June 2020 CHF thousand	Vol. –20bp	Vol. –10bp	Vol. 0bp	Vol. +10bp	Vol. +20bp
Spot -50bp	(1,840)	(75)	1,312	2,455	3,424
Spot -25bp	(2,750)	(1,211)	(58)	849	1,589
Spot 0bp	(1,045)	(439)		346	632
Spot +25bp	1,589	989	527	180	(71)
Spot +50bp	2,316	1,033	44	(721)	(1,308)

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

Credit risk

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

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

Monitoring of credit risk

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

Counterparty exposures

CHF million	30.06.2020 Exposure	31.12.2019 Exposure
OTC	43.5	23.5
SLB	75.0	46.3
Total	**118.5**	**69.8**

Investment portfolio

Leonteq invests the proceeds of its own product issuance in short- to mid-term, high-quality bonds issued by corporations and financial institutions, as well as by central governments, organisations supported by these governments and supranational organisations. Leonteq's high-quality investment portfolio increased slightly to CHF 2.5 billion as of 30 June 2020 compared to CHF 2.4 billion as of 31 December 2019, while the composition remained largely unchanged. A comprehensive overview of the investment portfolio with a breakdown by investment type, credit ratings and maturity is provided in the following table:

CHF million	Maturity						Total 30.06.2020	Total 30.06.2020 in %
	0 - 12 months	12 - 24 months	24 - 36 months	36 - 48 months	48 - 60 months	>60 months		
Governments/Public sector bodies/Supranational agencies	85.9	333.1	208.6	125.3	71.7	64.1	888.7	35.5%
of which Aaa	48.7	241.4	107.5	125.3	71.7	40.6	635.2	25.4%
of which Aa1-Aa3	37.2	91.7	101.1	—	—	15.9	246.0	9.8%
of which A1-A3	—	—	—	—	—	7.5	7.5	0.3%
Corporations/Institutions	0.6	60.6	257.8	124.7	324.1	396.0	1,163.8	46.6%
of which Aaa	—	—	18.4	0.2	61.2	70.6	150.4	6.0%
of which Aa1-Aa3	—	33.0	46.8	59.7	108.3	145.8	393.6	15.7%
of which A1-A3	0.6	17.9	188.5	64.9	138.6	145.6	556.1	22.2%
of which Baa1-Baa3	—	9.7	4.0	—	16.1	33.9	63.7	2.5%
Banks	10.0	82.0	78.5	48.4	128.3	100.3	447.5	17.9%
of which Aa1-Aa3	10.0	66.9	39.3	43.7	22.8	24.6	207.4	8.3%
of which A1-A3	—	15.1	21.2	4.7	105.5	31.5	177.9	7.1%
of which Baa1-Baa3	—	—	18.0	—	—	44.2	62.2	2.5%
Total	**96.5**	**475.7**	**544.9**	**298.5**	**524.1**	**560.3**	**2,500.0**	**100%**

CHF million	Maturity						Total 31.12.2019	Total 31.12.2019 in %
	0 - 12 months	12 - 24 months	24 - 36 months	36 - 48 months	48 - 60 months	>60 months		
Governments and agencies[1]	77.0	456.9	341.2	167.2	51.1	0.0	1,093.4	45.5%
of which Aaa	43.2	303.9	216.2	123.5	39.3	0.0	726.1	30.2%
of which Aa1-Aa3	33.8	153.0	125.0	43.7	0.0	0.0	355.5	14.8%
of which A1-A3	—	—	0.0	0.0	11.8	0.0	11.8	0.5%
Corporations/Institutions	11.1	56.1	202.3	175.1	209.3	220.7	874.6	36.4%
of which Aaa	—	—	28.5	0.7	14.3	60.4	103.9	4.3%
of which Aa1-Aa3	15.6	20.3	45.6	56.2	41.6	74.2	253.5	10.6%
of which A1-A3	5.9	35.8	126.8	101.5	138.5	79.3	487.8	20.3%
of which Baa1-Baa3	—	—	1.4	6.0	14.9	6.8	29.1	1.2%
of which B1-B3	(10.4)	—	0.0	10.7	0.0	0.0	0.3	0.0%
Banks	57.9	39.1	106.4	63.0	96.5	71.4	434.3	18.1%
of which Aa1-Aa3	24.9	12.6	76.0	29.4	26.3	34.4	203.6	8.5%
of which A1-A3	22.9	26.5	12.3	28.6	61.3	32.1	183.7	7.6%
of which Baa1-Baa3	10.1	—	18.1	5.0	8.9	4.9	47.0	2.0%
Total	**146.0**	**552.1**	**649.9**	**405.3**	**356.9**	**292.1**	**2,402.3**	**100.0%**

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

Operational risk

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

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

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

Other risks

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

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

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

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

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

Liquidity management

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

Market liquidity risk

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

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

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

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

Funding liquidity risk

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

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

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

Maturity analysis of assets and liabilities

The following tables show the maturity analysis of the Group's financial assets and liabilities. Financial assets are presented based on either the first time period in which they can be contractually redeemed or, in the case of trading financial assets (principally equity instruments with no contractual maturity), in the "up to 1 month" category, reflecting management's view of the liquidity characteristics of these instruments. Financial liabilities are presented based on the first time period in which they are contractually redeemable.

As undiscounted cash flows are not significantly different from discounted cash flows, the balances equal their carrying amount on the statement of financial position, with the exception of other financial assets and financial liabilities designated at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and trading financial assets and liabilities.

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

CHF thousands	Due				30.06.2020
	Up to 1 month	1 - 3 months	3 - 12 months	Over 12 months	
Assets					
Liquid Assets	240,556	—	—	—	240,556
Amounts due from banks	1,162,569	—	—	—	1,162,569
Amounts due from securities financing transactions	26,162	—	—	—	26,162
Amounts due from customers	551,167	—	—	—	551,167
Trading financial assets	2,137,070	3,963	18,487	108,006	2,267,526
Positive replacement values of derivative financial instruments	73,719	1,817,715	2,631,928	1,729,661	6,253,023
Other financial assets designated at fair value through profit or loss	21,354	26,767	90,021	1,127,313	1,265,455
Financial investments measured at fair value through other comprehensive income	—	10,000	—	1,572,474	1,582,474
Accrued income	14,566	6,242	—	—	20,808
Total financial assets	**4,227,163**	**1,864,687**	**2,740,436**	**4,537,454**	**13,369,740**
Liabilities					
Amounts due to banks	871,074	—	—	—	871,074
Liabilities from securities financing transactions	812,805	—	—	—	812,805
Amounts due to customers	1,611,319	—	—	—	1,611,319
Trading financial liabilities	243,360	—	—	1,297	244,657
Negative replacement values of derivative financial instruments	60,690	600,034	2,088,541	2,177,990	4,927,255
Other financial liabilities designated at fair value through profit or loss	1,102,793	984,278	1,012,353	1,319,503	4,418,927
Lease liability	—	—	9,868	52,604	62,472
Accrued expenses	94,365	40,442	—	—	134,807
Total financial liabilities	**4,796,406**	**1,624,754**	**3,110,762**	**3,551,394**	**13,083,316**

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

Capital management

The Swiss Financial Institutions Act (FinIA) and the Financial Institutions Ordinance (FinIO) entered into force on 1 January 2020. FinIA regulates the licensing requirements and further organisational rules for certain financial institutions, including securities dealers such as Leonteq, which are now designated as securities firms. The new regime distinguishes between account-holding and non-account-holding securities firms for the application of capital requirements. Securities firms that do not hold accounts for clients are no longer subject to the Capital Adequacy Ordinance but must permanently hold capital of at least one quarter of the fixed costs of the last annual financial statement, up to a maximum of CHF 20 million. Leonteq does not hold client accounts and thus is no longer subject to requirements of the Capital Adequacy Ordinance. Under the new regulatory framework for securities firms, Leonteq significantly exceeded its regulatory capital requirement of CHF 20 million as of 30 June 2020.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONTENT

Leonteq AG

Interim consolidated income statement for the six months ended 30 June 2020

CHF thousand	Note	H1 2020	H1 2019
Fee income from securities trading and investment activities		215,983	123,385
Fee expense		(2,993)	(2,527)
Net fee income	8	**212,990**	**120,858**
Result from trading activities and the fair value option	9	**(107,101)**	**7,525**
Interest and discount income		4,436	4,963
Interest expense		(7,755)	(10,394)
Changes in value adjustments for default risks and losses from interest operations		(1,665)	165
Net result from interest operations	10	**(4,984)**	**(5,266)**
Other ordinary income		2,604	1,445
Total operating income		**103,509**	**124,562**
Personnel expenses		(63,370)	(58,807)
Other operating expenses		(23,001)	(19,261)
Depreciation of long-lived assets		(16,345)	(14,334)
Changes to provisions and other value adjustments, and losses	12	3,978	(1,657)
Total operating expenses		**(98,738)**	**(94,059)**
Result from operating activities		**4,771**	**30,503**
Taxes		705	(268)
Group net profit		**5,476**	**30,235**
of which allocated to shareholders of Leonteq AG		5,476	30,235
Share information			
Basic earnings per share (CHF)		0.29	1.61
Diluted earnings per share (CHF)		0.29	1.59

Interim consolidated statement of other comprehensive income for the six months ended 30 June 2020

CHF thousand	Note	H1 2020	H1 2019
Group net profit		**5,476**	**30,235**
Other comprehensive income/(loss) that will not be reclassified to the income statement			
Remeasurement of the defined benefit plan		2,806	(3,663)
Change in own credit spread		22,133	—
Income tax on items that will not be reclassified		(930)	775
Total other comprehensive income/(loss) that will not be reclassified to the income statement		**24,009**	**(2,888)**
Other comprehensive income/(loss) that will be reclassified to the income statement			
Net unrealised gains/(losses) on debt instruments measured at fair value through other comprehensive income		(23,614)	112
Expected credit loss changes on debt instruments measured at fair value through other comprehensive income		1,838	301
Currency translation adjustments		(8,775)	(7,394)
Income tax on items that may be reclassified		425	—
Total other comprehensive income/(loss) that will be reclassified to the income statement		**(30,126)**	**(6,981)**
Total other comprehensive income/(loss)		**(6,117)**	**(9,869)**
Total comprehensive income		**(641)**	**20,366**
of which allocated to shareholders of Leonteq AG		(641)	20,366

The notes on pages 40 to 60 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of financial position as of 30 June 2020

CHF thousand	Note	30.06.2020	31.12.2019
Assets			
Liquid assets		240,556	130,891
Amounts due from banks		1,162,569	515,826
Amounts due from securities financing transactions		26,162	48,883
Amounts due from customers		551,167	394,938
Trading financial assets		2,267,526	2,155,040
Trading inventories		30,831	26,661
Positive replacement values of derivative financial instruments		6,253,023	2,991,746
Other financial assets designated at fair value through profit or loss		1,110,769	1,521,992
Financial investments measured at fair value through other comprehensive income		1,642,455	1,122,302
Accrued income and prepaid expenses		20,808	23,596
Current tax assets		667	918
Deferred tax assets		4,894	3,230
Long-lived assets		120,010	121,120
Other assets		17,680	19,626
Total assets		**13,449,117**	**9,076,769**
Total subordinated claims		27,865	11,612
of which subject to mandatory conversion and/or debt waiver		—	—
Liabilities			
Amounts due to banks		871,074	232,210
Liabilities from securities financing transactions		812,805	259,319
Amounts due to customers		1,611,319	591,304
Trading financial liabilities		244,657	433,907
Negative replacement values of derivative financial instruments		4,927,255	2,527,075
Other financial liabilities designated at fair value through profit or loss		4,097,027	4,092,490
Accrued expenses and deferred income		134,807	178,712
Current tax liabilities		2,293	2,270
Deferred tax liabilities		282	90
Other liabilities		78,768	80,139
Expected credit loss provision		106	279
Provisions	12	9,733	16,462
Total liabilities		**12,790,126**	**8,414,257**
Equity			
Share capital	13	18,934	18,934
Share premium		283,888	288,532
Retained earnings[1]		390,579	380,880
Accumulated other comprehensive income/(loss)		(18,642)	(12,525)
Own shares	13	(15,768)	(13,309)
Total shareholders' equity		**658,991**	**662,512**
Total liabilities and equity		**13,449,117**	**9,076,769**
Total subordinated liabilities		—	—
of which subject to mandatory conversion and/or debt waiver		—	—

[1] Retained Earnings comprise cumulated earnings, including Group net profit for the year ended 31 December 2019 and the period ended 30 June 2020, respectively.

The notes on pages 40 to 60 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of changes in equity as of 30 June 2020

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

CHF thousand	Note	Share capital	Share premium	Retained earnings
Balance as of 31 December 2019		**18,934**	**288,532**	**380,880**
Impact of change in accounting principle		—	—	—
Balance as of 1 January 2020		**18,934**	**288,532**	**380,880**
Employee participation schemes		—	—	(2,208)
Capital increase/(decrease)		—	—	—
Net disposal/(purchase) of own shares		—	—	—
Dividends and other distributions		—	(4,644)	(4,644)
Other allocations to/(transfers from) other comprehensive income		—	—	11,075
Group net profit		—	—	5,476
Balance as of 30 June 2020		**18,934**	**283,888**	**390,579**

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

OCI					Own shares	Total shareholders' equity
Defined benefit plans	Change in own credit	Unrealised income related to debt instruments at fair value through OCI	Changes in expected credit loss on debt instruments at fair value through OCI	Currency translation adjustments		
(7,634)	**—**	**5,216**	**847**	**(10,954)**	**(13,309)**	**662,512**
—	—	—	—	—	—	—
(7,634)	**—**	**5,216**	**847**	**(10,954)**	**(13,309)**	**662,512**
—	—	—	—	—	—	(2,208)
—	—	—	—	—	—	—
—	—	—	—	—	(2,459)	(2,459)
—	—	—	—	—	—	(9,288)
2,253	21,756	(23,189)	1,838	(8,775)	—	4,958
—	—	—	—	—	—	5,476
(5,381)	**21,756**	**(17,973)**	**2,685**	**(19,729)**	**(15,768)**	**658,991**

The notes on pages 40 to 60 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of cash flows for the six months ended 30 June 2020

CHF thousand	Note	H1 2020	H1 2019
Cash flow from operating activities			
Group net profit		5,476	30,235
Reconciliation to net cash flows from operating activities			
Non-cash positions in Group net profit			
Depreciation		16,345	14,334
Deferred tax expense/(benefit)		(1,472)	(915)
Change in expected credit loss provision		1,665	(165)
Change in general provision	12	(3,978)	1,657
Share-based benefit programs		3,021	2,660
Other non-cash income and expenses		(962)	(10,274)
Net (increase)/decrease in assets related to operating activities			
Amounts due from banks		(512,086)	(73,684)
Amounts due from securities financing transactions		22,721	59,098
Amounts due from customers		(156,229)	125,188
Trading financial assets		(156,854)	(31,478)
Trading inventories		(4,170)	(35,538)
Positive replacement values of derivative financial instruments		(3,261,277)	1,582,604
Other financial assets designated at fair value through profit or loss		411,223	158,132
Net (investment)/disposal of financial investments measured at fair value through other comprehensive income		(520,153)	(558,185)
Accrued income and prepaid expenses		2,788	(7,708)
Other assets		1,946	(9,495)
Net increase/(decrease) in liabilities related to operating activities			
Amounts due to banks		587,419	(136,395)
Liabilities from securities financing transactions		553,486	(126,946)
Amounts due to customers		1,020,015	(573,845)
Trading financial liabilities		(189,250)	(148,687)
Negative replacement values of derivative financial instruments		2,400,180	(908,864)
Other financial liabilities designated at fair value through profit or loss		4,537	877,129
Accrued expenses and deferred income		(43,905)	(15,189)
Other liabilities		9,341	6,953
Utilisation of general provision		(2,664)	(1,010)
Dividends received		44,368	47,312
Interest received		4,727	4,580
Interest paid		(7,035)	(7,626)
Current taxes, non-cash adjustment		1,378	21
Current taxes paid		(1,104)	(782)
Cash flow from operating activities		**229,497**	**263,117**
Cash flow from investing activities			
Purchases of long-lived assets		(11,205)	(11,126)
Proceeds from long-lived assets		—	90
Cash flow from investing activities		**(11,205)**	**(11,036)**

CHF thousand	Note	H1 2020	H1 2019
Cash flow from financing activities			
Lease payments (excl. short term/low-value leases)		(10,712)	(5,585)
Distribution of capital contribution reserves		(4,644)	—
Dividend distribution		(4,644)	—
Purchases of own shares		(7,688)	—
Cash flow from financing activities		**(27,688)**	**(5,585)**
Exchange rate differences		(35)	(274)
Net (decrease)/increase in cash and cash equivalents		**190,569**	**246,222**
Cash and cash equivalents, beginning of the year		328,375	131,665
Cash and cash equivalents at the balance sheet date		**518,944**	**377,887**
Cash and cash equivalents			
Liquid assets		240,556	130,891
Due from banks on demand[2]		335,402	254,922
Due to banks on demand		(57,014)	(7,926)
Net cash and cash equivalents at the balance sheet date		**518,944**	**377,887**

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

Cash and cash equivalents include liquid assets and receivables due from banks on demand. Bank overdrafts, if applicable, are shown within amounts due to banks. Cash, as defined for the purpose of the statement of cash flows, comprises cash and cash equivalents.

The notes on pages 40 to 60 are an integral part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 General information

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

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

The Group provides some of these core services to platform partners under the terms of cooperation agreements. The Group also distributes products to institutional investors and financial intermediaries who offer the products to retail investors.

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

These interim consolidated financial statements were approved for publication by the Board of Directors on 21 July 2020.

2 Basis of presentation

The Group prepares its interim consolidated financial statements in accordance with IAS 34 "Interim financial reporting". These interim consolidated financial statements for the six months ended 30 June 2020 should be read in conjunction with the consolidated financial statements for the year ended 31 December 2019, which were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Unless otherwise disclosed in the following notes, the Group's accounting policies applied in this report are the same as for the consolidated financial statements for the year ended 31 December 2019. The interim consolidated financial statements are unaudited.

3 Critical accounting estimates and judgments in applying accounting policies

The preparation of interim consolidated financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Such judgements, estimates and assumptions are based on the best available information but may involve significant uncertainty at the time they are made. Actual results may differ from these estimates. The Group regularly reassesses these estimates and assumptions. The significant judgements made by Management when applying the Group's accounting policies and the key sources of estimation uncertainty were the same as for the consolidated financial statements for the year ended 31 December 2019, unless otherwise disclosed in the following notes.

4 Changes to critical accounting estimates

Revenue recognition of fee income

Beginning of 2020, Leonteq decided to review the estimates inherent in the revenue recognition model for fee income in the Investment Solutions division to take account of the increasingly competitive market environment in recent years. The revision of estimates resulted in a reallocation of fees earned to Leonteq's main service offerings (performance obligation) and an adjustment of the deferral period. Leonteq prospectively applied the change in estimates as of 1 January 2020. The adjustment of the deferral period led to an additional CHF 5.1 million of fee income for the first half of 2020. See Note 8.

Own Credit Spread

The Group determined its own credit spread based on a model using observable market inputs such as market capitalization, debt and product type-specific adjustments. Based on the periodic reassessment and given the current market developments, management decided to adjust the Group's own credit spread in March 2020. See Note 11.

5 Changes in accounting policies and presentation

New or revised standards and interpretations adopted

The following new or revised standards and interpretations became effective for the first time on 1 January 2020 and did not have any significant impacts on the Group when applied for the first time or were not relevant for the Group:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of Material – Amendments to IAS 1 and IAS 8
- Definition of a Business – Amendments to IFRS 3
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

New standards and interpretations not yet adopted

Various other new and revised standards and interpretations must be applied with effect from 1 January 2021 or a later date:

- IFRS 17, Insurance Contracts – effective 1 January 2021
- Amendments to IAS 1, Classification of Liabilities as Current or Non-current – effective 1 January 2023
- Annual Improvements to IFRS Standards 2018 - 2020 – effective 1 January 2022

The Group has performed an initial assessment of the new standards and interpretations and does not expect any of them to have a significant impact on the Group’s interim consolidated financial statements.

6 Risk management and control framework

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 risks. Disclosures provided in the “Risk and Control” section of this report (pages 14 to 31) that are marked as reviewed form an integral part of the interim consolidated financial statements.

7 Segment reporting

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

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

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

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

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

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

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

CHF thousand	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total H1 2020
Net fee income	198,669	14,321	—	212,990
Net trading income/(loss)	(117,263)	10,162	—	(107,101)
Net interest income/(expense)	(5,150)	214	(48)	(4,984)
Other ordinary income	544	—	2,060	2,604
Total operating income	**76,800**	**24,697**	**2,012**	**103,509**
Personnel expenses	(52,048)	(5,305)	(6,017)	(63,370)
Other operating expenses	(18,127)	(1,181)	(3,693)	(23,001)
Depreciation of long-lived assets	(12,131)	(2,001)	(2,213)	(16,345)
Changes to provisions and other value adjustments, and losses	—	—	3,978	3,978
Total operating expenses	**(82,306)**	**(8,487)**	**(7,945)**	**(98,738)**
Result from operating activities	**(5,506)**	**16,210**	**(5,933)**	**4,771**

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

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

Investment Solutions' net fee income increased by CHF 91.7 million to CHF 198.7 million, mainly due to the increase in net fee income margin from 71 bps to 129 bps. The business line's net trading loss of CHF 117.3 million (compared to net trading income of CHF 5.6 million in the first half of 2019) was primarily driven by the oil price shock, the unexpected cancellations of dividend payments due to Covid-19 as well as notably increased hedging-related cost. The net interest result in Investment Solutions remained stable at CHF -5.2 million in the first half of 2020 to CHF -5.5 million in the previous year's period.

The Insurance & Wealth Planning Solutions business line's total operating income increased by 53% to CHF 24.7 million in the first half of 2020 mainly driven by a growth in net trading income of CHF 8.3 million driven by positive contributions from hedging activities.

Other ordinary income generated within Investment Solutions comprises cost reimbursements from issuance partners. The Corporate Centre's other ordinary income is primarily the result of rental income from subleased office space and other cost reimbursements.

Personnel expenses in both Investment Solutions and Insurance & Wealth Planning Solutions increased mainly due to the increased staff base as well as deferred compensation effects from prior years.

Other operating expenses in all three segments increased as a result of higher project related costs and other investments.

Information by geographic location

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total H1 2020
Net fee income	81,993	113,173	17,824	212,990
Net trading income/(loss)	(41,432)	(55,647)	(10,022)	(107,101)
Net interest income/(expense)	(2,257)	(2,454)	(273)	(4,984)
Other ordinary income	2,270	25	309	2,604
Total operating income	**40,574**	**55,097**	**7,838**	**103,509**

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total 30.06.2020
Accrued income and prepaid expenses	6,453	14,139	216	20,808
Current tax assets	573	94	—	667
Deferred tax assets	4,404	127	363	4,894
Long-lived assets	104,737	4,410	10,863	120,010
Other assets	16,382	1,162	136	17,680

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

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

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

The increase in the Group's net fee income margin impacted all locations and lead to significantly increased net fee income in all three regions. The net trading income from Investment Solutions is allocated across the regions whereas the net trading income from Insurance & Wealth Planning Solutions is recognised in Switzerland. In the first half of 2020 and 2019, around 27% and 19% of the Group's total operating income was generated by the office in Monaco and around 19% and 17%, respectively, by the office in London.

8 Net fee income

Fees earned are allocated to Leonteq's main service offerings (performance obligations). In the Investment Solutions division, these include: product design and launch; issuance, settlement and order management; risk management; lifecycle management; product documentation and reporting; risk, regulatory and financial reporting and other services. Similarly, the main services offered in the Insurance & Wealth Planning Solutions division include the issuance, design and management of structured certificates or unit-linked insurance products, as well as the respective hedge strategy and platform management services. These services are provided either when a product is issued or over the lifetime of a product. Consequently, certain types of fees are deemed earned when a product is issued, while other types of fees are deemed earned over the effective lifetime of products issued. The effective lifetime of Leonteq's products is defined on a product-by-product basis in the Insurance & Wealth Planning Solutions division, where the respective fee is collected when a product is issued or when certain conditions are met during the lifetime of a product. A portfolio approach is applied to determine the average effective lifetime of products issued in the Investment Solutions division. Generally, fees generated in the Investment Solutions division are collected when the product is issued or repurchased. The allocation of the total fee to the individual performance obligation, as well as the determination of when these performance obligations are satisfied, involve the exercising of judgement. The average effective lifetime of products issued in the Investment Solutions division is determined based on the historical effective lifetime of expired products and the expected effective lifetime of existing products at the balance sheet date. The calculation only excludes products or product categories that show a unique revenue recognition profile that differs significantly from the majority of issued products. Since 1 January 2020, the average effective lifetime is estimated to be 9 months (31 December 2019: 12 months). The fee received is allocated to the individual performance obligations based on the estimated share of the total effort required (input method) over the lifetime of a product as it best reflects the compensation for services rendered. Material and customised contracts in the Investment Solutions division are accounted for to best reflect the actual patterns of the agreement, which can differ substantially from the portfolio approach described above.

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

As a result of contractual services and risk amendments concerning platform partners within the Insurance & Wealth Planning Solutions division, a review of their impact on the satisfaction of performance obligations and pricing was undertaken. As a result, CHF 6.1 million of the total of CHF 71.8 million of accumulated deferred income at the beginning of the period was recognized as a cumulative catch-up adjustment due to such contractual amendments.

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

CHF thousand	H1 2020	H1 2019
Fee income from Leonteq sales distribution	172,043	89,963
Fee income from platform partner distribution	39,979	29,900
Other fee income	3,961	3,522
Total fee income from securities trading and investment activities	**215,983**	**123,385**
Fee expense	(2,993)	(2,527)
Total fee expense	**(2,993)**	**(2,527)**
Net fee income	**212,990**	**120,858**

Net fee income increased by 76% year-on-year to a record CHF 213.0 million in the first half of 2020 on the back of a significant increase in client demand and higher margins. Large ticket transactions (defined as transactions where Leonteq earns a fee of CHF 0.5 million or more) amounted to CHF 14.6 million and accounted for 7% of net fee income in the first half of 2020, compared to CHF 5.1 million (4%) in the first half of 2019.

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

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

CHF thousand	30.06.2020	31.12.2019
Balance of deferred fees as of 1 January	**106,899**	**75,745**
Recognition of deferred fees in the income statement	(54,075)	(94,741)
Deferral of fees collected	28,075	125,895
Balance of deferred fees at the balance sheet date	**80,899**	**106,899**
of which recognised within the next 9 months	22,615	42,911
of which recognised after 9 months	58,284	63,988

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

In the Investment Solutions division, performance obligations that are not satisfied upon issuance of the product are deemed to be satisfied over the average effective lifetime of issued products, which is estimated to be 9 months as of 30 June 2020 (31 December 2019: 12 months). Consequently, an amount of CHF 22.6 million is expected to be recognised as fee income over a period of 9 months. Due to the long-term nature of the pension business, performance obligations in the Insurance & Wealth Planning Solutions division are satisfied over a period of up to 48 years. CHF 13.1 million is expected to be recognised as fee income over the next 5 years, CHF 29.9 million between 6 and 20 years, and CHF 15.3 million after 20 years.

Beginning of 2020, Leonteq decided to review the estimates inherent in the revenue recognition model for fee income in the Investment Solutions division to take account of the increasingly competitive market environment in recent years. The revision of estimates resulted in a reallocation of fees earned to Leonteq's main service offerings (performance obligation) and an adjustment of the deferral period. Leonteq prospectively applied the change in estimates as of 1 January 2020. The adjustment of the deferral period led to an additional CHF 5.1 million of fee income for the first half of 2020.

9 Result from trading activities and the fair value option

CHF thousand	H1 2020	H1 2019
Result from trading activities and the fair value option	(107,101)	7,525

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

The global spread of Covid-19 and the oil price shock resulted in extraordinary high levels of volatility and a turmoil of global capital markets affecting all asset classes underlying structured products. In this environment, Leonteq recorded a net trading loss of CHF -107.1 million for the first half 2020 compared to CHF 7.5 million in the prior year period. This was primarily due to hedging-related losses driven by the oil price shock in March (approximately CHF -20.0 million) as well as the wide and unexpected cancellations of already announced dividend payments affecting cashflows from shareholdings owned by Leonteq for hedging purposes (approximately CHF -38.0 million). In addition, Leonteq recorded a notable increase in hedging-related costs as market risk exposures changed rapidly in an increasingly illiquid hedging market which were only partially offset by positive hedging contributions from Leonteq's structural long volatility position.

10 Net result from interest operations

CHF thousand	H1 2020	H1 2019
Interest income from assets at fair value	4,436	4,963
Total interest and discount income	**4,436**	**4,963**
Interest expense from financial liabilities at fair value	(7,755)	(10,394)
Total interest expense	**(7,755)**	**(10,394)**
Gross result from interest operations	**(3,319)**	**(5,431)**
Changes in value adjustments for default risks and losses from interest operations	(1,665)	165
Net result from interest operations	**(4,984)**	**(5,266)**

The decrease in interest income and expense is primarily due to the decrease in US dollar interest rates throughout the first half of 2020.

The changes in value adjustments for default risks and losses from interest operations contains the increase of the expected credit loss allowance from CHF 1.1 million as of 31 December 2019 by CHF 1.7 million up to CHF 2.8 million as of 30 June 2020.

11 Fair values of financial instruments and trading inventories

Measurement methodologies

Derivative financial instruments, traded financial assets and liabilities, other financial assets designated at fair value, other financial liabilities designated at fair value and trading inventories are recognised at fair value in the statement of financial position. Changes in the fair value of these instruments are recognised in the income statement as the "result from trading activities and the fair value option". Financial investments measured at fair value through other comprehensive income are recognized in the statement of financial position and changes in fair value on financial investments measured at fair value through other comprehensive income attributable to movements in issuer credit risk or the benchmark interest rate are initially recognised in the statement of other comprehensive income (OCI). Either due to the application of hedge accounting or upon disposal of the respective investment, amounts initially recognised in OCI are reallocated to the income statement as the "result from trading activities and the fair value option".

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

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

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

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

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

There were no significant changes in the valuation models used for the period ending 30 June 2020.

All financial instruments and trading inventories carried at fair value are categorised into one of three fair value hierarchy levels at the balance sheet date, depending on how fair value has been determined:

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

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

Fair value of financial instruments

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

Financial assets and liabilities at amortised costs

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

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

Own credit

Leonteq determines its own credit spread regularly based on a model using observable market inputs such as market capitalisation, debt and product type-specific adjustments. Management compared the determined credit spread with observable and paid credit spreads for public distributed products of Leonteq and, given the current market developments, decided to adjust the Group's own credit spread in March 2020. The change in own credit spread has been recognised in other comprehensive income and is subsequently recycled to retained earnings over the estimated average effective lifetime of 9 months. In prior year, 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 those values. The valuation methods do not always reflect all relevant factors when determining fair values. The Group considers additional factors in the case of issued structured products as well as derivative instruments to ensure that the valuations are appropriate. The factors include uncertainties related to the models used, parameters used, liquidity risks and, in the case of structured products, the risk of early redemption. The adjustments reflect the uncertainty in model assumptions and input parameters in relation to the valuation method used. The adjustments relating to the liquidity risk take into account the expected cost of hedging open net risk positions. The Group believes that it is necessary and appropriate to take these factors into account to determine the fair value of these instruments correctly.

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

Level 1 instruments

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

Level 2 instruments

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

Level 3 instruments

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

No day-1 gains or losses were recognised as a result of transactions involving level 3 instruments for the six months ended 30 June 2020. An unrealised loss of CHF 3.2 million for fair value movements was recognised in "result from trading activities and the fair value option" for the six months ended 30 June 2020. The closing balance of level 3 financial liabilities as of 30 June 2020 totalled CHF 22.7 million (31 December 2019: CHF 21.1 million).

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

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

Significant unobservable inputs in level 3 positions

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

CHF thousand					Range of unobservable inputs				
					30.06.2020		31.12.2019		
	30.06.2020	31.12.2019	Valuation technique	Significant unobservable input	low	high	low	high	Unit
Negative replacement values of derivative financial instruments	**22,685**	21,105	Generic Replication Model[3]	Volatility of interest rates	**51**	**59**	51	61	basis points

[3] A generic replication model is used to price interest rate derivatives.

Volatility of interest rates

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

Sensitivity of level 3 fair values

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

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

CHF thousand	30.06.2020	31.12.2019
Impact of shifts of unobservable input parameters on fair values		
Increase of volatility of interest rates (+5 bps)	217	31
Decrease of volatility of interest rates (-5 bps)	(217)	(31)

Day-1 result

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

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

CHF thousand	Level 1	Level 2	Level 3	Total 30.06.2020
Financial assets				
Trading financial assets				
Debt securities (listed)	88,312	23,686	—	111,998
Equity securities	1,707,872	69,132	—	1,777,004
Funds	218,699	140,240	—	358,939
Other securities	—	19,585	—	19,585
of which hybrid financial instruments	—	19,585	—	19,585
Total trading financial assets	2,014,883	252,643	—	2,267,526
Positive replacement values of derivative instruments	3,793,422	2,459,601	—	6,253,023
Other financial assets designated at fair value through profit or loss	843,260	267,509	—	1,110,769
Financial investments measured at fair value through other comprehensive income	1,561,045	81,410	—	1,642,455
Total financial assets	**8,212,610**	**3,061,163**	**—**	**11,273,773**
Trading inventories	30,831	—	—	30,831
Total trading inventories	**30,831**	**—**	**—**	**30,831**
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	1,295	—	—	1,295
Equity securities	230,688	8	—	230,696
Funds	12,664	1	—	12,665
Other securities	—	1	—	1
of which hybrid financial instruments	—	1	—	1
Total trading financial liabilities	244,647	10	—	244,657
Negative replacement values of derivative instruments	3,206,837	1,697,733	22,685	4,927,255
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	339,773	—	339,773
Equities	—	3,653,134	—	3,653,134
Foreign currency	—	7,540	—	7,540
Commodities (incl. precious metals)	—	96,580	—	96,580
Total other financial liabilities designated at fair value through profit or loss	—	4,097,027	—	4,097,027
Total financial liabilities	**3,451,484**	**5,794,770**	**22,685**	**9,268,939**

In the first six months of 2020, there were no significant reclassifications of positions between level 1 and level 2 and vice versa.

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

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

Level 3 financial instruments

CHF thousand	30.06.2020	31.12.2019
Statement of financial position		
Balance at the beginning of the year	21,105	18,383
Additions	1,593	3,750
Disposals	(999)	(6,177)
Result recognised in the income statement	4,149	8,583
Result recognised in the statement of other comprehensive income	—	—
Reclassifications to level 3	—	—
Reclassifications from level 3	(3,163)	(3,434)
Translation differences	—	—
Total balance at the end of the period	**22,685**	**21,105**
Income in the period on holdings at balance sheet date		
Unrealised income/(loss) recognised in the trading income	(3,150)	(6,334)
Unrealised income/(loss) recognised in other income	—	—
Unrealised income/(loss) recognised in other comprehensive income	—	—

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

Based on the change in the observability of significant input parameters, CHF 3,163 thousand of level 3 financial instruments were reclassified to level 2 (CHF 3,434 thousand in 2019). No level 2 financial instruments were reclassified to level 3 for the six months ended 30 June 2020 and for the 12 months ended 31 December 2019, respectively.

The result recognised in the income statement relates to trading (gains)/losses in connection with the substantial drop in long-term interest rates in 2020.

12 Provisions

The Group recognises a provision if, as a result of a past event, the Group has a current liability at the balance sheet date that will probably lead to an outflow of funds (which can include legal fees), the level of which can be reliably estimated. The recognition and release of provisions are shown in the line item "changes to provisions and other value adjustments, and losses". If an outflow of funds is unlikely to occur or the amount of the liability cannot be reliably estimated, a contingent liability is shown. A contingent liability is also shown if, as a result of a past event, there is a possible liability at the balance sheet date whose existence depends on future developments that are not fully within the Group's control. If the possibility of an outflow of resources is remote, neither a provision nor a contingent liability is reported.

CHF thousand			30.06.2020	31.12.2019
	Reinstatement cost provisions	**Other provisions**	**Total provisions**	**Total provisions**
Balance at the beginning of the period	3,661	12,801	16,462	11,585
Adjustment due to first time adoption of IFRS 16	—	—	—	3,613
Utilisation in conformity with designated purpose	—	(2,664)	(2,664)	(1,975)
Increase in provisions recognised in the income statement	26	1,982	2,008	3,869
Release of provisions recognised in the income statement	—	(5,986)	(5,986)	(564)
Translation differences	(49)	(38)	(87)	(66)
Balance at the end of the period	**3,638**	**6,095**	**9,733**	**16,462**
of which short-term provisions	—	3,967	3,967	3,665
of which long-term provisions	3,638	2,128	5,766	12,797

Other provisions

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

Leonteq built a provision for legal cost in the amount of CHF 0.5 million regarding a disputed transaction with a client and claimed the incurred losses from the counterparty in the first half of 2020. The claimed amount of USD 13.4 million. is recognised as a receivable in "Amounts due from customers" as of 30 June 2020.

In connection with a value added tax (VAT) audit for the years 2007 through and including 2011, the Swiss Federal Tax Administration (SFTA) took the view that the distribution services of foreign providers, including those of the subsidiary Leonteq Securities (Europe) GmbH, rendered to Leonteq Securities AG, are subject to VAT as a reverse charge (Bezugssteuer). Furthermore, the SFTA did not agree with the factor applied by Leonteq Securities AG for input VAT recovery on intragroup services rendered. Leonteq filed an appeal against the SFTA decision. In December 2019, the Swiss Federal Administrative Court decided in favour of Leonteq regarding the reverse charge but in favour of the SFTA regarding the factor. In the meantime, the decision of the Swiss Federal Administrative Court entered into force. The provision of CHF 5.1 million related to the reverse charge was therefore released in March 2020. The provision of CHF 2.3 million related to the input factor was used for the correction of the respective declarations upon receipt of the revised decisions by the SFTA. Thereof the amount of CHF 0.7 million has been released through the income statement and CHF 1.6 million used for the settlement.

13 Shareholders' equity

Share capital

			30.06.2020			31.12.2019
	Total par value (CHF)	Number of shares	Capital eligible for dividends	Total par value (CHF)	Number of shares	Capital eligible for dividends
Share capital fully paid in	18,934,097	18,934,097	18,934,097	18,934,097	18,934,097	18,934,097
Authorised capital	4,000,000	4,000,000	N/A	4,000,000	4,000,000	N/A
of which capital increase completed	—	—	N/A	—	—	N/A
Conditional share capital	1,000,000	1,000,000	N/A	1,000,000	1,000,000	N/A
of which capital increase completed	—	—	N/A	—	—	N/A

Authorised capital

On 27 March 2019, the Annual General Meeting approved the authorisation to increase share capital until 22 March 2021 up to a maximum amount of CHF 4,000,000.

Conditional share capital

Share capital may be increased by a maximum of CHF 1,000,000 by issuing 1,000,000 fully paid-in registered shares with a nominal value of CHF 1.00 each to cover potential exposures arising from restricted stock units (RSUs) granted to certain Group employees.

Own shares

The Leonteq AG shares held by the Group are deducted from shareholders' equity as "own shares" in the statement of equity at average cost paid. The Group does not recognise changes in fair value of own shares. A profit or loss arising on disposal of own shares is recognised through equity. The Group purchases its own shares to hedge its employee share-based benefit/RSU programmes.

			30.06.2020			31.12.2019
	Number of shares	Total purchase value (CHF thousand)	Average Price CHF	Number of shares	Total purchase value (CHF thousand)	Average Price CHF
Balance at the beginning of the period	311,951	13,309	43	224,421	13,141	59
Purchases	184,137	7,688	42	194,275	6,397	33
Disposals	(122,782)	(5,229)	43	(106,745)	(6,229)	58
Balance at the end of the period	**373,306**	**15,768**	**42**	**311,951**	**13,309**	**43**

Profit and capital distribution

On 31 March 2020, the Annual General Meeting of Leonteq AG approved the proposal of the Board of Directors to distribute a total of CHF 9.5 million (CHF 0.50 per share) in equal amounts out of retained earnings (dividend) and reserves from capital contributions for the financial year 2019. On 6 April 2020 a distribution of CHF 0.50 per share consisting of a dividend of CHF 0.25 (gross) and a distribution from the reserves from capital contributions of CHF 0.25 was paid (no capital distribution was paid in previous year).

14 Significant shareholders

	30.06.2020		31.12.2019	
	Number of shares held	Voting rights in %	Number of shares held	Voting rights in %
Raiffeisen Switzerland Cooperative	5,494,996	29.02%	5,495,157	29.02%
Lukas T. Ruflin[4, 5]	1,546,168	8.17%	1,543,756	8.15%
Sandro Dorigo	528,533	2.79%	463,317	2.45%
Subtotal shareholders' agreement	**7,569,697**	**39.98%**	**7,502,230**	**39.62%**
Rainer-Marc Frey[6]	1,900,000	10.03%	2,784,000	14.70%
Credit Suisse Funds AG[7]	1,010,483	5.34%	N/A	N/A
Swisscanto Fondsleitung AG[8]	573,783	3.03%	N/A	N/A
Directors and executives[9]	186,813	0.99%	178,322	0.94%
Total significant shareholders	**11,240,776**	**59.37%**	**10,464,552**	**55.26%**

4 31.12.2019: Includes all the holdings of Lukas T. Ruflin (founding partner), Clairmont Trust Company Limited and Thabatseka LP; Clairmont Trust Company Limited acts as trustee of a trust that holds shares in Leonteq AG through Thabatseka LP (which, in turn, is indirectly wholly owned by Clairmont Trust Company Limited); the trust was settled by Lukas T. Ruflin.

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

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

7 Creation of obligation to notify: 10 March 2020.

8 Creation of obligation to notify: 3 June 2020.

9 Excluding shareholdings of Lukas T. Ruflin.

15 Related-party transactions

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

CHF thousand	Amounts due from 30.06.2020	Amounts due from 31.12.2019	Amounts due to 30.06.2020	Amounts due to 31.12.2019	Income from H1 2020	Income from H1 2019	Expense to H1 2020	Expense to H1 2019
Significant shareholders								
Raiffeisen Switzerland Cooperative								
Amounts due from banks	12,948	19,018	—	—	—	—	—	—
Positive replacement values of derivative instruments	254,874	65,427	—	—	—	—	—	—
Amounts due to banks	—	—	221,787	3,950	—	—	—	—
of which credit facility	—	—	—		—	—	—	—
Negative replacement values of derivative instruments	—	—	48,910	63,593	—	—	—	—
Accrued expenses and deferred income	—	—	37	276	—	—	—	—
Platform partner service fee income	—	—	—	—	4,434	6,784	—	—
Other fee expense	—	—	—	—	—	—	24	—
Interest income	—	—	—	—	677	299	—	—
Interest expense	—	—	—	—	—	—	2,887	1,532
Affiliated companies								
Raiffeisen Switzerland B.V. Amsterdam								
Amounts due from customers	7,880	13,903	—	—	—	—	—	—
Positive replacement values of derivative instruments	348,650	110,609	—	—	—	—	—	—
Accrued income and prepaid expenses	672	302	—	—	—	—	—	—
Amounts due to customers	—	—	367,009	84,360	—	—	—	—
Negative replacement values of derivative instruments	—	—	78,227	74,157	—	—	—	—
Platform partner service fee income	—	—	—	—	20,380	10,592	—	—
Other fee expense	—	—	—	—	—	—	16	—
Interest income	—	—	—	—	613	350	—	—
Interest expense	—	—	—	—	—	—	79	788

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

On 6 April 2018, the Group entered into a credit facility framework agreement with Raiffeisen (the "Raiffeisen Facility"). The Raiffeisen Facility is valid from 1 April 2018 and ends automatically and without notice on 31 March 2022, if not renewed for another four years by the parties. The Raiffeisen Facility has a maximum limit of CHF 350.0 million (unsecured). Leonteq Securities has the right to reduce the facility to CHF 300.0 million at any time at the end of a calendar quarter.

As of 30 June 2020, Leonteq made use of this clause and reduced the facility to CHF 300.0 million. Business activities with related parties are subject to standard market rates.

16 Off-balance

CHF thousand	30.06.2020	31.12.2019
Off-balance sheet transactions		
Contingent liabilities	28,746	38,543
Irrevocable commitments	28	28

Contingent liabilities arise from deferred payments in relation to employee variable compensation plans.

Irrevocable commitments relate to Swiss Deposit Insurance.

On 10 August 2015, Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017 the lease 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 30 June 2020, the total commitment relating to future rental payments under the original lease contract was GBP 7.8 million (CHF 9.1 million) (2019: GBP 8.4 million or CHF 10.7 million, respectively), excluding taxes.

On 11 December 2017, Leonteq AG provided a guarantee relating to the lease of the office premises of its newly established subsidiary Leonteq Securities (Japan) Ltd. As of 30 June 2020, the total commitment relating to future rental payments under this lease was JPY 17.4 million (CHF 0.2 million) (2019: JPY 32.3 million or CHF 0.3 million, respectively), excluding taxes.

17 Post-balance sheet events

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

Report on the Review

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

Zurich

Introduction

We have reviewed the interim consolidated financial statements (interim consolidated statement of financial position, interim consolidated income statement, interim consolidated statement of other comprehensive income, interim consolidated statement of changes in equity, interim consolidated statement of cash flows and notes) (pages 32 to 60 and the reviewed sections of the risk and control report on pages 14 to 31) of Leonteq AG for the period ended 30 June 2020. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers AG

Andrin Bernet | Dominik Töngi

Zurich, 22 July 2020

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