2023 Half-Year Report

LEONTEQ

Content

Highlights

+7%
net fee income demonstrates strong client franchise of Leonteq

OFFERING
ETP+
product suite further expanded

PLATFORM
97,874
client transactions

PLATFORM
LynQs
version for Asia rolled out

Maintained strong capital base of **CHF 883.4 million**

PLATFORM
Awarded Best Multi-Issuer Platform
by Structured Retail Products

REGIONS
Maintained strong market position with **market share of 27%**
for SIX-listed yield enhancement products

SUSTAINABILITY
“Low Risk” score of 12.3
assigned by Sustainalytics

At a glance

For the six months ended 30 June, unless otherwise stated

	2023	2022	Change %
Group results (CHF million)			
Total operating income	147.1	289.2	(49%)
Profit before taxes	25.2	145.8	(83%)
Group net profit	28.8	118.0	(76%)
Key ratios			
Cost/income ratio	83%	50%	33 pp
Return on equity	7%	29%	(22 pp)
Business metrics and KPIs			
Platform assets (CHFbn)[1]	12.6	12.4	2%
of which historic partner business (CHFbn)[1]	5.2	5.5	(5%)
of which new partner business (CHFbn)[1]	2.5	2.2	14%
of which Leonteq business (CHFbn)[1]	4.9	4.7	4%
Turnover (CHFbn)	11.8	12.1	(2%)
of which historic partner business (CHFbn)	3.1	3.5	(11%)
of which new partner business (CHFbn)	2.4	1.5	60%
of which Leonteq business (CHFbn)	6.3	7.1	(11%)
Balance sheet-light turnover (CHFbn)	1.7	1.1	55%
Share of balance sheet-light turnover	14%	9%	5 pp
Number of active clients	890	896	(1%)

	2023	2022	Change %
Number of client transactions	97,874	105,948	(8%)
Number of issued products	19,767	14,531	36%
Number of pension savings contracts[1]	56,273	55,423	2%
Balance sheet (CHF million)[1]			
Total assets	10,367.2	12,352.7	(16%)
Total shareholders' equity	821.3	870.0	(6%)
Capital base	883.4	932.8	(5%)
Share information			
Market capitalisation (CHF million)[1]	774	827	(6%)
Number of shares outstanding[1]	18,934,097	18,934,097	N/A
Share price (CHF)[1]	40.90	43.70	(6%)
Basic earnings per share (CHF)	1.59	6.45	(75%)
Diluted earnings per share (CHF)	1.53	6.24	(75%)
Employees			
Number of full-time equivalent employees[1]	608	582	4%
Credit rating			
Long-term issuer default rating (Fitch)	BBB-/positive	BBB-/positive	N/A
Long-term issuer rating (JCR)	BBB+/stable	BBB+/stable	N/A

1 At the end of the respective period

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
Capital base	Aggregated amount of shareholders' equity and deferred fee income
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
Hedging contributions	Net result of hedging activities
Historic partners	Historic partners include EFG and Raiffeisen
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
New business	New business comprises revenues from growth initiatives and activities with lower balance sheet intensity (including asset management-like business, crypto assets, fund derivatives, balance sheet-light business, treasury income and pension savings)
New partners	New partners include all white-labelling (and third-party issuers) excluding historic partners
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
Traditional business	Traditional business comprises revenues from traditional structured products (e.g. BRCs/Autocallables) pre-dominantly on equity and equity indices as underlying assets
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
Treasury result	Net funding costs related to Leonteq's own issued products

Management Report

Group results

The first half of 2023 was characterised by increasing geopolitical tensions, inflationary pressures and fears of recession. In this challenging environment, Leonteq's client franchise remained strong while net trading results normalised, driven primarily by materially lower levels of market volatility. Leonteq reported profit before taxes of CHF 25.2 million (H1 2022: CHF 145.8 million) and Group net profit totalled CHF 28.8 million for the first half of 2023, compared to CHF 118.0 million in the prior-year period.

Income statement

CHF million	H1 2023	H2 2022[1]	H1 2022[1]	Change from H1 2022	Change from H2 2022
Net fee income	123.9	106.0	115.6	7%	17%
Net trading result	17.8	57.3	179.4	(90%)	(69%)
Net interest result	3.3	(0.3)	(7.7)	N/A	N/A
Other operating income	2.1	4.2	1.9	11%	(50%)
Total operating income	**147.1**	**167.2**	**289.2**	**(49%)**	**(12%)**
Personnel expenses	(73.0)	(66.8)	(84.8)	(14%)	9%
Other operating expenses	(28.7)	(33.2)	(28.1)	2%	(14%)
Depreciation	(17.6)	(17.0)	(16.5)	7%	4%
Changes to provisions	(2.6)	(2.7)	(14.0)	(81%)	(4%)
Total operating expenses	**(121.9)**	**(119.7)**	**(143.4)**	**(15%)**	**2%**
Profit before taxes	**25.2**	**47.5**	**145.8**	**(83%)**	**(47%)**
Taxes	3.6	(9.1)	(27.8)	N/A	N/A
Group net profit	**28.8**	**38.4**	**118.0**	**(76%)**	**(25%)**

[1] Effective 01.01.2023, the Group discloses the net result from securities lending and borrowing transactions (previously reported in net fee income) and the net interest result from margins for certain derivative transactions (previously reported in net interest result) in the net trading result. The figures for the prior periods were adjusted accordingly. For further information refer to page 51 of this report

Total operating income

The first half of 2023 was marked by inflationary pressures and related hikes in interest rates, while fears of a global recession weakened investor sentiment. Despite these challenging market conditions, Leonteq's client franchise remained strong with a stable number of 890 clients actively entering into transactions on its platform (H1 2022: 896), and a 36% rise in new issued products to 19,767 (H1: 14,531) albeit with lower average ticket sizes. Further, net fee income increased by 7% to CHF 123.9 million in the first half of 2023, compared to CHF 115.6 million in the prior-year period, driven primarily by an increase in client activity in the European region as a well as a rise in the number of large ticket transactions.

Reflecting the continued efforts to diversify revenues across issuers, turnover with Leonteq's new partners increased by 60% year on year to CHF 2.4 billion (H1 2022: CHF 1.5 billion), while turnover from historic partners totalled CHF 3.1 billion, compared to CHF 3.5 billion in the prior-year period. Turnover with products issued by Leonteq decreased by 11% to CHF 6.3 billion (H1 2022: CHF 7.1 billion). Overall platform turnover remained stable at CHF 11.8 billion in the first half of 2023, compared to CHF 12.1 billion in the first half of 2022. Platform assets reached CHF 12.6 billion as of 30 June 2023, compared to CHF 12.4 billion, as of 31 December 2022.

The first half of 2023 was further characterised by materially lower levels of market volatility, resulting in a normalised net trading result with limited but positive contributions from both hedging and treasury activities totalling CHF 17.8 million. This compared to a very strong performance with a net trading result of CHF 179.4 million in the prior-year period, which benefited from unprecedented market conditions.

The net interest result for the first half of 2023 increased to CHF 3.3 million, compared to CHF -7.7 million in the prior-year period. This was mainly due to lower expected credit losses and by income earned on cash accounts on the back of the significant increase in interest rates, which more than offset higher interest expenses.

Due to this combination of factors, total operating income was CHF 147.1 million in the first half of 2023, compared to CHF 289.2 million in the prior-year period.

Total operating expenses

Total operating expenses were CHF 121.9 million in the first half of 2023, down 15% year on year, mainly reflecting lower performance-driven variable costs and the absence of significant provisions for legal cases. In support of its Growth Strategy 2026, Leonteq also continued to invest in strategic initiatives, as well as in talent to further enhance its business and technology platform, resulting in a 4% increase in the number of FTEs to 608 compared to end-December 2022, and a 9% increase compared to end-June 2022. Consequently, fixed compensation increased year on year, while performance-driven variable costs decreased significantly, resulting in 14% reduction in personnel expenses to CHF 73.0 million, compared to CHF 84.8 million in the first half of 2022.

Year on year, other operating expenses rose by 2%, or CHF 0.6 million, to CHF 28.7 million in the first half of 2023, reflecting Leonteq's continued commitment to investing in strategic initiatives and marketing activities in selected European focus markets. Leonteq also recorded net provisions for legal cases of CHF 2.6 million in the first half of 2023, down significantly compared to net provisions of CHF 14.0 million in the prior-year period.

FTEs

	30.06.2023	31.12.2022	30.06.2022	Change from YE 2022
Switzerland	338	334	332	1%
Europe (excl. Switzerland)	194	175	154	11%
Asia (incl. Middle East)	76	73	72	4%
Total FTEs	**608**	**582**	**558**	**4%**
of which IT	156	147	148	6%
of which sales	95	95	95	0%

Profitability

Leonteq reported profit before taxes of CHF 25.2 million in the first half of 2023, compared to CHF 145.8 million in the prior-year period. Income taxes were positive at CHF 3.6 million in the first half of 2023 benefitting from a release of tax accruals. Group net profit amounted to CHF 28.8 million in the first half of 2023, compared to CHF 118.0 million in the prior-year period. Earnings per share were CHF 1.59, compared to CHF 6.45 in the first half of 2022.

Shareholders' equity totalled CHF 821.3 million as of 30 June 2023, compared to CHF 870.0 million as of 31 December 2022. The decrease was mainly driven by a total distribution to shareholders in the amount of CHF 78.2 million, partially offset by the net profit generated in the first half of 2023. Leonteq's capital base, comprising shareholders' equity as well as deferred fee income of CHF 62.1 million, remained strong at CHF 883.4 million as of 30 June 2023. Annualised return on equity was 7% for the first half of 2023 (H1 2022: 29%).

Balance sheet

Leonteq's total assets decreased by CHF 1,985.5 million, or 16%, to CHF 10,367.2 million as of 30 June 2023, compared to CHF 12,352.7 million at end-2022, mainly reflecting the lower valuation of derivative hedging positions. Derivatives with positive replacement values primarily relate to hedging arrangements entered into with Leonteq's partners and exchange-traded derivatives. The replacement values of these positions depend largely on share prices, with rising markets leading to lower positive replacement values.

Total liabilities declined by CHF 1,936.8 million, or 17%, to CHF 9,545.9 million, driven mainly by lower short-term credit and liabilities due to a decrease in received cash collateral and securities financing transactions. At the same time, the outstanding volume of Leonteq's own issued products increased by 5% to CHF 4,889.1 million.

Shareholders' equity totalled CHF 821.3 million as of 30 June 2023, a decrease of 6% from CHF 870.0 million as of 31 December 2022, predominantly due to the distribution to shareholders of CHF 72.4 million, as well as the share buyback programme that started on 3 April 2023. As of 30 June 2023, 127,250 shares have been purchased with a total buyback value of CHF 5.8 million, equivalent to 32% of the programme size.

Balance sheet

CHF million	30.06.2023	31.12.2022	30.06.2022	Change from YE 2022	Change from YE 2022
Cash and receivables	1,510.5	1,642.0	1,777.2	(8%)	(131.5)
Trading financial assets[1]	3,238.7	3,593.5	4,138.5	(10%)	(354.8)
Financial assets / investments[2]	2,587.4	2,808.4	2,749.4	(8%)	(221.0)
Derivatives[3]	2,856.4	4,144.4	6,517.4	(31%)	(1,288.0)
Other assets	174.2	164.4	160.0	6%	9.8
Total assets	**10,367.2**	**12,352.7**	**15,342.5**	**(16%)**	**(1,985.5)**
Short-term credit and liabilities	2,043.9	3,422.8	4,536.8	(40%)	(1,378.9)
Own structured investment products[4]	4,889.1	4,671.1	4,984.6	5%	218.0
Derivatives and short positions[5]	2,405.3	3,109.1	4,729.1	(23%)	(703.8)
Other liabilities	145.5	216.9	201.8	(33%)	(71.4)
Deferred fee income	62.1	62.8	67.0	(1%)	(0.7)
Total liabilities	**9,545.9**	**11,482.7**	**14,519.3**	**(17%)**	**(1,936.8)**
Shareholders' equity	**821.3**	**870.0**	**823.2**	**(6%)**	**(48.7)**

[1] Trading financial assets and trading inventories

[2] Other financial assets designated at fair value through profit or loss and financial investments measured at fair value through other comprehensive income

[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 and trading financial liabilities

Strategic progress and innovations in the first half of 2023

Leonteq's Growth Strategy 2026 was initiated in 2022 and is focused on four pillars: Offering, Platform, Regions and Sustainability. In the first half of 2023, Leonteq made further progress in executing its strategy across all four pillars.

Offering

We are further enlarging and diversifying our offering across products, asset classes and issuers

Platform

We are at the forefront of digitalisation and will continue to invest in digital client solutions leveraging our scalable technology platform

Regions

We continue to focus on our strong home market position whilst expanding our offering to a global client base

Sustainability

We are implementing responsible investing opportunities for our clients and integrating best ESG practices for a sustainable development of our company

Financial targets 2026	Total operating income (CHF million)	450–500	Return on equity	>15%
ESG targets 2026	Great Place to Work® Trust Index score	>72%	Gender diversity	>25%

Offering

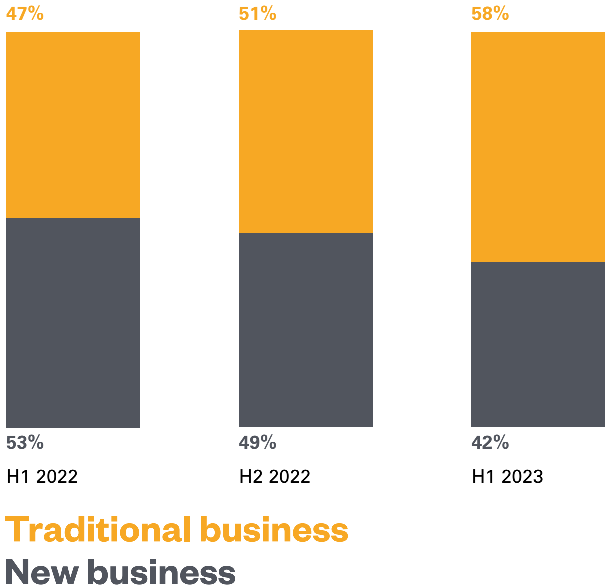
Following the introduction of the new ETP+ label in November 2022, the product suite was further expanded in the first half of this year. In March 2023, Leonteq entered into a collaboration with Global Green Xchange AG (GGX) for the launch of an exchange-traded product (ETP) on the GGX Sustainable Dynamic Leaders Europe Index NTR. This product enables investors to incorporate the first-ever ETP linked to a sustainable index in Switzerland into their portfolios. Further expanding their collaboration, in April 2023, Leonteq and The Market Media AG announced the launch of an ETP on The Market Best Ideas Portfolio Index NTR that comprises 20 to 40 stocks with favourable growth potential. In addition, Leonteq and Finanz und Wirtschaft strengthened their successful collaboration by introducing three new ETPs+ on the FuW Risk Portfolio Index NTR, the FuW Value Portfolio Index NTR and the FuW Eco Portfolio Index NTR in June 2023. In order to cover the fixed income asset class, Leonteq launched an ETP that tracks the movements of United States Secured Overnight Financing Rate (SOFR) which is the first of its kind in the SIX ETP segment.

The ETP+ label represents a distinctive innovation for the ETP market in Switzerland. ETP+ not only uses a reputable custodian and collateral agent, both based in Switzerland and part of the SIX Group, but also entails daily independent checks, which serve as a key mitigator of issuer risk. In view of Leonteq's position as an issuer that is a regulated securities firm with an investment grade rating and a strong capital position, this new setup clearly distinguishes Leonteq from existing ETP providers.

Revenues from new business activities contributed 42% of overall revenues in the first half of 2023 (H1 2022: 53%). In particular, the pension savings business performed well, driven by the increase in interest rates, significantly improving product conditions, and implemented product enhancements, increasing product attractiveness. Further, the asset management-like business generated stable revenues year on year despite the difficult market environment, demonstrating its recurring nature of income contribution. In this context, the AMC Gateway was further improved by adding crypto assets to the applicable universe of underlyings on the platform. Additional improvements were made to the trading and booking workflows, which allow additional scalability.

The balance sheet-light business also attracted solid demand from clients, with balance sheet-light turnover increasing to CHF 1.7 billion in the first half of 2023, up 55% from the prior year. This corresponds to 14% of overall turnover (H1 2022: 9%). The Group's fund derivatives business also recorded solid performance with stable revenues year on year. At the same time, contributions from its crypto asset business as well as its treasury activities reduced compared to the prior-year period.

Economic revenues by business type[1] (excluding hedging result)



[1] Traditional business comprises revenues from traditional structured products (e.g. BRCs/autocallables), primarily on equity and equity indices as underlyings; new business comprises revenues from growth initiatives and activities with a lower balance sheet intensity (including asset management-like business, crypto assets, fund derivatives, balance sheet-light business, treasury income and pension savings)

Platform

Leonteq continued to invest in digital client solutions in the first half of the year, leveraging its scalable technology platform. It also launched a dedicated version of LynQs for Asia-based wealth managers and family offices, which provides access to dedicated trade ideas, multi-channel pricing and the most popular structured products in Asia, including fixed coupon notes, bonus enhanced notes, equity-linked notes, phoenix autocall, range accruals and capital-protected notes. Further, this version of LynQs offers a new generation of actively managed certificates that support a wide range of index components.

In addition, a new feature, the LynQs Equity screener, was implemented in the first half of 2023. Users have now access to an enhanced search module on equity underlyings which allows to optimise a basket strategy based on a selected universe of stocks. The number of intermediaries onboarded on LynQs globally in-creased by 11% to 992 intermediaries in the first half of 2023.

The company also advanced its retail flow business initiative. It made good progress in developing a core platform required for market making and issuing a large number of flow products as well as in creating fully automated and scalable life cycle processes. Further, it created fully automated and scalable life cycle processes.

Leonteq was selected as a winner of the annual WealthBriefingAsia Awards 2023 in the category “Structured Product Solution Pan Asia” in June 2023 thanks to its multi-issuer model, as well as the scalability and speed of Leonteq’s platform. In particular, the jury appreciated the complete automation of services and the white-labelling option.

For the second consecutive year, LynQs was named “Best Multi-Issuer Platform” by Structured Retail Products at the SRP Europe Awards 2023 in March 2023, in recognition of the continuous improvements made by Leonteq and its efforts to offer clients a wide variety of functionalities and rapid processing.

Client transactions decreased to 97,874 in the first half of 2023 (H1 2022: 105,948) but remained well above the pre-pandemic level of 74,503 recorded in the first half of 2019, reflecting the continued expansion of Leonteq’s business.

The number of pension savings contracts managed on the platform increased to 56,273 as of 30 June 2023, compared to 55,423 at end-2022.

Regions

Leonteq maintained its strong position in its Swiss home market in the first half of 2023. Together with its platform partners, Leonteq remained the leading issuer of SIX-listed yield enhancement products with a market share of 27%, and it currently ranks as the number three issuer of total SIX-listed structured products with a market share of 10%. At this year's Swiss Derivative Awards, Leonteq was recognised as the top service provider for the 13th consecutive year.

In Italy, Leonteq's continued progress in establishing a strong market position was recognised at the Italian Certificate Awards, where it received two product-related awards.

In Portugal, Leonteq further strengthened its service centre in Lisbon, where it currently has 79 employees.

As part of its ambition to further expand its offering targeting an international client base, Leonteq strengthened its regional management teams in Europe and Asia (including the Middle East).

Reflecting Leonteq's new initiative to develop an automated retail flow platform in particular, it has been able to successfully fill additional roles in Germany. The automated retail flow platform is designed to offer clients a large range of flow products (including warrants), as part of Leonteq's efforts to further grow and diversify its product offering and client franchise.

Despite the challenging market environment, Leonteq saw solid client activity across all regions in the first half of 2023. Net fee income in its Swiss home market totalled CHF 48.2 million in the first half of 2023 (H1 2022: CHF 51.4 million) Operations in Europe delivered strong performance and generated 23% growth in net fee income of CHF 62.7 million (H1 2022: CHF 50.9 million). Net fee income in the Asia region (including the Middle East) was stable at CHF 13.0 million (H1 2022: CHF 13.3 million).

Net fee income[1] split by region

CHF million	H1 2023	H2 2022	H1 2022	Change from H1 2022	Change from H2 2022
Switzerland	48.2	53.9	51.4	(6%)	(11%)
Europe (excl. Switzerland)	62.7	39.6	50.9	23%	58%
Asia (incl. Middle East)	13.0	12.5	13.3	(2%)	4%
Total net fee income	**123.9**	**106.0**	**115.6**	**7%**	**17%**

[1] With effect from the start of 2023, the Group is disclosing the net result from securities lending and borrowing transactions and the net interest result from margins for derivative transactions in the result from trading activities and the fair value option. The figures for the prior period were adjusted accordingly. For further information refer to page 51 of this report (Note 9)

Sustainability

Leonteq continued to drive the Group's sustainability efforts through various ongoing initiatives in the first half of 2023.

To further strengthen our sustainability governance, Leonteq developed a Sustainability Framework in early 2023. This policy outlines the overarching organisational framework for the implementation of the Group's commitment to sustainable development and the implementation of its ESG strategy. Additionally, Leonteq introduced a new global tax policy, which sets out the overall approach of Leonteq AG and its directly or indirectly controlled entities to corporate taxation in line with applicable rules and regulations.

In terms of IT security and personal data protection, Leonteq further expanded its efforts to increase employee awareness of IT security and the protection of personal data of clients, employees, business partners and other stakeholders.

After Leonteq became a member of Advance, the leading business association for gender equality in Switzerland, in 2022, it subsequently signed the Advance Charter in March 2023. Leonteq has thus officially committed to promoting gender equality in business and to providing a workplace environment that supports a fair and balanced approach to hiring, remunerating, promoting and retaining female talent.

Leonteq is continuing to develop a responsible investing methodology to assess the sustainability of structured products. As part of these efforts, it is engaged in active discussions with relevant industry associations in Switzerland and Europe to agree on a common denominator when it comes to determining sustainability features in structured products.

Under its newly introduced "Core Framework", Sustainalytics assigned Leonteq an ESG Risk Rating of 12.3. This score categorises Leonteq as continuing to have "Low Risk" of experiencing material financial impacts from ESG factors. The company ranks among the top five percentile of Sustainalytics' Global Universe as well as the Diversified Financial Universe.

Risk & Control

Reviewed information

These risk and control disclosures form part of the financial statements included in the "Interim consolidated financial statements" section of this report and are reviewed by the independent registered public accounting firm Deloitte AG, Zurich.

The figures shown are rounded. Consequently, the total may differ from the figure calculated when the individual numbers are added together.

Risk management and control framework

The careful 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 financial and non-financial risks. Established policies and procedures not only facilitate the identification and monitoring of risks throughout the organisation but also help to ensure that they are controlled in an effective and consistent manner.

Risk management and control principles

Risk management and control are an integral component of the ongoing management of Leonteq's business. Leonteq is exposed to financial and non-financial risks as part of its client-focused business model. Risk management and control ensure that activities related to the structuring and issuance of structured investment products are client-driven rather than being motivated by proprietary risk-taking activities.

The following guiding principles are designed to maintain and further develop Leonteq's 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 the relevant statutory, regulatory and internal rules must be ensured at all times;
- The Group's capital base and risk exposures must be continuously managed to ensure that it remains adequately capitalised in severe stress scenarios;
- Risk concentrations and exposure to stress scenarios are closely monitored and managed within approved limits;
- Independent risk control functions serve to monitor adherence with the established risk tolerance;
- Accurate, timely and detailed risk disclosures are provided to senior management and the Board of Directors, as well as to regulators and auditors.

The Board of Directors approves Leonteq's Risk Tolerance Framework and defines objectives related to risk tolerance to target sustainable profitability and the preservation of shareholder's value. These objectives include the protection of earnings, capital and liquidity during plausible but severe stress scenarios. Leonteq's policies, risk measurement and reporting methodologies, and its risk limit framework reflect the above principles. The risk framework is continuously being refined to take account for new business activities and changes to the risk profile.

Risk Tolerance Framework

Category	Risk capacity & exposure	Implementation	Key processes & tools
Risk tolerance objectives defined by the Board of Directors: Capital Volatility of profit and losses Liquidity Operational excellence Technology and cybersecurity Non-financial: Conduct, culture, compliance Target rating	**RISK EXPOSURE** **Financial risks:** Market risk Credit risk Market liquidity risk Country risk Liquidity and refinancing risk Structural foreign exchange risk Pension risk Model risk **Non-financial risks:** Operational risk Legal, compliance and regulatory risks Reputational risks Tax risks Cybersecurity and information security risk **RISK CAPACITY** Profits Capital	**Operating three lines model for corporate, finance, compliance & risk processes**	Business model / strategy Budget process / strategic business plan Cost management / financial reporting & monitoring Risk and stress testing framework Risk limit framework Capital planning / capital management Profit & loss reporting and analysis / valuation framework / model validation Liquidity planning, monitoring & management framework Operational risk framework Internal Control System (ICS) / external and independent assessment of controls Sanction policy and policy framework Incentive system & internal management communication External rating by a major rating agency

Risk governance

Leonteq's risk governance framework is based on the three lines model, which provides guidance regarding the core set-up of the internal control system. There is a clear allocation of tasks and responsibilities and the segregation of duties between first and second line, as well as the third line represented by the Internal Audit function.

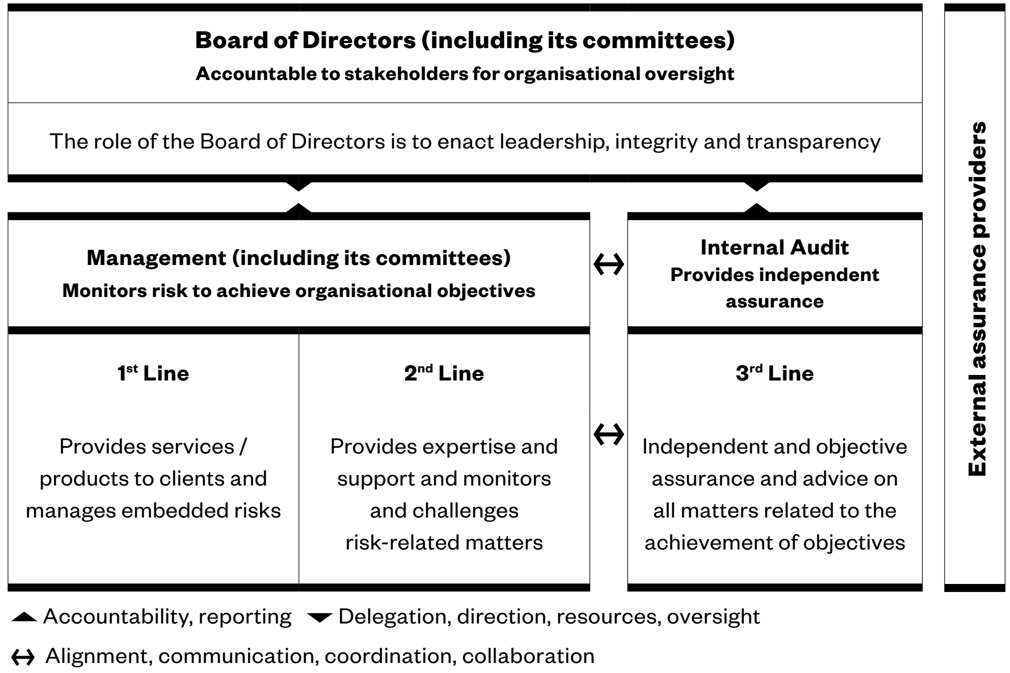
Overall responsibility for the Group-wide internal control system lies with the Board of Directors and its committees. The Board of Directors defines the overall guidelines and performs an assessment of the internal control system on a regular basis. It delegates the implementation and maintenance of the internal control system to the Executive Committee.

The first line provides services and products to partners and clients and manage the embedded risk. It comprises 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 measures to address the risks associated with the processes they manage.

The second line gives expertise and support to the first line. It challenges the risk related matters. It consists of functions which provide independent oversight of the risk management activities implemented by the first line. The second line prepares the policies, frameworks, tools and techniques to be implemented by 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 provides independent assurance. It comprises the Internal Audit function, which is not part of the risk management organisation and reports independently to the Board of Directors. Using a risk-based approach, Internal Audit assesses and provides assurance of the effectiveness of governance, risk management and internal controls and submits it to the Group's Board of Directors and Executive Committee.

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



The three lines model enhances clarity regarding risks and controls, and it helps to improve the effectiveness of risk management activities

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 limits, following recommendations by the Audit and Risk Committee.

The Audit and Risk Committee of the Board of Directors monitors a wide variety of risks: market risk, credit risk, country risk, operational risk, liquidity risk, legal, compliance and regulatory risk, reputational risk, model risk and tax risk. 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 processes throughout the Group.

The Executive Committee is responsible for the operational management and supervision of all types of risk within the framework and risk tolerance defined by the Board of Directors. Furthermore, the Executive Committee is responsible for ensuring that effective governance processes are in place to identify, assess, monitor, control and report operational risk. This includes making sure that an effective ICS is established, documented and periodically evaluated. 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 consists of members of the Executive Committee and any other Leonteq employee who the EC deems appropriate.
- The Risk Committee is responsible, among other things, for determining and monitoring limits for liquidity risk, market risk, counterparty risk and country-specific risks within the scope defined by the Board of Directors. It defines permissible hedging instruments within the scope prescribed by the Board, approves eligible issuers and stress scenarios, and issues guidelines on the general management of legal and regulatory risks.
- The Treasury Committee defines the Treasury function's mandate and monitors adherence to it. Its mandate is to guide the issuance activities of Leonteq to ensure sufficient excess liquidity and to balance the risk and return of investment activities. The Treasury Committee approves and oversees the implementation of strategic treasury initiatives related to liquidity and funding, as well as capital management, and it defines the liquidity risk management framework and monitors adherence to that framework.
- The Index Committee was put in place to oversee Leonteq's proprietary Index business. Leonteq established a set of policies and procedures for the Leonteq index business to establish a robust governance framework. The Index Committee is responsible for overseeing any changes to an index methodology, maintaining the governance framework, determining the course of action for any potential cessation event for an index and assessing internal and external audits or reviews for the Index business.
- The Risk Control department independently monitors the effectiveness of risk management and is responsible for ensuring that risk exposures remain in line with the risk tolerance defined by the Board of Directors. The main responsibilities of Risk Control include:
  - Daily monitoring, controlling and reporting of risk exposures against the established risk tolerance as expressed by alerts, thresholds and limits; including escalation of all observed limit breaches to the business units and the limit owner, the Executive Committee or the Board;
  - Providing periodic risk analysis and review reports to the Executive Committee and the Board of Directors;
  - Risk identification to ensure that all material risks are detected, quantified and reported;
  - Definition of appropriate risk measures and stress scenarios to monitor all material risks;
  - Process, analyse and review all requests for changes in alerts, thresholds and limits made by the business in the context of the established risk tolerance and present such requests to the responsible committee for review and approval;
  - Independent oversight of treasury activities in managing structural foreign exchange risks and liquidity risks;
  - Independent profit and loss verification and explanation of all trading activities on a daily basis;
  - Independent assessment of models;
  - Independent price verification of all financial positions;
  - Defining, overseeing the implementation, and periodically reviewing the operational risk framework;
  - Ensuring that the level of operational risk tolerance defined by the Board of Directors is communicated across the firm;
  - Performing process and internal control reviews for specific business areas to ensure their adequacy to mitigate operational risks;
  - Reviewing issues escalated by management to assess their impact on the firm's operational risk profile and facilitate remediation; and
  - Promoting a strong risk culture by providing education on key operational risk concepts and tools.

Risk limit framework

The risk limit framework is based on the risk tolerance defined by the Board of Directors. The framework translates the tolerance into limits for financial risks inherent in the Group's activities as well as qualitative statements for those risks that cannot be quantified.

Governance | Executive Committee | Committees | Policies

Capital management | Capital adequacy monitoring and capital planning

Liquidity framework | Liquidity Excess Reserves (LER)

Risk and limit framework

Market risk framework

Board market risk limits and alerts
Represent the risk tolerance on the main risk drivers

EC market risk limits and alerts
Limits and alerts set by the Executive Committee on the main and additional risk drivers

Regional limits
Limits allocated to branches or regions

Thresholds
Thresholds against which Risk Control monitors risk exposures

Credit risk framework

Board credit limits
Represent the risk tolerance for the investment portfolio credit sensitivities and stress exposures

EC credit limits
Limits are set on individual counterparty group level

Risk diversification rules
Monitors exposure on counterparty/issuer groups

Credit risk mitigation
Eliminating credit exposure by means of netting agreements, segregation of collateral and excess collateral

Operational risk framework

Monetary operational risk
Tolerance level defines accepted loss level

Risk identification
Event reporting, control assessments and risk register

Risk assessment and monitoring
Self-assessments, key risk indicators and reports

Risk mitigation
Internal control framework, IT & non-IT projects & initiatives, education and policies

The limit framework has three different levels of limits:

- Board of Directors limits and alerts represent the Group's overall risk tolerance defined by the Board of Directors. Breaches of these limits are escalated to the Board of Directors.
- Executive Committee limits and alerts are additional granular limits imposed by the Risk Committee of the Executive Committee.
- Thresholds are part of the limit framework established to closely monitor risk exposures below the limits defined by the Board of Directors and the Executive Committee.

Operational resilience

Recognising the increased potential for significant disruption to companies' operations from pandemics, natural disasters, cyber security incidents or technology failures and other internal or external events, the Basel Committee on Banking Supervision has developed seven principles for operational resilience.

Governance – The Group relies on the prevailing governance structure to determine its operational resilience approach and draws on existing governance structures to establish, oversee and implement an effective operational resilience framework. The Group considers the roles of senior management, the control functions and independent assurance functions to be part of the operational resilience governance framework. Stakeholders from across the three lines model are involved in operational resilience governance. Please refer to the Risk Governance disclosure on page 18 for further details.

Operational risk management – The Group has a broad operational risk framework to manage and control operational risk. The Group's operational resilience approach is integrated into operational risk procedures, where any risk event or disruption is analysed and triggers the implementation of corrective measures. Under Leonteq's operational risk approach, any operational risk event that is reported is considered to be a unique opportunity to learn and to further strengthen the operational resilience of the Group. Please refer to the Operational Risk disclosure on page 35 for further details.

Business continuity planning and testing – The Group applies a pragmatic approach to business continuity management (BCM) that aims to protect business-critical applications and services. The BCM programme is designed to address severe but plausible scenarios potentially faced by the Group and to ensure that the business can continue to operate if an event impacts its activities. The Group has established and defined an annual BCM testing process. Its purpose is to ensure a cycle of continuous improvement by identifying any weaknesses, risks or bottlenecks and initiating improvements. Please refer to the BCM disclosure in the Sustainability Report 2022.

Mapping interconnections and interdependencies – The interconnections and interdependencies of the various elements necessary to deliver the Group's critical operations are assessed on an ongoing basis. Interconnections and interdependencies are identified and mapped during the annual Business Impact Analysis (BIA) process. The BIA is a systematic process used to determine and evaluate the potential effects of an interruption to critical business operations as a result of a disaster, accident or emergency. The BIA is an essential component of Leonteq's business continuity plan as it is intended to identify any vulnerabilities and to develop strategies for minimising risk.

Third-party dependency management – The Group follows the FINMA supervisory guidance for outsourcing solutions in terms of organisation and risk reduction. Leonteq's monitoring framework encompasses situations where the Group mandates either a Leonteq Group entity or an external service provider to perform independently and on an ongoing basis all or part of a task or function that is of significant importance for the Group's business activities. The decision about whether an outsourcing mandate is significant for Leonteq's business is based on a regulatory risk assessment. In addition, the capacity of third parties to absorb and manage disruptive events is evaluated before entering into a service agreement and is regularly reassessed. This capacity of third parties was also evaluated at the start of the Covid-19 pandemic.

Incident management – Incidents associated with infrastructure, software bugs, operational failures, vendor-generated outages and database failures are recorded based on their criticality. All incidents that are classified as critical have to be recorded using Leonteq's internal ticketing system JIRA. Most critical incidents require a "Major Incident" ticket to be raised retrospectively to prevent an identified incident from reoccurring.

Information and communication technology (ICT) including cyber security – Leonteq has a dedicated cyber security team that is supported by external cyber security specialists. The aim is to prevent, mitigate and reduce the impact of cyber security-related events by identifying threats and risks, implementing appropriate safeguards, monitoring those safeguards and the assets required to manage security breaches, and responding to cyber security issues if and when they occur to ensure the reliability of information systems and communication technology used in Leonteq's critical operations. Please refer to the Cyber Security Risk disclosure on page 36 for further details.

Leonteq is currently assessing the impacts of the revised FINMA Circular on Operational Risk and Resilience, which is expected to enter into effect on 1 January 2024, and is in the process of designing and implementing the necessary amendments.

Risk infrastructure

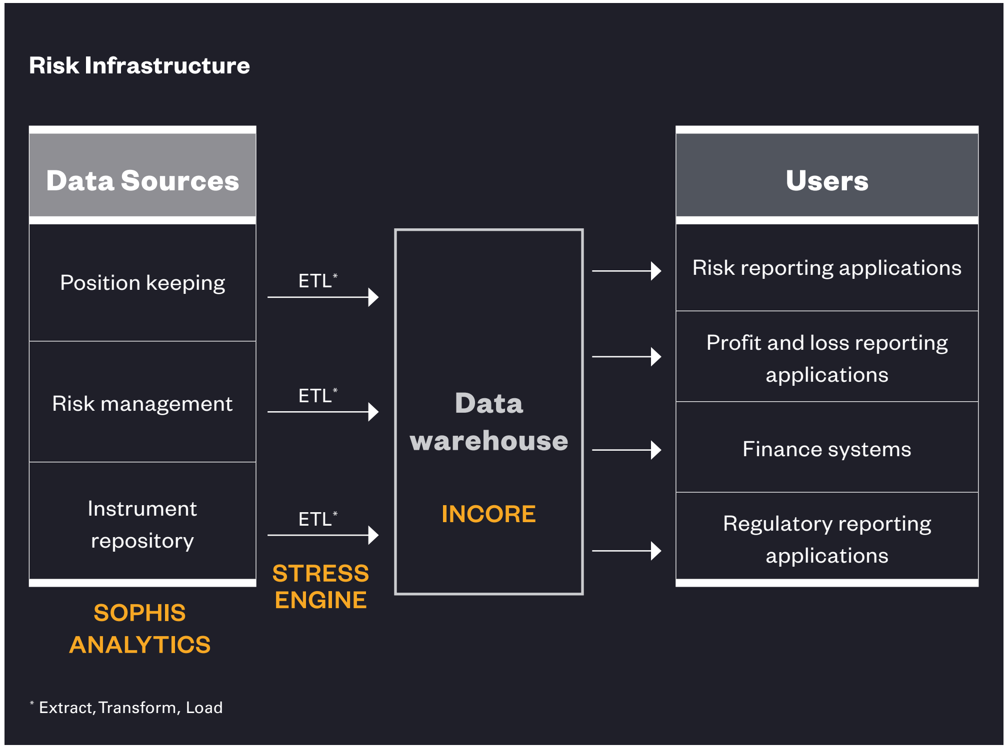
The Group's risk infrastructure has been continuously developed since Leonteq commenced operations in 2007. Leonteq has made significant investments in maintaining and further strengthening its risk infrastructure. Today, a single position keeping system eliminates the need for complex data and risk aggregation and consolidation systems. A data warehouse that can be accessed by all relevant departments ensures a high level of data consistency. Automated data extractions, enrichment and risk analysis processes allow for the rapid and efficient monitoring and reporting of risk exposures. Significant computational resources are available to perform the required calculations for hundreds of risk and trading reports each day. No approximations or proxy models are used for risk management purposes, i.e., all instruments are fully calculated.

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

Sophis RISQUE is the Group's risk management, trading and position keeping system. Leonteq deploys 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 to the mid- and back-office areas. The Group continues to be supported by Finastra, the developer of Sophis RISQUE, and the system is continuously updated. There is a two-week software release cycle of software developed in-house that adds the latest functionalities to the system when they become available, as well as enabling greater agility as the features and functions are continuously improved. In addition, the Group uses a stress engine developed in-house, reducing its dependency on third-party providers and allowing the Group to perform a wider range of stress calculations and scenario analysis with increased reliability, simpler integration of new instruments, improved calculation power and better data processing.

Analytics Service, which includes Leonteq's Analytics Library, plays a key role in all the quantitative and analytical computations performed by Leonteq and it serves as the basis for all pricing and risk management applications. The Analytics Library is a proprietary library that contains quantitative pricing and risk management models that are developed in-house. Since it covers all asset classes, the Analytics Library allows for the creation of hybrid products and the implementation of new payoffs across all asset classes. It currently supports a wide number of different payoffs and can be extended using scripting language. The Analytics Library contains functions allowing for the consistent marking of the Group's market data. The resulting volatility surfaces allow both exotic and vanilla options to be priced on a continuous basis. This methodology enables the Group's traders to efficiently maintain a large universe of underlyings, facilitating short response time to client requests. The combination of pricing functionality and calibration methods for market data within the Analytics Library ensures that Leonteq's pricing and analytical computations are not only indicative but also tradable and executable for 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 and risk reporting. Data and reports are distributed and provided to end-users via automated schedules or visualised in dashboards using business intelligence tools.



Risk categories and measurement

The Group's ongoing business activities expose it to financial and non-financial risks. Leonteq's Risk Control department is primarily responsible for identifying, measuring, monitoring and controlling risks resulting from its business activities (issuance of structured investment products to clients which the Group seeks to hedge efficiently), changes in the operating environment (markets or regulation) or the launch of new activities (new products).

Risk measures

The Group measures risk at the level of individual positions and at portfolio level. Sensitivity analysis and stress testing are performed and recorded at position level, facilitating the analysis of 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 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 volatility, 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 concentrations

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

Market risk

Market risk is the risk of loss resulting from adverse movements in the market price or model price of financial assets. The Group distinguishes between seven types of market risk (listed in alphabetical order):

- Commodity risk, i.e., the risk of adverse movements in commodity prices and related derivatives;
- Credit spread risk, i.e., the risk of adverse movements in credit spreads and related credit spread sensitive instruments;
- Crypto asset risk, i.e., the risk of adverse movements in crypto asset prices and related derivative instruments;
- Equity risk (including funds), i.e., the risk of adverse movements in share and fund prices and related derivatives;
- Foreign exchange risk, i.e., the risk of adverse movements in currency exchange rates and related derivative instruments;
- Interest rate risk, i.e., the risk of adverse movements in the yield curve and corresponding movements in the valuation of rate sensitive instruments;
- Precious metal risk, i.e., the risk of adverse movements in precious metal prices and related derivatives.

Monitoring of market risk

Commodity risk, credit spread risk, crypto asset risk, equity risk, foreign exchange risk, interest rate risk and precious metal risk 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 (equities, funds, precious metals, commodities or crypto assets). The impact on profit and loss is measured based on a 1% shock in the price of all underlying financial instruments.
- Vega risk is the sensitivity of the derivative value to changes in the implied volatility of an underlying (equities, funds, precious metals, commodities or crypto asset). The impact on profit and loss is measured based on a 1 percentage point normalised shock to the implied volatility of all underlyings. A normalised volatility shock is defined by a term structure of shocks, with shocks decaying by the reciprocal of the square root of time and with caps and floors applied at the short and long end.
- Correlation risk measures the impact on the derivative value of changes in the implied correlation between underlying pairs. The impact on profit and loss is measured based on a change in implied correlation of 1 percentage point for all underlying pairs.
- Dividend risk measures the impact on the derivative value of changes in the expected dividend. The impact on profit or loss is measured based on a change in dividend of -10% for all underlyings.
- Foreign exchange delta risk measures the impact of a change in currency prices. The impact on profit and loss is measured for a 1% shock in the value of all currencies against the Swiss franc. Sensitivities are further classified into G10 currencies (G10) and non-G10 currencies (EM).
- Foreign exchange vega risk is the sensitivity of the derivative value with respect to changes in the implied volatility of exchange rates. The impact on profit and loss is measured based on a 1 percentage point normalised shock to the implied volatility for all exchange rates.
- Credit spread risk measures the impact of a change in the price of the underlying bond or credit instrument as a result of a change in the credit spread of the issuer. The impact on profit and loss is measured based on a 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. The impact on profit and loss is measured based on a change in all yield curves of 10 basis points for G10 interest rates (G10) and non-G10 interest rates (EM).
- Interest rate vega risk is the sensitivity of the derivative value with respect to changes in the implied volatility of interest rates. The impact on profit and loss 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 2023, the Group had the following exposures relating to its financial assets and liabilities.

Impact on the income statement

CHF thousand	30.06.2023	31.12.2022
Risk factor		
Commodity delta risk	(27)	(15)
Commodity vega risk	129	164
Crypto delta risk	0	3
Equity delta risk	(178)	(225)
Equity vega risk	7,967	8,895
Equity correlation risk	(3,505)	(7,727)
Equity dividend risk	(3,642)	(5,268)
Foreign exchange delta risk - G10	109	317
Foreign exchange delta risk - EM	3	2
Foreign exchange vega risk	(411)	(668)
Interest rate risk - G10	97	331
Interest rate risk - EM	14	9
Interest rate vega risk	(32)	(37)
Precious metal delta risk	185	48
Precious metal vega risk	105	149
Credit spread risk - Credit linked products	(6)	332
Credit spread risk - Government and agencies	(0)	(5)
Credit spread risk - Corporations and banks	(362)	(44)

Impact on shareholders' equity

CHF thousand	30.06.2023	31.12.2022
Risk factor		
Foreign exchange G10 delta	3,146	3,236
Credit spread risk - Government and agencies	(1,846)	(1,819)
Credit spread risk - Corporations and banks	(6,844)	(7,815)

Financial markets proved resilient in the first half of 2023. Stock markets rose and volatility decreased sharply. The risk characteristics of products issued by Leonteq and its partners remained unchanged. Equity vega, correlation and dividend risks were reduced compared with 31 December 2022 as markets recovered in the second quarter of 2023. The credit quality of Leonteq's investment portfolio as of 30 June 2023 further improved as a result of a more conservative investment approach and a reduction in the average portfolio duration.

The Group operates a branch in Guernsey (Leonteq Securities AG, Guernsey Finance Branch), whose primary function is to manage a portfolio of mainly US-dollar denominated bonds. Consequently, the branch's functional currency is the US dollar. As of 30 June 2023, USD 350 million of capital was allocated to this branch. The sensitivity of the structural foreign exchange position to the US dollar / Swiss franc exchange rate and its impact on the Group's equity are shown in the above table.

The Group invests a portion of the proceeds from own product issuance in high-quality mid-term bonds issued by corporates and financial institutions. This investment portfolio is measured at fair value through other comprehensive income (FVOCI). Bonds measured at FVOCI are presented as "financial investments measured at fair value through other comprehensive income". Credit spread sensitivities relating to this FVOCI portfolio are shown in the above table.

Stress analysis

The Group reports the impacts on its income statement when the following relevant historical stress scenarios are applied to its portfolio. The highlighted cells in the matrix refer to the average shocks for the stress scenarios described below:

- Covid-19 Black Thursday is a 1-day crash scenario that happened on 12 March 2020 as part of the wider Covid-19 stock market crash. US stock markets suffered from the greatest single-day percentage fall since the 1987 stock market crash.
- Covid-19 Rally is a 1-day rally scenario that occurred two weeks after Black Thursday, on 24 March 2020. Equity prices increased and equity volatilities decreased.

The following tables give an indication of the overall risk exposure as of 30 June 2023 and 31 December 2022.

Structured investment products

30 June 2023

CHF thousand	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	(65,211)	(29,722)	(7,419)	14,094	45,522	94,801
Spot -5%	(39,625)	(15,809)	876	18,658	46,703	94,857
Spot -2%	(38,898)	(15,794)	532	17,488	44,196	91,617
Spot 0%	(35,869)	(15,784)	—	16,086	41,557	87,201
Spot +2%	(29,871)	(13,140)	302	15,456	39,652	83,853
Spot +5%	(21,657)	(7,404)	4,728	18,386	42,117	87,496
Spot +10%	(1,355)	8,205	17,608	29,842	51,881	95,877

31 December 2022

CHF thousand	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	(83,665)	(42,740)	(16,448)	8,604	43,173	93,700
Spot -5%	(57,191)	(24,934)	(3,678)	17,246	48,534	98,639
Spot -2%	(45,777)	(18,856)	(400)	18,744	48,288	98,291
Spot 0%	(42,493)	(17,357)	—	18,098	46,556	96,215
Spot +2%	(41,828)	(17,676)	(1,202)	16,060	43,326	91,318
Spot +5%	(40,789)	(18,519)	(1,687)	15,548	42,833	92,707
Spot +10%	(34,171)	(16,164)	(871)	16,642	45,757	98,534

Long-term savings and retirement products

30 June 2023

CHF thousand	Vol. –20bp	Vol. –10bp	Vol. 0bp	Vol. +10bp	Vol. +20bp
Spot -50bp	594	(26)	(166)	(8)	341
Spot -25bp	1,199	266	(134)	(185)	(4)
Spot 0bp	1,780	620	—	(240)	(219)
Spot +25bp	2,149	879	114	(271)	(380)
Spot +50bp	2,354	1,073	232	(250)	(459)

31 December 2022

CHF thousand	Vol. –20bp	Vol. –10bp	Vol. 0bp	Vol. +10bp	Vol. +20bp
Spot -50bp	801	114	(241)	(372)	(350)
Spot -25bp	1,132	340	(109)	(323)	(373)
Spot 0bp	1,367	516	—	(278)	(384)
Spot +25bp	1,534	665	110	(211)	(361)
Spot +50bp	1,694	837	264	(87)	(272)

Credit risk

Credit 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 either in part or in total. The Group distinguishes between the following types of credit risk:

- Counterparty risk, i.e., the risk of a counterparty or custodian defaulting on a financial obligation;
- Issuer specific risk, i.e., the risk that an issuer of a financial instrument defaults, e.g., equity or debt instruments. Exposure to such instruments can arise through direct holdings in those instruments or if the instrument is the underlying of a derivative contract;
- Settlement risk, i.e., the risk that an issuer or counterparty does not settle its leg of the financial contract or instrument;
- Migration risk, i.e., the risk that issuer or counterparty ratings of hedging instruments deteriorate and negatively impact prices. Leonteq captures this risk by measuring credit spread risks;
- Step-in risk, i.e., the risk that Leonteq may decide to provide financial support to an unconsolidated entity that is facing stress in the absence of, or in excess of, any contractual obligations to provide such support.

Monitoring of credit risk

Leonteq is exposed to credit risks related to over-the-counter (OTC) derivatives and securities lending and borrowing (SLB) activities with counterparties. It is also exposed to credit risks 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 as a result of the issuance of credit-linked notes. Counterparty and country risk limits are set by management and reviewed regularly by the Risk Committee of the Board of Directors. Exposure to counterparties resulting from the Group's OTC derivatives and SLB 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	30.06.2023 Exposure	31.12.2022 Exposure
OTC	23.4	19.6
SLB	78.1	134.0
Total	**101.5**	**153.6**

Investment portfolio

The Group has primarily invested the proceeds from own product issuance in high-quality bonds issued by corporations and financial institutions, as well as central governments, organisations supported by those governments, and supranational organisations. A comprehensive overview of the investment portfolio is provided in the following tables. The asset values include accrued interests and are shown in the balance sheet line item "Financial investments measured at fair value through other comprehensive income".

	Maturity							
30 June 2023 CHF million	**0–12 months**	**12–24 months**	**24–36 months**	**36–48 months**	**48–60 months**	**>60 months**	**Total**	**Total in %**
Governments and agencies[1]	**—**	**36.3**	**156.4**	**128.5**	**119.9**	**86.0**	**527.1**	**21.9%**
of which Aaa	—	24.8	57.6	69.5	89.8	61.0	302.6	12.6%
of which Aa1-Aa3	—	6.0	93.9	40.7	30.2	18.2	188.9	7.8%
of which A1-A3	—	5.5	4.9	18.3	—	6.8	35.6	1.5%
Corporations/institutions	**20.5**	**85.7**	**147.0**	**257.8**	**168.9**	**395.6**	**1,075.5**	**44.7%**
of which Aaa	—	38.6	13.4	53.1	27.2	57.7	190.0	7.9%
of which Aa1-Aa3	4.8	27.6	57.6	52.5	30.9	232.2	405.7	16.9%
of which A1-A3	15.3	5.6	63.3	131.2	108.3	105.6	429.2	17.8%
of which Baa1-Baa3	0.5	14.0	12.7	21.0	2.5	—	50.7	2.1%
Banks	**73.6**	**129.9**	**243.5**	**192.0**	**88.5**	**76.9**	**804.5**	**33.4%**
of which Aaa	—	27.6	36.6	—	8.9	—	73.1	3.0%
of which Aa1-Aa3	19.3	48.9	92.8	67.6	33.7	17.8	280.1	11.6%
of which A1-A3	54.3	53.4	103.0	96.7	36.8	54.6	398.8	16.6%
of which Baa1-Baa3	—	—	11.1	27.7	9.0	4.5	52.4	2.2%
Total	**94.1**	**251.9**	**546.9**	**578.4**	**377.4**	**558.5**	**2,407.1**	**100.0%**

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

31 December 2022 CHF million	Maturity 0–12 months	12–24 months	24–36 months	36–48 months	48–60 months	>60 months	Total	Total in %
Governments and agencies[1]	**21.0**	**22.0**	**88.6**	**168.1**	**93.4**	**120.8**	**514.0**	**19.7%**
of which Aaa	19.4	13.3	16.0	76.4	42.0	106.0	273.1	10.5%
of which Aa1-Aa3	1.6	8.7	61.9	91.7	32.7	8.1	204.7	7.8%
of which A1-A3	—	—	10.7	—	18.7	6.7	36.1	1.4%
Corporations/institutions	**77.8**	**75.1**	**192.9**	**242.7**	**221.9**	**488.3**	**1,298.6**	**49.7%**
of which Aaa	—	—	51.8	49.4	22.6	85.9	209.7	8.0%
of which Aa1-Aa3	38.4	26.1	44.6	51.1	76.4	233.6	470.1	18.0%
of which A1-A3	36.3	34.1	93.5	123.0	101.6	166.4	554.9	21.2%
of which Baa1-Baa3	3.1	14.9	2.9	19.2	21.3	2.5	63.9	2.4%
Banks	**59.6**	**108.3**	**236.0**	**217.4**	**113.8**	**65.3**	**800.5**	**30.6%**
of which Aaa	—	—	52.3	—	9.4	—	61.7	2.4%
of which Aa1-Aa3	37.9	29.3	103.1	86.2	43.3	18.4	318.2	12.2%
of which A1-A3	21.8	79.0	80.6	111.1	42.4	33.7	368.5	14.1%
of which Baa1-Baa3	—	—	—	20.1	18.7	13.3	52.0	2.0%
Total	**158.5**	**205.4**	**517.5**	**628.2**	**429.1**	**674.4**	**2,613.0**	**100.0%**

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

Country risk

Leonteq is exposed to country risk to the extent that the counterparty of a transaction or a derivative instrument, or the issuer of a security referenced in a derivative contract held by Leonteq either as a hedging position or as collateral for securitising credit exposures, is domiciled in a foreign country.

Country risks are mitigated using country risk limits, as set by the relevant corporate bodies.

Liquidity risk and management

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 liquidity and refinancing risk, or the risk that Leonteq may not have sufficient cash or other liquid assets to meet its obligations as they fall 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 may 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, commodities, precious metal and crypto assets) 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 arising from 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 financial institutions with an investment-grade rating;
- Maintaining diversification across countries and issuers;
- Specifying a minimum issue size;
- Defining the maximum concentration per single issue.

Liquidity and refinancing 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 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 primarily due to the issuance of structured products for the Group as well as 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 proceeds from non-Swiss issuances to Switzerland can have an adverse impact in terms of Swiss withholding tax. Leonteq therefore observes the respective repatriation capacity and limits the transfer of liquidity held in the Guernsey and Amsterdam branches of Leonteq Securities AG accordingly.

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 calculated each business day. In addition, the Risk Control department simulates on a daily basis the effects of various stress scenarios on the amount of funding required under those scenarios. The framework requires that sufficient liquidity should be available in locations to cover their respective funding requirements. If Leonteq were to experience shortfalls in any aspect of its liquidity requirements, committed credit and/or contingent liquidity 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 structure of the carrying amounts of the Group's financial assets and liabilities. Liquidity has to be provided for the daily market making required for the issuing and trading business. Consequently, the balance sheet positions which are closely connected to the issuing and trading business are not broken down into individual cash flows and divided into different maturity ranges but are reported at fair value in the "On demand to 1 month" column, representing the earliest point at which amounts are expected to be recovered or settled. In the case of the other financial balance sheet positions, the carrying amounts are reported in the maturity range which represents the earliest point at which payment can be expected. The breakdown of these positions with predominantly short maturities into individual undiscounted cash flows would provide an only marginally different view.

In addition, for non-financial assets, the following tables show the maturity structure of the carrying amounts expected to be recovered or settled.

CHF thousand	Due				
	On demand to 1 month	**1–3 months**	**3–12 months**	**Over 12 months**	**Total 30.06.2023**
Assets					
Financial assets					
Cash and balances at central banks	296,237	—	—	—	296,237
Amounts due from banks	671,663	—	—	—	671,663
Amounts due from securities financing transactions	11,852	—	—	—	11,852
Amounts due from customers	530,760	—	—	—	530,760
Trading financial assets	3,020,122	—	—	—	3,020,122
Positive replacement values of derivative financial instruments	2,856,341	—	—	—	2,856,341
Other financial assets designated at fair value through profit or loss	192,887	—	—	—	192,887
Financial investments measured at fair value through other comprehensive income	2,394,546	—	—	—	2,394,546
Other financial assets	14,611	1,182	40,164	—	55,957
Total financial assets	**9,989,019**	**1,182**	**40,164**	**—**	**10,030,365**
Non-Financial assets					
Trading inventories	218,551	—	—	—	218,551
Current tax assets	—	—	2,220	—	2,220
Deferred tax assets	—	—	—	1,870	1,870
Tangible assets[1]	—	—	—	47,734	47,734
Intangible assets[1]	—	—	—	56,049	56,049
Other non-financial assets	—	8,690	1,677		10,367
Total non-financial assets	**218,551**	**8,690**	**3,897**	**105,653**	**336,791**
Total assets	**10,207,570**	**9,872**	**44,061**	**105,653**	**10,367,156**

CHF thousand	Due				
	On demand to 1 month	**1–3 months**	**3–12 months**	**Over 12 months**	**Total 30.06.2023**
Liabilities					
Financial liabilities					
Amounts due to banks	445,112	—	—	—	445,112
Liabilities from securities financing transactions	921,090	—	—	—	921,090
Amounts due to customers	677,671	—	—	—	677,671
Trading financial liabilities	60,626	—	—	—	60,626
Negative replacement values of derivative financial instruments	2,344,657	—	—	—	2,344,657
Other financial liabilities designated at fair value through profit or loss	4,889,114	—	—	—	4,889,114
Other financial liabilities[2]	5,083	22,707	10,092	30,176	68,058
Total financial liabilities	**9,343,353**	**22,707**	**10,092**	**30,176**	**9,406,328**
Non-Financial liabilities					
Current tax liabilities[3]	—	—	378	12,000	12,378
Deferred tax liabilities	—	—		343	343
Other non-financial liabilities[4]	—	28,965	23,803	51,924	104,692
Provisions	—	—	2,770	19,330	22,099
Total non-financial liabilities	**—**	**28,965**	**26,951**	**83,597**	**139,512**
Total liabilities	**9,343,353**	**51,672**	**37,043**	**113,773**	**9,545,840**

1 Immobilized
2 Other financial liabilities with a long-term maturity mainly comprise lease liabilities (see Note 33)
3 Current tax liabilities with a long-term maturity comprise uncertain tax positions (see Note 17)
4 Other non-financial liabilities with a long-term maturity mainly comprise deferred income (see Note 11)

CHF thousand	Due				
	On demand to 1 month	1–3 months	3–12 months	Over 12 months	Total 31.12.2022
Assets					
Financial assets					
Cash and balances at central banks	288,412	—	—	—	288,412
Amounts due from banks	962,039	—	—	—	962,039
Amounts due from securities financing transactions	1,845	—	—	—	1,845
Amounts due from customers	389,660	—	—	—	389,660
Trading financial assets	3,445,367	—	—	—	3,445,367
Positive replacement values of derivative financial instruments	4,144,449	—	—	—	4,144,449
Other financial assets designated at fair value through profit or loss	217,220	—	—	—	217,220
Financial investments measured at fair value through other comprehensive income	2,591,205	—	—	—	2,591,205
Other financial assets	16,207	356	30,767	—	47,330
Total financial assets	**12,056,403**	**356**	**30,767**	**–**	**12,087,526**
Non-Financial assets					
Trading inventories	148,162	—	—	—	148,162
Current tax assets	—	—	1,010	—	1,010
Deferred tax assets	—	—	—	1,798	1,798
Tangible assets[1]	—	—	—	50,011	50,011
Intangible assets[1]	—	—	—	54,581	54,581
Other non-financial assets	—	7,512	2,145	—	9,657
Total non-financial assets	**148,162**	**7,512**	**3,155**	**106,390**	**265,219**
Total assets	**12,204,565**	**7,868**	**33,922**	**106,390**	**12,352,745**

CHF thousand	Due				
	On demand to 1 month	1–3 months	3–12 months	Over 12 months	Total 31.12.2022
Liabilities					
Financial liabilities					
Amounts due to banks	541,994	—	—	—	541,994
Liabilities from securities financing transactions	1,822,877	—	—	—	1,822,877
Amounts due to customers	1,057,946	—	—	—	1,057,946
Trading financial liabilities	201,543	—	—	—	201,543
Negative replacement values of derivative financial instruments	2,907,543	—	—	—	2,907,543
Other financial liabilities designated at fair value through profit or loss	4,671,084	—	—	—	4,671,084
Other financial liabilities[2]	11,842	27,309	9,253	31,183	79,587
Total financial liabilities	**11,214,829**	**27,309**	**9,253**	**31,183**	**11,282,574**
Non-Financial liabilities					
Current tax liabilities[3]	—	—	32,593	12,000	44,593
Deferred tax liabilities	—	—	—	390	390
Other non-financial liabilities4	—	59,343	19,030	55,196	133,569
Provisions	—	—	3,776	17,809	21,585
Total non-financial liabilities	**–**	**59,343**	**55,399**	**85,394**	**200,136**
Total liabilities	**11,214,829**	**86,652**	**64,652**	**116,577**	**11,482,710**

1 Immobilized
2 Other financial liabilities with a long-term maturity mainly comprises lease liabilities (see Note 33)
3 Current tax liabilities with a long-term maturity comprises uncertain tax positions (see Note 17)
4 Other non-financial liabilities with a long-term maturity mainly comprises deferred income (see Note 11)

Structural foreign exchange risk

Upon consolidation, assets and liabilities held in foreign operations are translated into Swiss francs (CHF) at the closing foreign exchange rate on the balance sheet date. Changes in the value (in CHF) of non-CHF assets or liabilities due to foreign exchange movements are recognised in Other Comprehensive Income (OCI) and therefore have an impact on shareholders' equity and the Group's available capital.

Pension risk

Pension risk is defined as the financial risk from contractual or other liabilities to which Leonteq is exposed as an employer. It is the risk that Leonteq may be required to make unexpected payments or other contributions to a pension plan because of a potential obligation (i.e., underfunding).

Sources of risks can be broadly categorised into asset investment risks (e.g., underperformance of bonds, equities, and alternative investments) and liability risks, primarily from changes in interest rates, inflation, and actuarial assumptions (e.g., life expectancy, rate of increase in pension benefits).

Leonteq reviews the funded status (coverage ratio) of its pension plans on a regular basis to ensure appropriate restructuring measures can be taken in the event of coverage ratio falling below 100%.

Model risk

Model risk is the risk of financial loss due to inappropriate model assumptions or inadequate model usage. At Leonteq, significant model risks arise when models are used to value financial instruments and to calculate hedging ratios. The use of inadequate models could result in inaccurate valuations, which in turn could lead to incorrect risk measurement and the wrong hedging position, both of which could translate into a financial loss.

Leonteq mitigates these risks through a comprehensive model risk management framework, broadening the scope beyond model validation to include all aspects of model risk management at all stages, the development of the model, its implementation, and its use.

Model risk management is a continuous process, not a periodic activity. It includes: monitoring model risks and limitations identified during its development and validation; ongoing monitoring and validation of changes that may impact model risks.

The Group is also exposed to a number of non-financial risks, including operational risk, legal, compliance and regulatory risk, reputational risk, tax risk, and cybersecurity and information security risk.

Operational risk

Operational risk is the risk of losses occurring due to inadequate or failed internal processes, people and systems or due to external factors. Operational risk includes the risk of losses due to failures in the Group's operational processes or its IT system or issues related to legal and compliance. 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 harm 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 financial instruments 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. The Operational Risk Control function independently monitors the effectiveness of operational risk management and oversees operational risk-taking activities. The Board of Directors determines the risk tolerance 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 tolerance defined by the Board of Directors. Operational risk events are analysed to determine their root causes, and adequate and sustainable mitigation actions are determined.

Leonteq also continuously invests in business continuity management to ensure continuity of critical operations in the event of a major disruptive event. Business continuity management encompasses backup operating facilities and IT disaster recovery plans, which are in place throughout Leonteq.

Cybersecurity and information security risk

Technical defences

Cybersecurity and information security risk is defined as the risk of a malicious internal or external act, adversely impacting the confidentiality, integrity, or availability of Leonteq's data or information systems, leading to financial, regulatory or reputational harm or loss.

Leonteq mitigates cybersecurity and information security risk by adopting state-of-the-art cyber security practices and uses a range of cyber security tools to monitor its environment in real time and to produce alerts if any risk indicators emerge.

In cases where Leonteq is dependent on third-party services and service providers, a data protection impact analysis is performed prior to initiation of the contract. Cloud service providers are also assessed based on internal policies to ensure appropriate safeguards are in place.

Governance defences

Technical defences alone are not sufficient to ensure the safety of digital assets in a commercial environment. To enable the Group to meet stringent regulatory and security practices, technical defences are therefore backed by strong and regular governance routines including:

- Internal and external audits of cyber defences and routines to ensure compliance with the Group's requirements and foster good practices;
- Regular penetration tests, which are carried out in the Group's general environment on a routine basis and also when the Group launches a new digital service;
- Internal checks and reviews that have been established to verify that the Group's services are correctly configured, including exception handling;
- Regular user awareness and training sessions to ensure that employees, or staff acting on behalf of the Group, understand what is regarded as acceptable or risky behaviour, together with strategies to work within a safe environment.

Legal, compliance and regulatory risk

Legal, compliance and regulatory risks are risks arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards.

Such risks expose Leonteq to potential fines, civil financial penalties, the payment of damages or the voiding of contracts. Compliance and legal risks can also lead to reputational harm, limit business opportunities, reduce growth potential and impact Leonteq's ability to enforce contracts.

Leonteq mitigates its legal, compliance and regulatory risks by implementing mandatory training programmes for all employees and through the strict enforcement and monitoring of its policies and procedures. It also mitigates these risks by ensuring it has sufficient numbers of well qualified legal specialists among its staff to draft and review contracts and monitor transactions. Changes in the regulatory environment are monitored, and directives and procedures are adapted as required.

Tax risk

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 their interpretation of the relevant regulations (tax rulings) or seeks appropriate advice from professional tax consultants at a local level. Tax risk is monitored by the Tax department, which takes an integrated view of tax risks across the entire Group.

Reputational 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 risk framework implemented by the Group is designed to identify, quantify and reduce primary and consequential risks that could have an adverse impact on its 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 reinforced by a systematic and transparent communication policy towards all stakeholders.

Recent developments and emerging risks

Brexit: The UK's withdrawal from the EU did not have a significant impact on Leonteq's business as Leonteq holds the necessary licences to continue to serve its clients in both the UK and the EU from its offices in London, Amsterdam, Paris, Frankfurt, Milan and Lisbon. Leonteq Securities (Europe) GmbH is currently operating under the FCA's Temporary Permissions Regime in the UK and has applied for FCA authorisation for its London branch.

Ukraine/Russia conflict: In response to the Ukraine/Russia conflict, several jurisdictions, including the US, the EU, the UK and Switzerland, have imposed extensive sanctions on Russia and certain Russian entities and nationals. Among others, sanctions include asset freezes for sanctioned individuals and corporations, and limits on financial transactions with sanctioned entities and individuals.

Russia also introduced measures in response to the above mentioned sanctions, including restrictions on transactions with (or for the benefit of) subjects located in countries deemed "unfriendly", including Switzerland.

Leonteq closely monitored the situation to identify potential business impacts, promptly informed relevant stakeholders and implemented the rapidly evolving and complex sanctions imposed by numerous countries.

All primary transactions on products with Russian underlyings or denominated in Russian rubels (RUB) have been stopped and Leonteq has had no related exposure since the end of June 2022.

Allegations in media articles: Certain allegations were made through the media during the reporting period as well as the prior reporting year concerning Leonteq issued products distributed by third parties, including by a company based in the BVI, referring to potential tax evasion or money laundering offences attributed to third parties and separately referring to potential fraud or criminal misconduct attributed to third parties.

The allegations revolving around the transactions mentioned in the media articles were investigated at different points in time. Such reviews revealed no indication of money laundering or tax evasion. Nor did they reveal any evidence suggesting that any Leonteq entities or employees would have intentionally participated to any potential fraud or criminal misconduct.

It is important to note that Leonteq's distribution partners are third-party financial intermediaries who must comply with laws and regulations applicable to their business, as well as the distribution agreements agreed with Leonteq. If Leonteq detects a breach thereof, it takes immediate appropriate action.

Leonteq recorded an increase in regulatory scrutiny in the reporting period as authorities in some countries continued to make inquiries on this matter and the Group continues to maintain an active dialogue.

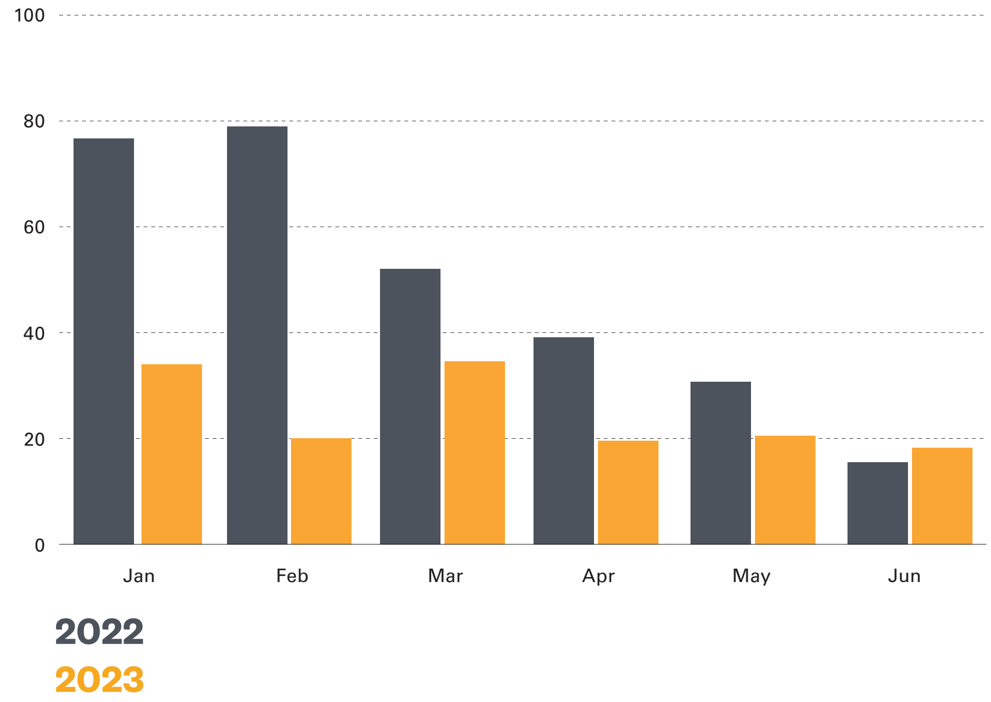
Profit and loss analysis

The Group performs daily profit and loss analyses and reports economic revenues on a consolidated level as well as on an individual trading book level to senior management. Economic revenues primarily consist of fee income and trading income and are considered to have been recognised at the trade date without applying IFRS revenue recognition rules. Economic revenues do not include certain other income components such as the reimbursement of project costs from partners. Economic fee income is driven by the level of client activity which may show seasonal patterns, especially during the summer months and end-of-year holiday season. Economic trading income is primarily driven by Leonteq's hedging activity, which is influenced by various factors, including but not limited to market volatility.

Despite challenging market conditions in the first half of 2023, Leonteq's client franchise remained strong in the first half of 2023, as demonstrated by an increase in net fee income and the rise in newly issued products, while around the same number of clients entered into transactions as in the prior-year period. Growth in net fee income was driven primarily by an increase in client activity in the European region as a well as a rise in the number of large ticket transactions.

The first half of 2023 was further characterised by materially lower levels of market volatility, resulting in a normalised net trading result with limited but positive contributions from both hedging and treasury activities. This compared to a very strong performance in the prior-year period, which benefited from unprecedented market conditions.

Monthly economic revenues (CHF million)



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 firms such as Leonteq. 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. FinIA further stipulates that securities firms must have sufficient own funds and liquidity individually and on a consolidated basis.

Leonteq does not hold client accounts and is thus not subject to the requirements of the Capital Adequacy Ordinance. Under the applicable regulatory framework for securities firms, Leonteq significantly exceeded its regulatory capital requirement of CHF 20 million as of 30 June 2023. Leonteq also has a robust capital planning process in place to ensure that the Group's own funds are sufficient to cover potential losses in the event of severe adverse market shocks or other events.

Capital planning covers a 3-year time horizon which is consistent with the regulatory requirement for capital planning for banks. The framework establishes a direct link between the economic market environment and different economic scenarios for the future capital development. The economic market environment, in turn, is reflected by the strategic business plan provided by Financial Management, and the Group's risk profile and its impact on profits and eligible capital are directly connected through stress scenario losses adapted to the economic scenarios.

Defined stress scenarios include the simulated combined effect of a variety of market and business events, such as potential losses related to equity, crypto assets, commodity and precious metal market shocks, interest rate changes, foreign exchange rate movements, credit losses and operational losses, pension fund restructuring measures, as well as adverse changes to the business environment. These potential losses are then compared to the Group's own funds to ensure that a significant buffer is maintained in each defined economic scenario.

The risk tolerance objective for capital adequacy reflects Leonteq's overall risk capacity and appetite. It serves as a global benchmark to calibrate the granular limits and scenarios defined for the multiple risk categories. Therefore, the capital risk framework forms the basis of the limit setting in the firm's operating risk framework.

LEONTEQ AG HALF-YEAR REPORT 2023

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Leonteq AG

Interim consolidated income statement for the six months ended 30 June 2023

CHF thousand	Note	H1 2023	H1 2022
Fee income from securities trading and investment activities		123,928	115,626
Net fee income[1]	8	**123,928**	**115,626**
Result from trading activities and the fair value option[1]	9	**17,791**	**179,367**
of which interest revenue calculated using the effective interest method		24,742	17,897
Interest income from financial assets measured at amortised cost[1]		6,501	239
Interest expense from financial liabilities measured at amortised cost[1]		(3,911)	(2,515)
Credit loss (expense) / recovery		676	(5,402)
Net result from interest operations	10	**3,266**	**(7,677)**
Other operating income		2,142	1,888
Total operating income		**147,127**	**289,203**
Personnel expenses		(73,056)	(84,768)
Other operating expenses		(28,688)	(28,136)
Depreciation and amortisation of tangible & intangible assets		(17,621)	(16,495)
Changes to provisions and other value adjustments, and losses	14	(2,609)	(14,023)
Total operating expenses		**(121,974)**	**(143,421)**
Result from operating activities		**25,153**	**145,782**
Taxes	11	3,619	(27,739)
Group net profit		**28,772**	**118,044**
of which allocated to shareholders of Leonteq AG		28,772	118,044
Share information			
Basic earnings per share (CHF)		1.59	6.45
Diluted earnings per share (CHF)		1.53	6.24

[1] With effect from the start of 2023, the Group is disclosing the net result from securities lending and borrowing transactions and the net interest result from margins for derivative transactions in the result from trading activities and the fair value option. The figures for the prior period were adjusted accordingly. For further information refer to Note 9

Interim consolidated statement of other comprehensive income for the six months ended 30 June 2023

CHF thousand	Note	H1 2023	H1 2022
Group net profit		**28,773**	**118,044**
Other comprehensive income/(loss) that will not be reclassified to the income statement (net of tax)			
Remeasurement of the defined benefit plan		(320)	3,051
Changes in own credit spread[1]		—	(22)
Total other comprehensive income/(loss) that will not be reclassified to the income statement		**(320)**	**3,029**
Other comprehensive income/(loss) that may be reclassified to the income statement (net of tax)			
Net unrealised gains/(losses) on debt instruments measured at fair value through other comprehensive income		13,913	(45,446)
Expected credit loss changes on debt instruments measured at fair value through other comprehensive income		(689)	3,486
Currency translation adjustments		(11,574)	14,157
Total other comprehensive income/(loss) that may be reclassified to the income statement		**1,651**	**(27,803)**
Total other comprehensive income/(loss)		**1,330**	**(24,775)**
Total comprehensive income		**30,103**	**93,269**
of which allocated to shareholders of Leonteq AG		30,103	93,269

[1] In prior year reporting, the line item included CHF 0.7 million for the transfer of the change in own credit risk to retained earnings. The amount has been changed to exclude this gross amount transferred within equity. Transfers within equity are now shown separately in the statement of changes in equity

The notes on pages 45 to 67 form an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of financial position as of 30 June 2023

CHF thousand	Note	30.06.2023	31.12.2022
Assets			
Cash and balances at central banks		296,237	288,412
Amounts due from banks		671,663	962,039
Amounts due from securities financing transactions		11,852	1,845
Amounts due from customers		530,760	389,660
Trading financial assets		3,020,122	3,445,367
of which assets pledged as collateral with the right to sell or repledge		751,743	1,006,741
Trading inventories		218,551	148,162
Positive replacement values of derivative financial instruments		2,856,341	4,144,449
Other financial assets designated at fair value through profit or loss		192,887	217,220
Financial investments measured at fair value through other comprehensive income		2,394,546	2,591,205
of which assets pledged as collateral with the right to sell or repledge		274,611	1,010,214
Accrued income and prepaid expenses		24,115	23,707
Current tax assets		2,220	1,010
Deferred tax assets		1,870	1,798
Other assets		42,209	33,280
Tangible assets		47,734	50,011
Intangible assets		56,049	54,581
Total assets		**10,367,156**	**12,352,745**

CHF thousand	Note	30.06.2023	31.12.2022
Liabilities			
Amounts due to banks		445,112	541,994
Liabilities from securities financing transactions		921,090	1,822,877
Amounts due to customers		677,671	1,057,946
Trading financial liabilities		60,626	201,543
Negative replacement values of derivative financial instruments		2,344,657	2,907,543
Other financial liabilities designated at fair value through profit or loss		4,889,114	4,671,084
Accrued expenses and deferred income		121,234	163,318
Current tax liabilities		12,378	44,593
Deferred tax liabilities		343	390
Other liabilities		51,516	49,837
Provisions	14	22,099	21,585
Total liabilities		**9,545,840**	**11,482,710**
Equity			
Share capital	15	18,934	18,934
Share premium		213,445	249,647
Retained earnings[1]		684,130	690,797
Accumulated other comprehensive income/(loss)		(45,985)	(47,315)
Own shares	15	(49,208)	(42,027)
Total shareholders' equity		**821,316**	**870,035**
Total liabilities and equity		**10,367,156**	**12,352,745**

[1] Retained earnings comprise cumulated earnings, including Group net profit for the period ended 30 June 2023 and the year ended 31 December 2022, respectively

The notes on pages 45 to 67 form an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of changes in equity as of 30 June 2023

CHF thousand	Note	Share capital	Share premium	Retained earnings	Accumulated other comprehensive income/(loss)					Own shares	Total shareholders' equity
					Defined benefit plan	Change in own credit	Unrealised income/(loss) 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		
Balance as of 1 January 2022		**18,934**	**276,992**	**557,886**	**2,450**	**(1,058)**	**(758)**	**2,893**	**(32,679)**	**(22,568)**	**802,093**
Employee participation schemes[1]		—	—	(2,003)	—	—	—	—	—	8,687	6,684
Net disposal/(purchase) of own shares[1]		—	—		—	—	—	—	—	(24,205)	(24,205)
Dividends and other distributions		—	(27,345)	(27,345)	—	—	—	—	—	—	(54,689)
Other allocations to/(transfers from) other comprehensive income		—	—		3,051	(22)	(45,446)	3,486	14,157	—	(24,775)
Transfers within equity[2]				(705)		705					—
Group net profit		—	—	118,044	—	—	—	—	—	—	118,044
Balance as of 30 June 2022		**18,934**	**249,647**	**645,877**	**5,501**	**(375)**	**(46,204)**	**6,379**	**(18,521)**	**(38,086)**	**823,151**

CHF thousand	Note	Share capital	Share premium	Retained earnings	Accumulated other comprehensive income/(loss)					Own shares	Total shareholders' equity
					Defined benefit plan	Change in own credit	Unrealised income/(loss) 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		
Balance as of 1 January 2023		**18,934**	**249,647**	**690,797**	**3,756**	**—**	**(27,098)**	**5,971**	**(29,946)**	**(42,027)**	**870,035**
Employee participation schemes		—	—	763	—	—	—	—	—	10,450	11,214
Net disposal/(purchase) of own shares		—	—		—	—	—	—	—	(17,630)	(17,630)
Dividends and other distributions		—	(36,202)	(36,202)	—	—	—	—	—	—	(72,404)
Other allocations to/(transfers from) other comprehensive income		—	—	—	(320)	—	13,913	(689)	(11,574)	—	1,330
Group net profit		—	—	28,772	—	—	—	—	—	—	28,772
Balance as of 30 June 2023		**18,934**	**213,445**	**684,130**	**3,436**	**—**	**(13,185)**	**5,282**	**(41,520)**	**(49,207)**	**821,316**

1 The effect of employee participation schemes on own share balance is shown gross in current period. Prior period figures were adjusted accordingly

2 Changes in own credit risk recognised in other comprehensive income are subsequently transferred within equity to retained earnings. For further information, refer to note 12

The notes on pages 45 to 67 form an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of cash flows for the six months ended 30 June 2023

CHF thousand	Note	H1 2023	H1 2022
Group net profit		28,772	118,044
Adjustments for non-cash items in Group net profit			
Depreciation and amortisation expense		17,621	16,495
Increase/(Decrease) in deferred taxes		(119)	243
Change in expected credit loss provision		(689)	5,402
Change in provision	14	2,605	15,273
Expenses from employee participation schemes		11,275	6,674
Other non-cash income and expenses		(13,329)	12,820
Net (increase)/decrease in assets related to operating activities			
Amounts due from banks		48,243	(196,206)
Amounts due from securities financing transactions		(10,007)	(2,919)
Amounts due from customers		(147,559)	(146,158)
Trading financial assets		369,053	1,093,362
Trading inventories		(70,389)	309,454
Positive replacement values of derivative financial instruments		1,288,108	(1,599,634)
Other financial assets designated at fair value through profit or loss		24,333	113,815
Net (investment)/disposal of financial investments measured at fair value through other comprehensive income		210,572	(404,415)
Accrued income and prepaid expenses		(408)	1,698
Current tax assets		(1,210)	21
Other assets		(8,929)	(12,486)
Net increase/(decrease) in liabilities related to operating activities			
Amounts due to banks		(161,827)	421,303
Liabilities from securities financing transactions		(901,787)	465,896
Amounts due to customers		(380,323)	910,186
Trading financial liabilities		(140,917)	(12,010)
Negative replacement values of derivative financial instruments		(562,886)	257,332
Other financial liabilities designated at fair value through profit or loss		218,030	(1,264,042)
Accrued expenses and deferred income		(42,084)	(12,544)
Current tax liabilities		(3,207)	25,948
Other liabilities		3,467	1,167
Utilisation of general provision		(2,041)	(3,711)
Dividends received		56,191	67,460
Interest received		6,501	1,963
Interest paid		(3,665)	(2,270)
Current taxes paid		(29,008)	(1,907)
Cash flow from operating activities		**(195,614)**	**186,254**
Purchases of tangible assets		(300)	(825)
Purchases of intangible assets		(12,200)	(10,377)
Cash flow from investing activities		**(12,500)**	**(11,202)**
Lease payments (excluding short term/low-value leases)		(4,825)	(4,766)
Distribution of capital contribution reserves		(36,202)	(27,345)
Dividend distribution		(36,202)	(27,345)
Purchases of own shares		(17,630)	(24,205)
Cash flow from financing activities		**(94,860)**	**(83,660)**
Exchange rate differences		50	(147)
Net (decrease)/increase in cash and cash equivalents		**(302,924)**	**91,245**
Cash and cash equivalents at the beginning of the year		915,856	595,034
Cash and cash equivalents at the balance sheet date		**612,931**	**686,279**
Cash and balances at central banks		296,237	47,250
Due from banks on demand[1]		388,698	669,361
Due to banks on demand[1]		(116,455)	(118,519)
Due from financial market infrastructure entities[2]		44,519	96,997
Due to financial market infrastructure entities[2]		(68)	(8,810)
Net cash and cash equivalents at the balance sheet date		**612,931**	**686,279**

1 The "Due from/to banks on demand" balances are included in the balance sheet line items "Amounts due from/to banks"

2 The "Cash balances with financial market infrastructure entities" are included in the balance sheet line items "Amounts due from/to customers"

The notes on pages 45 to 67 form an integral part of these interim condensed consolidated financial statements.

Notes to the consolidated financial statements

1 General information

Leonteq AG (Leonteq or "the Company"), together with its subsidiaries (referred to hereinafter as "the Group"), is an independent expert in structured investment products and long-term savings and retirement solutions.

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 18 July 2023. The interim consolidated financial statements are unaudited.

2 Basis of presentation

The Group prepares its interim condensed consolidated financial statements in accordance with IAS 34 "Interim financial reporting". These interim consolidated financial statements for the six months ended 30 June 2023 should be read in conjunction with the consolidated financial statements for the year ended 31 December 2022, 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 2022.

These interim condensed consolidated financial statements are presented in Swiss francs and rounded to the nearest thousand. Consequently, the total may differ from the figures calculated when the individual numbers are added together.

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 estimates and assumptions are based on the best available information and are adapted continuously in line with new findings and circumstances but may involve significant uncertainty at the time they are made. Actual results may differ from these estimates. The Group believes that the estimates and assumptions it has made are appropriate, and that the Group's interim consolidated financial statements are therefore a fair representation of its financial position and results in all material respects.

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 2022, unless otherwise disclosed in the following notes.

4 Changes to critical accounting estimates

No changes to critical accounting estimates were made compared to 31 December 2022.

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 2023 and did not have any significant impacts on the Group when applied for the first time or were not relevant for the Group:

- IFRS 17 Insurance Contracts (including Amendments to IFRS 17 issued in June 2020 and Amendment to IFRS 17 – Initial Application of IFRS 17 and IFRS 9 – Comparative Information issued in December 2021)
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies
- Amendments to IAS 8 – Definition of Accounting Estimates
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Changes in presentation

With effect from the start of 2023, the Group is disclosing the net result from securities lending and borrowing transactions and the net interest result from margins for derivative transactions in the result from trading activities and the fair value option. The figures for the prior period were adjusted accordingly. For further information refer to Note 9.

6 Financial and other risk disclosures

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 39) relate to financial risk disclosures in accordance with IFRS 7 and other risk matters and form an integral part of the interim consolidated financial statements.

7 Segment reporting

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. Its international team of experienced industry professionals provides its clients and partners with high standards of services. Leonteq has a strong presence in its home market of Switzerland and in Europe, as well as an established footprint in Asia.

Leonteq's Executive Committee, which is the chief operating decision maker, is implementing the strategy and overseeing the operational management of the Group as a whole. The Executive Committee uses the Group's consolidated financial report as the basis for its management decisions and for financial performance reviews.

In line with the applicable accounting standards and internal reporting to the chief operating decision maker, the Group consists of a single reportable operating segment. Consequently, and given that the external reporting in these financial statements reflects internal reporting to the chief operating decision maker, the Group does not disclose separate segment information.

Entity-wide disclosures

The Group has offices in various international locations and distributes its own structured investment products and those of its issuance partners, either through its own sales distribution and coverage desks or through the distribution channels of its issuance partners. The distribution network is supported by the related group companies outside Switzerland. The geographical allocation of the Group's operating income is undertaken based on the location of the distributor, servicing primarily banks, insurance companies and asset managers/financial intermediaries.

The Group's net fee income increased by 7% to CHF 123.9 million in the first half-year of 2023 compared to CHF 115.6 million in the prior-year period. This was primarily driven by strong performance of the Group's operations in Europe with a 23% growth in net fee income to CHF 62.7 million in the first half of 2023. Net fee income in Switzerland totalled CHF 48.2 million in the first half of 2023 compared to CHF 51.3 million in the prior-year period. In the region of Asia (including Middle East), net fee income was CHF 13.0 million compared to CHF 13.3 million in the first half of 2022. In addition, there was one single client (first half of 2022: no clients) with revenues exceeding 10% of the Group's net fee income. This relationship generated CHF 19.4 million in the first half of 2023 which was recognised in the region of Europe.

The Group saw its result from trading activities and the fair value option normalise with limited but positive contributions of CHF 10.4 million from Switzerland and CHF 19.7 million from Europe whilst operations in Asia saw a decrease to CHF -12.3 million in the first half of 2023. This compares to very strong performance across all regions in the prior year period which benefitted from unprecedented market conditions.

The net result from interest operations improved by CHF 11 million to CHF 3.3 million in the first half year 2023 compared to CHF -7.7 million in the prior-year period. The was primarily driven by the narrowing of credit spreads in the current market environment resulting in a reduction of expected credit losses as well as due to a rise in interest rates which benefitted all regions.

Other operating income comprises mainly rental income from office subleases as well as cost reimbursements from partners. In the current half-year period, other operating income in Switzerland increased by 31% to CHF 2.1 million on the back of additionally recognised non-recurring platform cost reimbursements.

As a result of these combined factors, total operating income decreased by 49% to CHF 147.1 million in the first half-year of 2023 compared to CHF 289.2 million in the prior-year period. In the first half of 2023, the office in Monaco generated CHF 54.8 million which exceeded 10% of the Group's total operating income and compares to CHF 57.4 million in the prior year-period.

Seasonality of operations

Fee income is driven by the level of client activity which may show seasonal patterns, especially during the summer month and end-of-year holiday season. Trading income is primarily driven by Leonteq's hedging activity, which is influenced by various factors, including but not limited to market volatility.

This information is provided to allow for a better understanding of the results, however, management has concluded that this is not 'highly seasonal' in accordance with IAS 34.

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia (incl. Middle East)	Total H1 2023
Net fee income	48,231	62,694	13,003	123,928
Result from trading activities and the fair value option	10,359	19,714	(12,282)	17,791
Net result from interest operations	1,555	1,386	325	3,266
Other operating income	2,127	1	14	2,142
Total operating income	**62,272**	**83,795**	**1,060**	**147,127**

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia (incl. Middle East)	Total H1 2022
Net fee income[1]	51,289	51,053	13,284	115,626
Result from trading activities and the fair value option[1]	59,442	81,318	38,607	179,367
Net result from interest operations[1]	(3,281)	(3,393)	(1,004)	(7,677)
Other operating income	1,644	152	92	1,888
Total operating income	**109,094**	**129,130**	**50,979**	**289,203**

[1] With effect from the start of 2023, the Group is disclosing the net result from securities lending and borrowing transactions and the net interest result from margins for derivative transactions in the result from trading activities and the fair value option. The figures for the prior period were adjusted accordingly. For further information refer to Note 9

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia (incl. Middle East)	Total 30.06.2023
Trading financial assets	2,042,852	977,270	—	3,020,122
Positive replacements values of derivative instruments	1,875,082	981,259	—	2,856,341
Other financial assets designated at fair value through profit or loss	134,169	58,718	—	192,887
Financial investments measured at fair values through OCI	65,354	2,329,192	—	2,394,546
Total financial assets	**4,117,457**	**4,346,439**	**—**	**8,463,896**
Trading financial liabilities	52,011	8,615	—	60,626
Negative replacement values of derivatives	1,472,522	872,135	—	2,344,657
Other financial liabilities designated at fair value through profit or loss	763,181	4,125,933	—	4,889,114
Total financial liabilities	**2,287,714**	**5,006,683**	**—**	**7,294,397**

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia (incl. Middle East)	Total 31.12.2022
Trading financial assets	1,650,980	1,794,387	—	3,445,367
Positive replacements values of derivative instruments	3,205,510	938,939	—	4,144,449
Other financial assets designated at fair value through profit or loss	136,289	80,931	—	217,220
Financial investments measured at fair values through OCI	78,603	2,512,602	—	2,591,205
Total financial assets	**5,071,382**	**5,326,859**	**—**	**10,398,241**
Trading financial liabilities	189,948	11,595	—	201,543
Negative replacement values of derivatives	2,016,673	890,870	—	2,907,543
Other financial liabilities designated at fair value through profit or loss	670,065	4,001,019	—	4,671,084
Total financial liabilities	**2,876,686**	**4,903,484**	**—**	**7,780,170**

Switzerland consists of the Group's headquarters in Zurich and its office in Geneva. Europe comprises the Group’s operations in Amsterdam, Frankfurt, Guernsey, London, Milan, Monaco, Paris and Lisbon. Asia (including the Middle East) consists of Dubai, Hong Kong, Singapore and Tokyo.

Financial assets and liabilities are shown in the booking location accordingly.

8 Net fee income

Fees earned are allocated to Leonteq's main service offerings (performance obligation). The 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 the products issued.

For structured investment products, fees are generally collected when a product is issued or repurchased and are deemed earned when performance obligations are satisfied. The following performance obligation groups are deemed to be predominantly satisfied at the point in time when products are issued: Product design and launch; product documentation and reporting; issuance, settlement and order management and pricing and trading services. Performance obligations that are principally satisfied over the lifetime of issued products include: Risk management; lifecycle management; risk, regulatory and financial reporting. The fees are allocated to the individual performance obligations based on the estimated share of the total effort required (input method) over the lifetime of the products as it best reflects the compensation for services rendered. A portfolio approach is applied to determine the average effective lifetime of products issued, which 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. The average effective lifetime is estimated to be nine months (31 December 2022: nine months). Material and customised contracts are accounted for to best reflect the actual patterns of the individual agreements.

For long-term savings and retirement products, some fees are collected upfront and recognised upon satisfaction of the respective performance obligation. The satisfaction of performance obligation groups and the effective lifetime of Leonteq's products are determined on a product group and client group basis. The following performance obligations are deemed to be predominantly satisfied upfront: Structuring, creation and origination of interest rate products for predefined cash flows of client groups, and coordination of insurance and banking partners acting as issuers of capital protected products. Performance obligations that are principally satisfied over the lifetime of the products include: Servicing of recurring pay-out obligations and financing activities. In addition, some services are delivered over the product's lifetime for which fees are collected and recognised at the point in time when the following performance obligation groups are deemed satisfied: Creation and origination of capital protected products, as well as creation and origination of the participation products, risk management and lifecycle management of products and platform and platform services.

The allocation of the total fee to the performance obligations, as well as the determination of when these performance obligations are satisfied, involves the exercising of judgement. 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 clients is shown in the income statement in the line item "fee income from securities trading and investment activities". The amount of deferred fee income is included in the statement of financial position line item "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. 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 2023	H1 2022
Fee income of structured investment products	113,988	108,674
of which recognised at a point in time[1]	102,271	91,027
of which recognised over time	11,717	17,647
Fee income of long-term savings and retirement products	9,940	6,952
of which recognised at a point in time	2,976	2,092
of which recognised over time	6,964	4,860
Total fee income from securities trading and investment activities	**123,928**	**115,626**
Fee expense[1]	—	—
Net fee income	**123,928**	**115,626**

[1] With effect from the start of 2023, the Group is disclosing the net result from securities lending and borrowing transactions and the net interest result from margins for derivative transactions in the result from trading activities and the fair value option. The figures for the prior period were adjusted accordingly. For further information refer to Note 9

Net fee income increased by 7% to CHF 123.9 million in the first half of 2023, compared to CHF 115.6 million in the prior-year period. Despite the continued challenging market environment in the first half of 2023, Leonteq recorded solid levels of client activity in most of its regions and the growth in net fee income was particularly driven by the increase in the number of large ticket transactions (defined as transactions where Leonteq earns a fee of CHF 0.5 million or more) to CHF 22.1 million or 18% of the Group's net fee income in the first half of 2023, compared to CHF 3.7 million (or 3%) in the first half of 2022.

The following table shows a reconciliation of the balance of deferred fees:

CHF thousand	2023	2022
Balance of deferred fees as of 1 January	**62,723**	**71,527**
Deferred fees of structured investment products		
Recognition of deferred fees in the income statement	(11,717)	(31,168)
Deferral of fees collected	12,680	26,054
Deferred fees of long-term savings and retirement products		
Recognition of deferred fees in the income statement	(6,964)	(10,775)
Deferral of fees collected	5,370	7,084
Balance of deferred fees as of 30 June / 31 December	**62,092**	**62,723**
of which recognised within the next 12 months	17,006	13,743
of which recognised after 12 months	45,086	48,980

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

For structured investment products, 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 nine months as of 30 June 2023. Due to the long-term nature of the pension savings business, performance obligations of long-term savings and retirement products are satisfied over a period of up to 48 years (31 December 2022: 48 years).

Deferred fees in the amount of CHF 17.0 million are expected to be recognised as fee income over a period of twelve months. CHF 17.1 million are expected to be recognised as fee income between 2 and 5 years, CHF 17.4 million between 6 and 20 years, and CHF 10.6 million after 20 years.

9 Result from trading activities and the fair value option

CHF thousand	H1 2023	H1 2022
Result from trading activities and the fair value option	**17,791**	**179,367**
of which result due to financial assets designated at fair value	5,897	(6,604)
of which result due to financial liabilities designated at fair value	(277,655)	1,670,915
of which effective interest income from debt instruments at FVOCI	22,396	16,173
of which effective interest income from financial instruments at amortised cost	2,346	(1,724)
of which effective interest expense from financial instruments at amortised cost	(11,119)	1,961

The first half of 2023 was characterised by materially lower levels of market volatility, continued inflationary pressures and the related hikes in interest rates. Against this backdrop, the Group saw its result from trading activities and the fair value option normalise, with limited but positive contributions from both, its hedging and treasury activities totalling CHF 17.8 million in the first half of 2023. This compared to a very strong performance in the prior-year period with the result of trading activities and the fair value option totalling CHF 179.6 million, as the business benefited from unprecedented market conditions.

With effect from the start of 2023, the Group is disclosing the net result from securities lending and borrowing transactions and net interest result from margins for derivative transactions in the result from trading activities and the fair value option to better reflect the close relationship with its collateral management and hedging activities. The figures for the prior period were adjusted accordingly. Income of CHF 1.2 million (H1 2022: CHF 5.3 million) and expenses of CHF 18.9 million (H1 2022: CHF 5.3 million) from securities lending and borrowing transactions were reclassified from net fee income to the result from trading activities and the fair value option. Interest income in the amount of CHF 2.3 million (H1 2022: CHF 2.0 million) and interest expenses of CHF 11.1 million (H1 2022: CHF 1.7 million) from margins for derivative transactions were reclassified from interest income and interest expense to the result from trading activities and the fair value option.

10 Net result from interest operations

CHF thousand	H1 2023	H1 2022
Interest income from financial assets measured at amortised cost[1]	6,501	239
Total interest income	**6,501**	**239**
Interest expense from financial liabilities measured at amortised cost[1]	(3,911)	(2,515)
Total interest expense	**(3,911)**	**(2,515)**
Gross result from interest operations	**2,590**	**(2,275)**
Credit loss (expense) / recovery	676	(5,402)
Net result from interest operations	**3,266**	**(7,677)**

[1] With effect from the start of 2023, the Group is disclosing the net result from securities lending and borrowing transactions and the net interest result from margins for derivative transactions in the result from trading activities and the fair value option. The figures for the prior period were adjusted accordingly. For further information refer to Note 9

The increase in interest income and expense is primarily due to ongoing hikes in interest rates throughout the first half of 2023. The expected credit loss provision decreased by CHF 0.7 million on the back of narrowing credit spreads in the market.

11 Taxes

Taxes comprise current and deferred income taxes. The Group is subject to income taxes in numerous jurisdictions.

Current income taxes are calculated based on the applicable tax laws in the relevant jurisdictions and recognised as an expense in the period in which the related profits are generated. Assets or liabilities related to current income taxes are reported in the statement of financial position as applicable. The current tax assets and current tax liabilities reported as of the balance sheet date, as well as the resulting current tax expense for the year under review, are based partly on estimates and assumptions and may therefore differ from the amounts determined by the tax authorities in the future. In certain cases where complex tax questions arise, external tax specialists are consulted, or a preliminary clarification is obtained from the tax authorities.

Deferred income taxes are considered for the expected future tax implications of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax values.

Deferred tax assets arising from temporary differences and from loss carry-forwards eligible for offsetting are capitalised if it is likely that sufficient taxable profits will be available against which those temporary differences or loss carry-forwards can be offset. The level of recognised deferred tax assets is essentially based on budget figures and mid-term planning. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are calculated at the tax rates expected to apply in the period in which the tax assets will be realised or the tax liabilities settled.

Current and deferred taxes are credited or charged to other comprehensive income if the taxes refer to items that are credited or charged to other comprehensive income. Otherwise, taxes are recognised in the income statement.

CHF thousand	H1 2023	H1 2022
Income tax expenses		
Switzerland	(1,050)	1,250
Foreign	(2,538)	26,620
Current income tax expenses	(3,588)	27,870
Switzerland	(40)	(120)
Foreign	9	(11)
Deferred income tax (benefit)/expenses	(31)	(131)
Total income tax expenses	**(3,619)**	**27,739**

The tax benefit is mainly due to the release of tax accruals from prior periods.

Both Swiss entities, the ultimate Swiss parent company of the Group, Leonteq AG, and the Swiss operating entity, Leonteq Securities AG, apply the tax participation relief for Swiss income taxes at federal as well as cantonal/communal level.

The Group applied the participation relief for Swiss income tax purposes in line with the applicable Swiss legislation. The Group's position remains unchanged regarding the tax assessments of Leonteq Securities AG issued by the Zurich Cantonal Tax Office for the fiscal years 2013 to 2015, for which the tax authority applied a different method of calculating the income tax participation relief. Leonteq Securities AG filed an appeal against the aforesaid tax assessments for fiscal years 2013 to 2015. The Cantonal Tax Appeal Court (court of first instance) decided in favour of Leonteq Securities AG in March 2023. The Zurich Cantonal Tax Office appealed against the decision. The case is now with the Zurich Cantonal Administrative Court (court of second instance). A decision by the Zurich Cantonal Administrative Court is pending at the time of this report being published.

Until its expiry at the end of the fiscal year 2018, the Group applied a tax ruling regarding its international allocation of net issuance proceeds agreed with the competent tax authorities. Since 2019, the Group has applied a transfer pricing method defined by an external tax advisor and based on an OECD recognised standard to account for the international allocation of net issuance proceeds.

The Group performs an in-depth risk analysis of uncertainties in the application and acceptance of transfer pricing methods, developments in international transfer pricing rules, changes of respective practices by tax authorities and the resulting litigation exposure on a semi-annual basis. The update to the calculation of uncertain income tax positions as of 30 June 2023 did not lead to any significant financial impact in the reporting period.

12 Tax effects relating to components of other comprehensive income

	H1 2023		
CHF thousand	Amount before tax	Tax yield / Tax expense	Amount net of tax
Other comprehensive income/(loss) that will not be reclassified to the income statement			
Remeasurement of defined benefit plan	(399)	79	(320)
Changes in own credit spread			—
Other comprehensive income/(loss) that may be reclassified to the income statement			
Net unrealised gains/(losses) on debt instruments measured at fair value through other comprehensive income	13,867	46	13,913
Expected credit loss changes on debt instruments measured at fair value through other comprehensive income	(689)		(689)
Currency translation adjustments	(11,574)		(11,574)
Total Other comprehensive income	**1,206**	**125**	**1,330**

	H1 2022		
CHF thousand	Amount before tax	Tax yield / (Tax expense)	Amount net of tax
Other comprehensive income/(loss) that will not be reclassified to the income statement			
Remeasurement of defined benefit plan	3,799	(748)	3,051
Changes in own credit spread	(22)	—	(22)
Other comprehensive income/(loss) that may be reclassified to the income statement			
Net unrealised gains/(losses) on debt instruments measured at fair value through other comprehensive income	(45,859)	413	(45,446)
Expected credit loss changes on debt instruments measured at fair value through other comprehensive income	3,486	—	3,486
Currency translation adjustments	14,157	—	14,157
Total Other comprehensive income	**(24,439)**	**(335)**	**(24,775)**

13 Fair values of financial instruments and trading inventories

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

Initial recognition

Purchases and disposals of financial assets are recognized in the balance sheet at the trade date. At the time of initial recognition, all financial instruments are measured at fair value and assigned to one of the following categories in accordance with IFRS 9 criteria: "Fair value through profit or loss (FVTPL)", "Fair value through other comprehensive income (FVOCI)" or "Amortised cost". In the case of financial instruments in the categories "Fair value through other comprehensive income" and "Amortised cost", this original fair value is adjusted to reflect the directly attributable transaction costs.

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 are recognised at fair value in the statement of financial position. Transaction costs that are directly attributable to the acquisition or issuance are recognised in "result from trading activities and the fair value option" at the date of the transaction. Trading inventories comprises cryptocurrencies held as economic hedges for issued structured products and are measured under the commodity broker exemption at fair value less costs to sell. Changes in the fair values, gains and losses on the sale and redemption of these instruments, interest and dividend income are recognised in the income statement as "result from trading activities and the fair value option".

Financial investments measured at fair value through other comprehensive income are recognised at fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset, in the statement of financial positions and changes in fair values attributable to changes in the issuer credit risk or the benchmark interest rate are initially recognised in the statement of other comprehensive income (OCI). Either due to the application of hedge accounting or upon disposal of the respective investment, amounts initially recognised in OCI are reallocated to the income statement as "result from trading activities and the fair value option".

The transaction price represents the best indication of the fair value of financial instruments unless the fair value of the instrument can be better determined by comparing it with other observable current market transactions involving the same instrument (level 1 instrument) or it is based on a valuation method that uses only observable market data (level 2 instrument). In this case, any difference between fair value and the transaction price is recognised as day-1 profit or loss in the line item "result from trading activities and the fair value option". For level 3 instruments, day-1result 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 inputs and rates derived from observable market data, such as interest rates and foreign exchange rates, when available. Valuation models are primarily used for the valuation 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 instruments 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 specialists who operate independently from model developers and users. Whenever possible, the valuations derived from models are compared with the prices of similar financial instruments and with actual values once realised in order to further validate and calibrate the models. Valuation models are generally applied consistently across products from one period to the next, ensuring the comparability and continuity of valuations over time.

There were no significant changes in the valuation models used for the period ended 30 June 2023.

Fair value hierarchy

All financial instruments and trading inventories carried at fair value are assigned to one of three fair value hierarchy levels at each balance sheet date, depending on how their fair value has been determined.

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

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

Level 2 instruments

The fair value of level 2 instruments is based on quoted prices in markets that are not active or on a valuation method using significant input parameters that are directly or indirectly observable.

Level 2 instruments comprise the positive or negative replacement value 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 or negative replacement value of derivative instruments and issued structured products if there is no active market pursuant to the definition of IFRS 13 or if market liquidity varies significantly over time. For the valuation of derivative instruments, including the option components and 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, volatilities and correlations. Derivative instruments are traded on a collateralised basis. The Group's own credit risk, as well as third-party credit risk in the case of assets, is not included in the valuation of collateralised derivative instruments.

Level 3 instruments

The fair value of level 3 instruments is based on a valuation method that uses at least one significant input parameter that cannot be observed directly or indirectly in the market.

The Group's level 3 instruments comprise positive or negative replacement values of 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 input parameters observable in the market 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.

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 used do not always reflect all relevant factors when determining fair values. The Group considers additional factors in the case of issued structured products as well as derivative instruments to ensure that the valuations are appropriate. The factors include uncertainties in relation to models used, to parameters used, to liquidity risks and, in the case of structured products, to the risk of early redemption. The adjustments reflect the uncertainty in model assumptions and input parameters in relation to the valuation method used. The adjustments relating to the liquidity risk take into account the expected cost of hedging open net risk positions. The Group believes that it is necessary and appropriate to take these factors into account to correctly determine the fair value of these instruments.
Clearly defined processes, methods and independent controls are applied to ensure that an appropriate valuation is assigned to financial instruments. The controls comprise the analysis and approval of new instruments, the approval and regular assessment of the valuation models used, the daily analysis of profit and loss, and regular independent price verification, including the review of the input parameters used. The controls are performed by risk control specialists who possess the relevant knowledge and operate independently from trading and treasury functions.

Own credit

Under IFRS 9, changes in fair value related to own credit risk for other financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income. The changes in own credit risk recognised in other comprehensive income are subsequently transferred within equity to retained earnings when the associated liability is deemed to be derecognised.

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 publicly distributed products of Leonteq to ensure that all available market information is reflected in the determined credit spread. There was no adjustment to the own credit spread during the first half-year 2023. In prior period, the own credit spread was marginally adjusted for certain specific term structures (which led to an OCI impact of CHF 22 thousands).

Day 1 result

According to IFRS 13, the transaction price represents the best indication of the fair value of a financial instrument unless the fair value of the instrument can be better determined by comparing it with other observable current market transactions involving the same instrument (level 1 instrument) or is based on a valuation method that uses only observable market data (level 2 instrument). If this is the case, the difference between the transaction price and the fair value is recognised as day-1 profit or loss in the line item "result from trading activities and the fair value option".

For level 3 instruments, day-1 result is deferred over the duration of the product. During the current and previous reporting period, the Group had no positions with a deferred day-1 result.

CHF thousand	Level 1	Level 2	Level 3	Total 30.06.2023
Financial assets				
Trading financial assets				
Debt securities (listed)	125,729	44,087	—	169,816
Equity securities	1,915,218	2,084	—	1,917,302
Funds	737,533	966	—	738,499
Other securities	—	194,505	—	194,505
of which hybrid financial instruments	—	194,505	—	194,505
Total trading financial assets	2,778,480	241,642	—	3,020,122
Positive replacement values of derivative instruments	1,596,436	1,259,905	—	2,856,341
Other financial assets designated at fair value through profit or loss	—	192,887	—	192,887
Financial investments measured at fair value through other comprehensive income	2,338,722	55,824	—	2,394,546
Total financial assets	**6,713,638**	**1,750,258**	**—**	**8,463,896**
Trading inventories	218,551	—	—	218,551
Total trading inventories	**218,551**	**—**	**—**	**218,551**

CHF thousand	Level 1	Level 2	Level 3	Total 30.06.2023
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	60,155	—	—	60,155
Equity securities	471	—	—	471
Funds	—	—	—	—
Other securities	—	—	—	—
of which hybrid financial instruments	—	—	—	—
Total trading financial liabilities	60,626	—	—	60,626
Negative replacement values of derivative instruments	1,319,277	1,021,007	4,373	2,344,657
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	303,973	—	303,973
Equities	—	4,220,895	—	4,220,895
Foreign currency	—	4,390	—	4,390
Commodities (including precious metals and cryptocurrencies)	—	359,856	—	359,856
Total other financial liabilities designated at fair value through profit or loss	—	4,889,114	—	4,889,114
Total financial liabilities	**1,379,903**	**5,910,121**	**4,373**	**7,294,397**

In the first half of 2023, there were no significant reclassifications of positions between level 1 and level 2 or vice versa.

CHF thousand	Level 1	Level 2	Level 3	Total 31.12.2022
Financial assets				
Trading financial assets				
Debt securities (listed)	101,886	44,935	—	146,821
Equity securities	2,683,043	2,278	—	2,685,321
Funds	587,631	9,113	—	596,744
Other securities	—	16,481	—	16,481
of which hybrid financial instruments	—	16,481	—	16,481
Total trading financial assets	3,372,560	72,807	—	3,445,367
Positive replacement values of derivative instruments	2,096,079	2,048,370	—	4,144,449
Other financial assets designated at fair value through profit or loss	7,931	209,289	—	217,220
Financial investments measured at fair value through other comprehensive income	2,540,733	50,472	—	2,591,205
Total financial assets	**8,017,303**	**2,380,936**	**—**	**10,398,239**
Trading inventories	148,162	—	—	148,162

CHF thousand	Level 1	Level 2	Level 3	Total 31.12.2022
Total trading inventories	**148,162**	**—**	**—**	**148,162**
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	—	—	—	—
Equity securities	195,991	—	—	195,991
Funds	5,552	—	—	5,552
Other securities	—	—	—	—
of which hybrid financial instruments	—	—	—	—
Total trading financial liabilities	201,543	—	—	201,543
Negative replacement values of derivative instruments	1,709,591	1,193,911	4,041	2,907,543
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	353,643	—	353,643
Equities	—	4,138,309	—	4,138,309
Foreign currency	—	2,122	—	2,122
Commodities (including precious metals and cryptocurrencies)	—	177,010	—	177,010
Total other financial liabilities designated at fair value through profit or loss	—	4,671,084	—	4,671,084
Total financial liabilities	**1,911,134**	**5,864,995**	**4,041**	**7,780,170**

In 2022, there were no significant reclassifications of positions between level 1 and level 2 or vice versa.

Level 3 financial instruments

CHF thousand	30.06.2023	31.12.2022
Statement of financial position		
Balance at the beginning of the year	4,041	15,555
Additions	207	51
Disposals	(78)	(301)
Result recognised in the income statement	827	(10,541)
Result recognised in the statement of other comprehensive income	—	—
Reclassifications to level 3	—	—
Reclassifications from level 3	(625)	(723)
Translation differences	—	—
Total balance at the end of the period	**4,373**	**4,041**
Income in the period on holdings at balance sheet date		
Unrealised income/(loss) recognised in trading income	(905)	10,240
Unrealised income/(loss) recognised in other income	—	—
Unrealised income/(loss) recognised in other comprehensive income	—	—

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

Based on the change in the observability of significant input parameters, CHF 0.6 million of level 3 financial instruments were reclassified to level 2 (2022: CHF 0.7 million). No level 2 financial instruments were reclassified to level 3 for the six months ended 30 June 2023 or for the 12 months ended 31 December 2022, respectively.

The result recognised in the income statement relates to trading (gains)/losses in connection with the slight decrease in long-term interest rates in the first half of 2023.

No day-1 gains or losses were recognised as a result of transactions involving level 3 instruments during the first half of 2023. An unrealised loss of CHF -0.9 million in the first half of 2023 (full-year 2022: gain of CHF 10.2 million) for fair value movements was recognised in the line item "result from trading activities and the fair value option".

The closing balance of level 3 financial liabilities as of 30 June 2023 totalled CHF 4.4 million (31 December 2022: CHF 4.0 million). The decrease was mainly driven by a slight decrease of long-term interest rates.

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. It also provides information to facilitate an understanding of factors that give rise to the input ranges shown.

CHF thousand

					Range of unobservable inputs				
					30.06.2023		31.12.2022		
	30.06.2023	31.12.2022	Valuation technique	Significant unobservable input	low	high	low	high	Unit
Negative replacement values of derivative financial instruments	4,373	4,041	Generic replication model[1]	Volatility of interest rates	55	74	56	87	basis points

[1] 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. In general, 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

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	30.06.2023	31.12.2022
Impact of shifts of unobservable input parameters on fair values		
Increase of volatility of interest rates (+5 bps)	142	124
Decrease of volatility of interest rates (-5 bps)	(142)	(124)

Financial assets and liabilities at amortised cost

The following table shows the carrying amount of financial assets and liabilities measured at amortised cost. All these positions have short-term maturities (i.e. less than three months) and the carrying amount is a reasonable approximation of fair value.

CHF thousand	30.06.2023	31.12.2022
Financial assets at amortised cost		
Cash and balances at central banks	296,237	288,412
Amounts due from banks	671,663	962,039
Amounts due from securities financing transactions	11,852	1,845
Amounts due from customers	530,760	389,660
Other financial assets[1]	55,957	47,331
Total financial assets at amortised cost	**1,566,469**	**1,689,287**
Financial liabilities at amortised cost		
Amounts due to banks	445,112	541,994
Liabilities from securities financing transactions	921,090	1,822,877
Amounts due to customers	677,671	1,057,946
Other financial liabilities[2]	68,058	79,587
Total financial liabilities at amortised cost	**2,111,931**	**3,502,404**

1 Other financial assets mainly comprise accrued interest and other receivables
2 Other financial liabilities mainly include accrued operating expenses, accrued interest and lease liabilities

14 Provisions

The Group recognises a provision if, as a result of a past event, the Group has a present obligation at the balance sheet date that will probably lead to an outflow of resources embodying economic benefits (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 it is not probable that a present obligation exists or the liability cannot be reliably estimated, an entity discloses a contingent liability (see Note 18). 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 embodying economic benefits is remote, neither a provision nor a contingent liability is reported.

CHF thousand	30.06.2023			31.12.2022
	Reinstatement obligations	Litigation, regulatory and similar matters	Total provisions	Total provisions
Balance at the beginning of the period	3,414	18,172	21,585	21,454
Utilisation in conformity with designated purpose		(2,041)	(2,041)	(16,623)
Increase in provisions recognised in the income statement	19	2,803	2,822	28,008
Release of provisions recognised in the income statement		(217)	(217)	(11,307)
Increase in provisions not recognized in the income statement		—	—	252
Translation differences	(14)	(37)	(50)	(198)
Balance at the end of the period	**3,419**	**18,680**	**22,099**	**21,585**
of which due within 1 year	114	2,656	2,770	3,776
of which due within 2 and 5 years	3,260	16,024	19,284	14,828
of which due after 5 years	45	—	45	2,982

Litigation, regulatory and similar matters

The Group operates in a legal and regulatory environment that exposes it to litigation, compliance, tax, reputational and other risks arising from disputes, regulatory and other proceedings.

Non-compliance with regulatory or other mandatory requirements may also result in competent authorities taking enforcement action or initiating proceedings against the Group and its employees. Also, from time to time, the Group is and may be confronted with information and clarification requests and procedures from authorities and other third parties. As a matter of principle, the Group cooperates with competent authorities within the confines of applicable laws while protecting its own interests.

The risks described below may not be the only risks to which the Group is exposed. Such and additional risks not presently known may impair the Group's future business, results of operations, financial condition and prospects. The realisation of one or more of these risks may individually or together with other circumstances materially adversely affect the Group's business, results of operations, financial condition and prospects. The impact on the financial position or profitability of the Group – depending on the status of related proceedings – is difficult to assess.

In 2022, the Group recognised a provision for potential indirect tax qualification risks deriving from certain fee payments during the financial years 2013 to 2022. This provision was increased as of 30 June 2023 to cover respective additional risks for the first half of 2023.

The Group has received inquiries from authorities regarding certain allegations that were made through the media during the reporting period as well as the prior reporting year concerning Leonteq issued products distributed by third parties, including by a company based in the British Virgin Islands, referring to potential tax evasion or money laundering offences attributed to third parties and separately referring to potential fraud or criminal misconduct attributed to third parties. The allegations revolving around the transactions mentioned in the media articles were investigated at different points in time. Such reviews revealed no indication of money laundering or tax evasion. Nor did they reveal any evidence suggesting that any Leonteq entities or employees would have intentionally participated to any potential fraud or criminal misconduct. Leonteq experienced an increase in regulatory scrutiny in the reporting period as authorities in some countries continued to make inquiries on this matter and the Group continues to maintain an active dialogue.

Reinstatement obligations

Provisions for reinstatement obligations are calculated based on estimates of future anticipated costs to restore the lease asset to the condition required according to the terms and conditions of the lease. The present obligation associated with reinstatement costs is recognised and measured in accordance with IAS 37. While the point in time when these costs are expected to be incurred is aligned with the estimated duration of the underlying lease contract, the amount is determined based on inputs received from experts (e.g. architects) or derived from costs incurred when moving office locations in the past.

15 Shareholders' equity

Share capital

			30.06.2023			31.12.2022
	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	N/A	N/A	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

The authorisation to increase share capital by a maximum of CHF 4,000,000 expired on 31 March 2023.

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 primarily in connection with its employee share-based benefit, RSU and PSU programmes as well as with its share buyback programme launched on 3 April 2023.

	30.06.2023			31.12.2022		
	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	806,443	42,027	52	537,125	22,568	42
Purchases for employee participaton schemes	222,065	11,788	53	458,280	28,753	63
Used for employee participation schemes	(195,418)	(10,450)	53	(188,962)	(9,294)	49
Share buyback programme	127,250	5,843	46	—	—	—
Disposals	—	—	—	—	—	—
Balance at the end of the period	**960,340**	**49,208**	**51**	**806,443**	**42,027**	**52**

Profit and capital distribution

On 30 March 2023, the Annual General Meeting of Leonteq AG approved the proposal of the Board of Directors to distribute a total of CHF 75.7 million (CHF 4.00 per share) in equal amounts out of retained earnings (dividend) and reserves from capital contributions for the financial year 2022. On 5 April 2023, a distribution of CHF 4.00 per share, consisting of a dividend of CHF 2.00 (gross) and a distribution from the reserves from capital contributions of CHF 2.00, was paid.

Share buyback programme

Leonteq communicated on 9 February 2023 to repurchase up to CHF 18 million of its registered shares under a share buyback programme. The share buyback programme was started on 3 April 2023. As of 30 June 2023, 127,250 shares were purchase with a total value of CHF 5.8 million, equivalent to 32% of the programme size. The volume weighted average price was at CHF 45.92.

16 Significant shareholders

	30.06.2023		31.12.2022	
	Number of shares held	Voting rights in %	Number of shares held	Voting rights in %
Raiffeisen Switzerland Cooperative	5,494,996	29.02%	5,494,996	29.02%
Lukas T. Ruflin[1]	1,608,121	8.49%	1,570,314	8.29%
Sandro Dorigo	300,000	1.58%	400,000	2.11%
Subtotal shareholders' agreement	**7,403,117**	**39.10%**	**7,465,310**	**39.43%**
Rainer-Marc Frey[2]	1,105,314	5.84%	1,346,713	7.11%
Swisscanto Fondsleitung AG[3]	941,404	4.97%	941,404	4.97%
Total significant shareholders	**9,449,835**	**49.91%**	**9,753,427**	**51.51%**

[1] 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

[2] H21 Macro Limited, Cayman Islands, is the direct shareholder of part of these shares

[3] Creation of obligation to notify: 15 November 2022

17 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 30.06.2023	Amounts due from 31.12.2022	Amounts due to 30.06.2023	Amounts due to 31.12.2022	Income from H1 2023	Income from H1 2022	Expense to H1 2023	Expense to H1 2022
Significant shareholders **Raiffeisen Switzerland Cooperative**								
Amounts due from banks	4,604	4,306	—	—	—	—	—	—
Amounts due from securities financing transactions	5,300	1,700	—	—	—	—	—	—
Positive replacement values of derivative instruments	45,834	93,914	—	—	—	—	—	—
Amounts due to banks	—	—	16,756	67,046	—	—	—	—
of which credit facility	—	—	—	—	—	—	—	—
Negative replacement values of derivative instruments	—	—	39,791	28,788	—	—	—	—
Accrued expenses and deferred income	—	1	36	42	—	—	—	—
Platform partner service fee income	—	—	—	—	272	625	—	—
Other fee income	—	—	—	—	115	—	—	—
Other fee expense	—	—	—	—	—	—	—	278
Interest income	—	—	—	—	32	110	—	—
Interest expense	—	—	—	—	—	—	189	23
Affiliated companies **Raiffeisen Switzerland B.V. Amsterdam**								
Amounts due from customers	1,728	14,292	—	—	—	—	—	—
Positive replacement values of derivative instruments	63,270	152,002	—	—	—	—	—	—
Accrued income and prepaid expenses	197	13	—	—	—	—	—	—
Amounts due to customers	—	—	50,347	142,444	—	—	—	—
Negative replacement values of derivative instruments	—	—	25,474	18,603	—	—	—	—
Platform partner service fee income	—	—	—	—	3,072	3,349	—	—
Result from trading activities and the fair value option	—	—	—	—	—	—	—	76
Interest income	—	—	—	—	—	237	—	—
Interest expense	—	—	—	—	—	—	1,088	89

On 6 April 2018, Leonteq entered into a cooperation agreement with Raiffeisen ("the Raiffeisen Agreement"). Under the terms of 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 was originally due to expire on 31 March 2026 but was extended to 31 March 2030 in January 2022. The extension is subject to the successful implementation of the technological connection between a new Raiffeisen platform and the Leonteq service and technology platform. On 31 May 2023, Leonteq communicated that the successful completion of the technological connection between the two platforms is expected in the next months.

18 Off-balance

CHF thousand	30.06.2023	31.12.2022
Off-balance sheet positions		
Contingent liabilities	52,885	69,575
Irrevocable commitments	72	72

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

On 10 August 2015, Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017, the lease 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 2023, the total commitment relating to future rental payments under the original lease contract was GBP 3.2 million (CHF 3.6 million) (31.12.2022: GBP 3.9 million or CHF 4.4 million, respectively), excluding taxes.

On 11 December 2017, Leonteq AG provided a guarantee relating to the lease of the office premises of its subsidiary Leonteq Securities (Japan) Ltd. As of 30 June 2023, the total commitment relating to future rental payments under this lease was JPY 147.8 million (CHF 0.9 million) (31.12.2022: JPY 156.3 million or CHF 1.1 million, respectively), excluding taxes. The guarantee is provided until 31 January 2028.

Irrevocable commitments relate to Swiss Deposit Insurance.

19 Post-balance sheet events

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

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Report of the auditor on the review of the interim condensed consolidated financial statements

To the Board of Directors
LEONTEQ AG, ZURICH

Introduction
We have reviewed the interim condensed consolidated financial statements for Leonteq AG which comprise the income statement, statement of other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes (pages 40 to 67 and the Risk & Control disclosures on pages 14 to 39) for the six month period ended 30 June 2023. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 – "Interim Financial Reporting". Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review.

Scope of Review
We conducted our review in accordance with Swiss Auditing Standard 910 (SAS 910) "Engagements to Review Financial Statements" 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 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 interim condensed consolidated financial information are not prepared, in all material respects, in accordance with International Accounting Standard IAS 34 – "Interim Financial Reporting".

Deloitte AG

Sandro Schönenberger
Licensed Audit Expert
Auditor in charge

Christian Weber
Licensed Audit Expert

Zurich, 18 July 2023

Concept, design, realisation

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