LEONTEQ

HALF YEAR REPORT

2021

CONTENT

FINANCIAL HIGHLIGHTS	4
SHAREHOLDERS’ LETTER	8
MANAGEMENT REPORT	12
RISK AND CONTROL	22
INTERIM CONSOLIDATED FINANCIAL STATEMENTS	44

FINANCIAL HIGHLIGHTS

Net fee income (CHF million)

170.0

213.0

H1 2021

H1 2020

Total operating income (CHF million)

205.8

103.5

H1 2021

H1 2020

Net profit (CHF million)

74.4

5.5

H1 2021

H1 2020

Shareholders' equity (CHF million)

721.4

647.5

30/06/2021

31/12/2020

Capital base (CHF million)

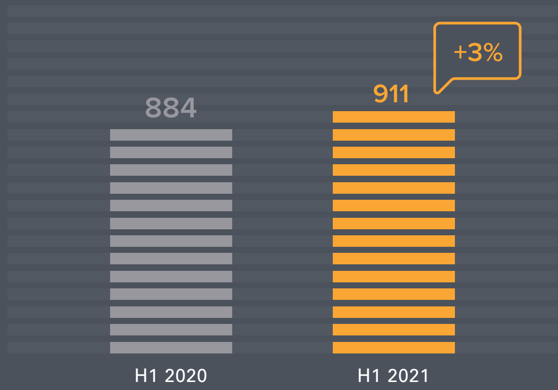
800.2

722.6

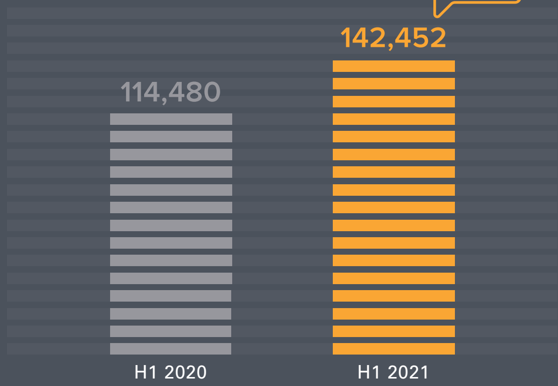
30/06/2021

31/12/2020

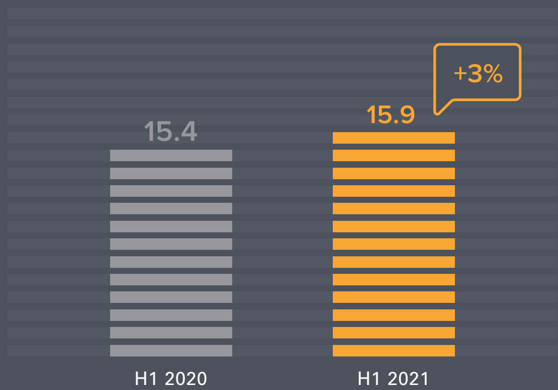
Number of clients



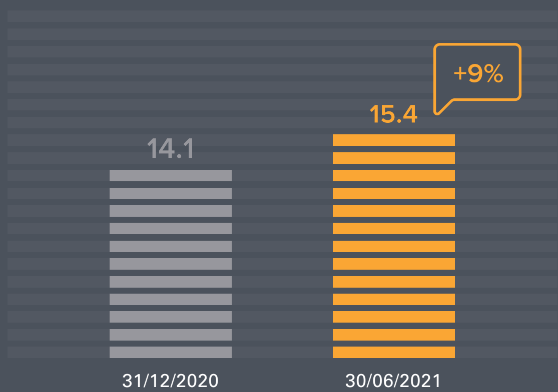
Number of transactions



Turnover (CHF billion)



Platform assets (CHF billion)



At a glance

For the six months ended 30 June 2021, unless otherwise stated

	2021	2020	Change %
Group results (CHF million)			
Total operating income	205.8	103.5	99%
Profit before taxes	80.6	4.8	N/A
Group net profit	74.4	5.5	N/A
Key ratios			
Cost/income ratio	61%	95%	(34 pp)
Return on equity	22%	2%	20 pp
Investment Solutions			
Platform assets (CHF billion)[1]	15.4	14.1	9%
Turnover (CHF billion)	15.9	15.4	3%
Fee income margin (bps)	103	129	(26 bps)
Number of clients	911	884	3%
Insurance & Wealth Planning Solutions			
Number of outstanding policies[1]	52,417	51,577	2%
Net new policies	840	2,509	(67%)
Balance sheet (CHF million)[1]			
Total assets	12,354.0	12,419.2	(1%)
Total shareholders' equity	721.4	647.5	11%
Share information			
Market capitalisation (CHF million)[1]	1,047	664	58%
Number of shares outstanding[1]	18,934,097	18,934,097	N/A
Share price (CHF)[1]	55.30	35.05	58%
Basic earnings per share (CHF)	4.04	0.29	N/A
Diluted earnings per share (CHF)	3.98	0.29	N/A
Employees			
Number of full-time equivalent employees[1]	517	519	(0%)
Credit rating			
Long-term issuer default rating (Fitch)	BBB-/stable	BBB-/stable	N/A
Long-term issuer rating (JCR)	BBB+/stable	BBB+/stable	N/A

[1] As of 30 June 2021, and 31 December 2020, respectively.

Alternative performance measures

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

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

APM	Definition
Asset management-like revenues	Revenues generated by issuance and distribution of tracker certificates, actively managed certificates, and other open-end products
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
Fee income margin	Net fee income relative to turnover in basis points
Hedging contributions	Net result of hedging activities
Large ticket transactions	Single primary or secondary transaction on a single product with a single client where Leonteq earns a fee of CHF 0.5 million or more
Platform assets	The outstanding volume of products issued and traded through Leonteq's platform
Return on equity	Group net profit as a percentage of average shareholders' equity at the beginning and at end of the respective period
Turnover	Aggregate notional amount of structured products issued (by Leonteq and its platform partners) through Leonteq's platform plus the aggregate notional amount of structured products (issued by Leonteq and its platform partners) traded through Leonteq's platform
Balance sheet light turnover	Aggregate amount of turnover of structured products where the underlying option is hedged by an external counterparty (through Leonteq's Smart Hedging Issuance Platform or through a back-to-back hedging transaction) and of the turnover of structured products issued by third-parties
Treasury result	Net funding costs related to Leonteq's own issued products

SHARE-
HOLDERS’
LETTER

DEAR SHAREHOLDERS

Our first-half 2021 results demonstrate the good financial and strategic progress that Leonteq has made across many fronts: We achieved strong fee income, generated record net profit for the period, reached our target capital base ahead of schedule and are strongly capitalised. We continued to diversify our business across products, issuers and underlyings and have improved the quality of our revenues. At the same time, we further innovated our digital offering for our partners and clients and expanded our ecosystem for investment solutions.

Group results

Following a strong start to the year, we continued to register high levels of client activity in a favourable market environment during the first six months of 2021. We saw strong client demand across our entire range of innovative investment solutions and further diversified our revenue streams across products, underlyings and issuers. In particular, we grew our asset management-like revenues and attracted significant inflows into products with fund derivatives and cryptocurrencies as underlyings. We also saw volumes and revenues in own issued products reach record levels.

As a result, we generated strong net fee income of CHF 170.0 million in the first half of 2021, compared to the exceptionally high figure of CHF 213.0 million in the prior-year period. At the same time, we continued to focus on disciplined risk management and recorded a positive net trading result of CHF 35.4 million compared to CHF -107.1 million in the prior-year period. Our total operating income grew by 99% to CHF 205.8 million in the first half of 2021, driven by an exceptional first quarter of 2021 and a strong second quarter of 2021.

We reported record Group net profit of CHF 74.4 million in the first half of 2021, compared to CHF 5.5 million in the prior-year period. Shareholders' equity amounted to CHF 721.4 million as of 30 June 2021, compared to CHF 647.5 million as of 31 December 2020. Our capital base totalled CHF 800.2 million as of 30 June 2021 and we have thus reached our capital base target six months ahead of the guidance.

Segment and regional results

In our Investment Solutions business line, platform assets in own products totalled CHF 5.8 billion as of 30 June 2021, an increase of 18% compared to end-2020, and turnover in our own issued products increased by 26% to CHF 7.8 billion in the first half of 2021. In our business with platform partners, outstanding volumes in platform partners' products increased by 4% to CHF 9.6 billion as of end-June 2021, and turnover generated with platform partners decreased to CHF 8.1 billion in the first half of 2021 compared to the very strong performance of CHF 9.2 billion in the prior-year period.

Our Insurance & Wealth Planning Solutions business line saw the number of outstanding policies serviced on the platform increase by 2% to 52,417 policies as of 30 June 2021. Our total operating income decreased to CHF 8.8 million in the first half of 2021 from CHF 24.7 million in the prior-year period, which primarily reflects the continued challenging long-term interest rate environment and pandemic-related effects impacting the in-person sales activities of third-party distribution channels.

In our home market of Switzerland net fee income amounted to CHF 60.0 million in the first half of 2021, down 27% compared to the prior-year period. Our operations in Europe generated net fee income of CHF 85.8 million, representing the second-strongest result in Leonteq's history, partially due to our recently established presence in Italy and strengthened sales coverage for the Nordic region. In Asia (including the Middle East), we saw a 36% increase in net fee income year-on-year to CHF 24.2 million, resulting from an increased range of products issued by Standard Chartered, improved offering of actively managed certificates (AMCs) for Asian clients and the expansion of our regional footprint into Dubai.

Executing our strategy

In the first half of 2021, we continued to make significant strategic progress in implementing the priorities defined in mid-2018 to enhance scalability, growth and investment experience as the targeted measures taken in recent years have begun to bear fruit. Through the disciplined execution of our strategic initiatives, we have further strengthened our position as a leading service and technology provider and significantly broadened our ecosystem for investment solutions.

As part of this, we further advanced LynQs with the launch of several new functionalities and features, including our new module "Quote", offering clients a unique click 'n' trade platform for more than 10 issuers as well as the innovative white-labelling function, under which we have already onboarded more than 40 clients and partners. We also continued to advance our Smart Hedging Issuance Platform (SHIP) by enabling AMCs on the platform, and offered products manufactured outside our platform of 21 third-party issuers through Leonteq's marketplace. In reflection of this, our balance sheet light turnover increased by 67% to CHF 1.5 billion in the first half of 2021, corresponding to approximately 9% of total turnover, compared to approximately 6% in the prior-year period. In addition, we successfully completed the onboarding of our white-labelling partners, Basler Kantonalbank and Banque Internationale à Luxembourg, onto our multi-issuer platform and recorded more than CHF 350 million in turnover from these two issuers in the first few months after the go-live. Our product offering also grew significantly with the expansion of our fund derivative business as well as our product offering for crypto assets as underlyings and we additionally launched our new AMC Gateway with improved functionalities.

Incorporating sustainability

As part of our sustainability initiative, we began offering investors the opportunity to invest in structured products that incorporate responsible investment approaches and are now screening our own product universe according to ESG criteria and including an additional ESG label on all termsheets whose underlyings achieve a certain minimum score. In the first half of 2021, we also launched the world's first donation certificate, and continue to demonstrate our commitment to sustainability by playing a pioneering role in shaping the future of sustainably conscientious tracker certificates. In recognition of the Group's efforts to support its clients in investing responsibly, Leonteq was awarded Best ESG Product at the 2021 Swiss Derivative Awards.

Well positioned for future growth

By investing in our talent and technology platform, we have created a sound basis for the continued profitable growth of the business and solid foundations for the company to build on. The pandemic-related trends affecting end-investor behaviour, digitisation and online connectivity have accelerated the growth opportunities for Leonteq in terms of product distribution and white-labelling offerings. Against this backdrop, we will increase our annual investments in existing and new growth initiatives while continuing to safeguard our profitability. We will continue expanding our product offering and issuer universe, further accelerate our digital solutions and remain committed to offering our clients and partners innovative solutions in the area of responsible investing. We are acting from a position of strength and are investing in our business to seize the opportunities emerging in the changed operating environment. We are well positioned to deliver future growth.

"We are acting from a position of strength and are investing in our business to seize the opportunities emerging in the changed operating environment."

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

L. Ruflin

Christopher M. Chambers
Chairman of the Board of Directors

Lukas T. Ruflin
Chief Executive Officer

MANAGEMENT REPORT

13 Strategic progress and innovations in the first half of 2021

16 Group results

19 Investment Solutions

20 IWPS

STRATEGIC PROGRESS AND INNOVATIONS IN THE FIRST HALF OF 2021

In the first half of 2021, Leonteq continued to make significant strategic progress in implementing the priorities defined in mid-2018 to enhance scalability, growth and investment experience as the targeted measures taken in recent years have begun to bear fruit. Through the disciplined execution of its strategic initiatives, Leonteq has further strengthened its position as a leading service and technology provider and significantly broadened its ecosystem for investment solutions.

The Covid-19 pandemic that began in the previous year led to a further acceleration of digitisation in the financial industry. As a contributor to the digital transformation of financial services and a leading fintech company, Leonteq is continuously reshaping its product and service offering to enhance the client experience and optimise services for its white-labelling partners with the aim of building a true ecosystem for investment solutions.

Platform partners

10 WHITE-LABELLING ISSUERS LIVE ON LEONTEQ'S PLATFORM

Leonteq continues to further expand and streamline its B2B white-labelling model, enabling and enhancing the structured product capabilities of its issuance partners.

After intensive development and implementation work, Basler Kantonalbank joined Leonteq's multi-issuer platform in March 2021 and its products are now available for distribution in Switzerland. As part of their cooperation, Basler Kantonalbank acts as the issuer of structured investment products, while Leonteq provides services along the value chain. The product offering from Basler Kantonalbank consists of a wide range of payoffs and underlyings and is also available for Leonteq's clients on LynQs.

Banque Internationale à Luxembourg joined Leonteq's multi-issuer platform in June 2021 and its products are available for distribution in more than 30 markets across EMEA and selected APAC countries under a Swiss Issuance Programme. As part of its cooperation with Leonteq, Banque Internationale à Luxembourg acts as the issuer of structured investment products, while Leonteq provides services along the value chain. The new product offering by Banque Internationale à Luxembourg consists of a wide range of payoffs and underlyings and is also available to Leonteq's clients on LynQs. Their cooperation will be extended in due course as part of a second phase to offer products under a European Prospectus.

Following the successful completion of the onboarding process with both Basler Kantonalbank and Banque Internationale à Luxembourg, Leonteq has already generated more than CHF 350 million in turnover with these two new issuers in the first few months after the go-live.

LynQs

NEW QUOTE MODULE LAUNCHED ON LYNQS

LynQs, Leonteq's "one-stop-shop" for structured products, forms one of the cornerstones of Leonteq's strategy. Based on technology developed in-house, LynQs gives Leonteq's clients digital access to one of the largest structured product universes via the web or a mobile app and it enables them to issue and distribute products via their own channels.

In the first half of 2021, Leonteq launched its newest LynQs module "Quote" offering investors a fully automated click 'n' trade platform. The launch of Quote marked a further step in LynQs evolution into a unique "one-stop-shop" for structured investment solutions. The Quote module offers clients greater flexibility and more features to facilitate price discovery as they can now price and trade structured products in a fully automated manner for more than 10 issuers on Leonteq's digital marketplace. Automated documentation is available for every price and issuer in several languages and users can also access pre-trade risk analyses. LynQs uses new application features in a scalable, efficient and modular manner and offers open application programming interfaces (API) as well as an innovative white-labelling function for Leonteq's issuance partners and private banking clients. The white-labelling option represents a ready-to-use solution to integrate LynQs into their wealth management activity in their own corporate identity (B2B4C), thus avoiding lengthy and expensive IT development processes and reducing the operational burden.

Leonteq onboarded more than 40 clients and partners under this new format. A total of 338 LynQs users were onboarded in the first half of 2021 resulting in a total of 1,819 users from 408 private banks and independent asset managers at end-June 2021 (+23% vs end-2020).

New private pension savings solution

Within its Insurance & Wealth Planning Solutions segment, Leonteq developed a new product offering for the Pillar 3a market, which is a form of state-subsidised retirement planning in Switzerland. Pillar 3a is a tied pension plan where the capital is locked until retirement and constitutes the third pillar of retirement provision in addition to the state pension (first pillar) and occupational benefits (second pillar). The value of the Pillar 3a market is estimated over CHF 125 billion and it is attracting around CHF 10 billion in new pension contributions per year. Leonteq's new offering is the first in the Swiss market to combine capital protection with participation in the capital markets. The new product will be offered in cooperation with Glarner Kantonalbank, with Leonteq acting as the service and technology partner, while Glarner Kantonalbank will contribute its expertise in the areas of banking and digitalisation. The products will be administered on Leonteq's newly developed technology platform and digitally marketed via a new third-party company.

UNIQUE OFFERING FOR PRIVATE PENSION SAVINGS MARKET

Balance sheet light business

Leonteq's Smart Hedging Issuance Platform (SHIP) became fully operational in July 2020 and is designed to reduce Leonteq's own hedging exposure whilst giving its clients and issuance partners access to a range of additional external hedging counterparties. Seven leading investment banks are connected to the platform, of which six are actively quoting and executing trades.

CHF 1.5 BILLION BALANCE SHEET LIGHT TURNOVER IN H1 2021

Leonteq also has extensive capabilities to enter into back-to-back hedging transactions on a customised basis. It additionally, offers products manufactured outside the Leonteq platform by providing access to 21 third-party issuers through its marketplace. This includes direct connectivity between Leonteq's digital marketplace and Barclays' electronic trading platform as well as Societe Generale's trading platform SG Markets.

The aggregate turnover in structured products generated by the above-mentioned initiatives (i.e. SHIP, back-to-back hedging transactions and products issued by third-parties) is referred to as balance sheet light turnover. Leonteq continued to advance SHIP by enabling Actively Managed Certificates (AMC) on the platform. In the first half of 2021, Leonteq's balance sheet light turnover increased by 67% to approximately CHF 1.5 billion, corresponding to approximately 9% of total turnover, compared to CHF 0.9 billion, or approximately 6%, in the prior-year period.

Product offering

Leonteq made further progress in broadening its product offering in the first half of 2021 by expanding its asset management-like business. In this context, Leonteq released a new AMC Gateway with enhanced functionalities for a more intuitive and visually advanced experience of investing in an AMC. Index sponsors benefit from a revised, more user-friendly look and feel and improved management of rebalancing instructions and access to their status overview. In addition, Leonteq entered into a new collaboration with Morningstar for the launch of tracker certificates on Morningstar systematic indices and entered into collaborations with business and finance news portals such as The Market and cash for the issuance of stock exchange-listed tracker certificates on equity portfolio indices managed by the respective editorial teams.

BROADENED PRODUCT OFFERING INCREASED **ASSET MANAGEMENT-LIKE REVENUES**

Leonteq's asset management-like revenues (including AMCs and tracker certificates that are generally open-end certificates with an annual fee on total outstanding volumes) increased by 56% to CHF 31.2 million, corresponding to 18% of the Group's fee income, in the first half of 2021, compared to the prior-year period.

Leonteq significantly expanded its fund derivative business, offering existing client segments downside protection, upside potential or greater investment flexibility while keeping their exposure to the underlying funds. In addition, Leonteq also started to offer bespoke solutions to institutional investors such as fund managers. As a result, the fund derivatives business recorded a ten-fold increase in revenues to CHF 20.6 million compared to the prior-year.

Furthermore, it also continued to leverage its broad offering of products with cryptocurrencies as underlying and grew revenues to CHF 9.2 million in the first half of 2021, a fifteen-fold increase compared to the prior-year period.

Regional expansion

Following the opening of a new office in Milan in 2020, Leonteq also increased its footprint in Asia as part of its regional growth strategy. With the opening of its office in Dubai, Leonteq is well positioned to offer its services beyond the United Arab Emirates to the Gulf Cooperation Council (GCC) market. In doing so, Leonteq can tap into the significant market potential for investment solutions in this region and work more closely with its local client base. Once fully established in Dubai, Leonteq intends to expand its local services with a Sharia-compliant offering in the next few years.

Nearshoring initiative

36 PERSONNEL WORKING IN LISBON

Leonteq first established its presence in Lisbon in 2020 through a service centre set-up to facilitate its future growth in a more cost-effective way. Phase 1 of establishing a presence in Lisbon consisted of developing a serviced office set-up. This phase was completed in the second half of 2020, with the hiring of 20 external personnel – predominantly in the area of IT development but also for other shared services functions. The implementation of Phase 2 began in the first quarter of 2021, and it will include the set-up of Leonteq's own office with up to 100 designated roles along the entire value chain. As of 30 June 2021, 36 external personnel work for Leonteq in Lisbon. The Phase 2 set-up is due to be fully operational by end-2022.

Content and technology enhancers

Together with the Institute for Management Development (IMD), Leonteq will launch a new online education course in structured investment products, that combines the excellence and academic rigour of IMD's executive education with Leonteq's expertise and innovation in the structured products business. This fully digital programme will provide Leonteq's clients and partners with online education in structured investment products, leading to a special IMD-Leonteq certificate of completion. This cooperation supports to Leonteq's ambition to ensure broader access to structured investment products, make investment solutions available to a wider investor base and generally strengthen knowhow about these products.

Responsible investing

BEST ESG PRODUCT AT THE 2021 DERIVATIVE AWARDS

The importance of ESG and sustainable investing have become universally prevalent topics, and Leonteq has been growing its sustainability offering with the launch of a dedicated sustainability initiative since the end of last year with the ambition of becoming a leading ESG provider for structured investment solutions. As Leonteq integrates sustainability into its daily business practices, it has also increased its responsible investing efforts, offering investors the opportunity to invest responsibly when investing in structured products.

As part of these efforts, Leonteq screens its own product universe according to ESG criteria. ESG scores are measured on a scale from D- to A+ based on a company's environmental, social and governance evaluation. When selecting structured products or underlyings, Leonteq assesses the underlying's ESG score and includes it in each structured product termsheet, so that the products' sustainability credentials are visible at a glance. Leonteq is also applying an ESG label to all termsheets whose underlyings achieve a certain minimum score.

Alongside its inclusion of ESG scores on termsheets, Leonteq has also been active in offering sustainably-themed products and tracker certificates to investors for a number of years. In May 2021, Leonteq, partnered with Daubenthaler & Cie. to launch the world's first donation certificate, which offers investors the opportunity to invest in a charitable certificate that provides an automatic donation. With this innovative offering, Leonteq is demonstrating its commitment to sustainability and is playing a pioneering role in shaping the future of sustainably conscientious tracker certificates.

Over the past years, Leonteq has also launched tracker certificates on the H2 Technology index, Women in CEO Positions, the MSCI Europe ESG Leaders index and the FuW Eco Portfolio index. Leonteq additionally provided a TCM Green Bond Repack as well as tracker certificates on various Swissquote indexes, including the Hydrogen index, Global eMobility index, Rainbow Rights index, Vegetarian index and Global Recycling index.

In recognition of the Group's efforts to support its clients in investing responsibly, Leonteq was awarded Best ESG Product at the 2021 Swiss Derivative Awards.

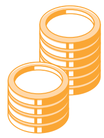
Covid-19

TOP PRIORITY TO **PROTECT THE HEALTH AND WELLBEING OF LEONTEQ'S EMPLOYEES, CLIENTS AND OTHER**

The Covid-19 pandemic continued to affect the economic environment and impacted on society throughout the first half of 2021. Leonteq's top priority is to protect the health and wellbeing of its employees, clients and other stakeholders, as well as protecting its business and preserve its profitability. The company adapted working arrangements on an ongoing basis to ensure employee safety and compliance with local government recommendations. The sophisticated remote access set-up put in place by Leonteq allowed for a swift transition between onsite and remote working options throughout the entirety of the pandemic.

GROUP RESULTS

In the first half of 2021, Leonteq achieved record total operating income of CHF 205.8 million (H1 2020: CHF 103.5 million) and record net profits of CHF 74.4 million (H1 2020: CHF 5.5 million). These record results are a validation of Leonteq's investments in its technology and platform capabilities and their effectiveness in improving business diversification. The results are also a consequence of its efforts to continuously increase product diversification, which enhanced overall revenue quality.



RECORD NET PROFIT OF CHF **74.4 MILLION**

Income statement

CHF million	H1 2021	H2 2020	H1 2020	Change from H1 2020	Change from H2 2020
Net fee income	170.0	121.6	213.0	(20%)	40%
Net trading result	35.4	8.7	(107.1)	N/A	307%
Net interest result	(2.4)	(1.5)	(5.0)	(52%)	60%
Other ordinary income	2.8	2.2	2.6	8%	27%
Total operating income	**205.8**	**131.0**	**103.5**	**99%**	**57%**
Personnel expenses	(74.9)	(57.5)	(63.4)	18%	30%
Other operating expenses	(25.6)	(23.4)	(23.0)	11%	9%
Depreciation	(16.6)	(16.7)	(16.3)	2%	(1%)
Changes to provisions	(8.1)	(1.6)	4.0	N/A	406%
Total operating expenses	**(125.2)**	**(99.2)**	**(98.7)**	**27%**	**26%**
Profit before taxes	**80.6**	**31.8**	**4.8**	**N/A**	**153%**
Taxes	(6.2)	2.6	0.7	N/A	N/A
Group net profit	**74.4**	**34.4**	**5.5**	**N/A**	**116%**

Total operating income

Leonteq had a strong start to the year and continued to experience high levels of client activity in a favourable market environment resulting in record revenues for the first half of 2021.

It saw strong client demand across its entire range of innovative investment solutions and was able to further diversify its revenue streams across products, underlyings and issuers. In particular, Leonteq grew its asset management-like revenues and attracted significant inflows into products with fund derivatives and cryptocurrencies as underlyings. The company also saw volumes and revenues in own issued products reach record levels and generated a notable increase in large ticket transactions during the first half of 2021. Large ticket transactions accounted for 10%, or CHF 16.9 million, of net fee income in the first half of 2021, compared to a contribution of 7%, or CHF 14.6 million, in the first half of 2020. This strong performance is also reflected by a 24% increase in client transactions to a total of 142,452 transactions and a 28% increase in issued products to 20,610 products in the first half of 2021.

As a result, Leonteq generated strong net fee income of CHF 170.0 million in the first half of 2021, compared to the exceptionally high figure of CHF 213.0 million in the prior-year period, which was driven by Covid-19-related market developments.

The favourable market environment and Leonteq's continued focus on disciplined risk management resulted in positive hedging contributions of CHF 21.2 million, compared to CHF -99.4 million in the prior-year period, which was primarily affected by a significant increase in hedging-related costs and one-off hedging-related losses of CHF 58 million. The market environment and a stringent investment policy also benefitted Leonteq's high-quality investment portfolio, resulting in a positive treasury carry of CHF 14.2 million (H1 2020: CHF -7.7 million). As a result, Leonteq's net trading income amounted to CHF 35.4 million in the first half of 2021, compared to a net trading loss of CHF -107.1 million in the prior-year period.

Leonteq's total operating income grew by 99% to a record CHF 205.8 million in the first half of 2021, driven by an exceptional first quarter and a strong second quarter of 2021.

Leonteq maintained its strong market position in its home market of Switzerland. Together with its platform partners, Leonteq is the leading issuer of SIX-listed yield enhancement products with a market share of 28%, and it ranks as the number three issuer of total SIX-listed structured products with a market share of 16%. Leonteq also expanded its range of digitally tradable investment products in Switzerland by listing products on BX Swiss. Net fee income in Switzerland was CHF 60.0 million in the first half of 2021, down 27% compared to the prior-year period, and up 29% compared to the second half of 2020.

Operations in Europe (excluding Switzerland) generated net fee income of CHF 85.8 million, representing the second-strongest result in Leonteq's history. Compared to the very strong result for the prior-year period, net fee income decreased by 24% in the first half of 2021 (up 43% from the second half of 2020). In particular, following the opening of a new office in Milan in the fourth quarter of 2020, Leonteq made good progress in Italy by extending the offering of fund derivatives and thematic tracker certificates to its Italian clients in the first half of 2021. It also strengthened its sales coverage for the Nordics region.

In Asia (including the Middle East), Leonteq successfully implemented key initiatives by increasing the range of products issued by Standard Chartered and improving its offering of AMCs for Asian clients. Leonteq expanded its regional footprint by opening a new office in Dubai. As a result, the Asia region (including the Middle East) saw a 36% increase in net fee income year-on-year to CHF 24.2 million (up 58% from the second half of 2020).

Net fee income split by regions

CHF million	H1 2021	H2 2020	H1 2020	Change from H1 2020	Change from H2 2020
Switzerland	60.0	46.5	82.0	(27%)	29%
Europe (excl. Switzerland)	85.8	59.8	113.2	(24%)	43%
Asia (incl. Middle East)	24.2	15.3	17.8	36%	58%
Total net fee income	**170.0**	**121.6**	**213.0**	**(20%)**	**40%**

Total operating expenses

In the first half of 2021, Leonteq continued to invest in key strategic initiatives as well as talent, particularly in its service centre in Lisbon, which resulted in a 21% increase in FTEs in Europe while overall Group headcount remained stable at 517. Personnel expenses increased by 18% to CHF 74.9 million in the first half of 2021, mainly due to an increase in variable compensation on the back of the growth in revenues and profits. Other operating expenses rose by 11% to CHF 25.6 million, reflecting higher IT-related expenses. Leonteq also built provisions for legal cases and proceedings that arose in the normal course of its business totalling CHF 8.1 million in the first half of 2021, compared to a positive release of CHF 4.0 million in the prior-year period.

Reflecting planned investments in key strategic initiatives, higher performance-driven variable costs and additional provisions for legal cases, total operating expenses rose by 27% year-on-year to CHF 125.2 million in the first half of 2021.

	30.06.2021	31.12.2020	30.06.2020	Change from YE 2020
Switzerland	324	338	357	(4%)
Europe (excl. Switzerland)	128	106	95	21%
Asia (incl. Middle East)	65	75	71	(13%)
Total FTEs	**517**	**519**	**523**	**(0%)**
of which IT	145	143	139	1%
of which sales	80	86	91	(7%)

Balance sheet

Leonteq's total assets remained stable at CHF 12,354.0 million as of 30 June 2021, compared to CHF 12,419.2 million at end-2020. Leonteq's own issued products increased by 18% to CHF 5,831.1 million due to a combination of higher issuance volumes and rising markets, which increased the value of structured products issued by Leonteq. In addition, the positive and negative replacement value of derivatives reported on Leonteq's balance sheet decreased by 22% and 12%, respectively, over the same period. Derivatives with positive replacement values primarily relate to hedging arrangements entered into with Leonteq's partners. The replacement values of these positions depend largely on share prices, with rising markets leading to lower positive replacement values. Due to this effect, the positive replacement value of derivatives decreased during the first half of 2021. Trading financial assets and indices increased by 20% in line with the significant growth in its fund derivatives and AMC business.

Total liabilities also remained stable at CHF 11,632.6 million (end-2020: CHF 11,771.7 million). Negative replacement values of derivatives held for hedging purposes decreased as markets rose during the first half of 2021. Shareholders' equity totalled CHF 721.4 million as of 30 June 2021, an increase of 11% compared to CHF 647.5 million as of 31 December 2020. Under the new regulatory framework for securities firms, Leonteq significantly exceeded its regulatory capital requirement of CHF 20 million as of 30 June 2021.

Balance sheet

CHF million	30.06.2021	31.12.2020	30.06.2020	Change from YE 2020
Cash and receivables	1,571.9	1,324.5	1,980.5	19%
Trading equities and indices[1]	4,296.5	3,566.4	2,298.3	20%
Financial assets / investments[2]	2,697.7	2,700.2	2,753.2	(0%)
Derivatives[3]	3,630.3	4,671.0	6,253.0	(22%)
Other assets	157.6	157.1	164.1	0%
Total assets	**12,354.0**	**12,419.2**	**13,449.1**	**(1%)**
Short-term credit and liabilities	1,853.5	2,339.8	3,295.2	(21%)
Own structured investment products[4]	5,831.1	4,944.5	4,097.0	18%
Derivatives and short positions[5]	3,707.9	4,259.5	5,171.9	(13%)
Other liabilities	161.2	152.8	145.1	5%
Deferred fee income	78.9	75.1	80.9	5%
Total liabilities	**11,632.6**	**11,771.7**	**12,790.1**	**(1%)**
Shareholders' equity	**721.4**	**647.5**	**659.0**	**11%**

[1] Trading financial assets and trading inventories

[2] Other financial assets designated at fair value through profit or loss; 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; trading financial liabilities

Dividend policy

In 2019, Leonteq entered a new phase of conservative dividend payments by distributing CHF 0.50 per share, following a period with no payouts to shareholders, thus underscoring its confidence in its ability to generate attractive and sustainable returns. In line with this conservative dividend policy, the Board of Directors proposed a shareholder distribution of CHF 0.75 per share for the financial year 2020, a 50% increase compared to 2019.

On 11 February 2021, Leonteq announced that it is further targeting for its capital base to reach the CHF 800 million area by end-2021 (CHF 723 million at end-2020), after which Leonteq intends to transition to a progressive dividend policy. For the financial year 2021, Leonteq expects to propose a shareholder distribution of more than CHF 0.75 per share. From the financial year 2022 onwards, a payout ratio of more than 50% of net profits is foreseen.

Leonteq's capital base totalled CHF 800.2 million as of 30 June 2021 and the company thus reached its capital base target (in the area of CHF 800 million) six months ahead of the guidance provided on 11 February 2021 and is reiterating its dividend policy.

INVESTMENT SOLUTIONS

The Investment Solutions business line focuses on the manufacturing and distribution of structured investment products, which it offers to financial intermediaries and institutional and professional clients in more than 50 countries. It also enables and enhances the structured product capabilities of our issuance partners.

Structured investment products are manufactured and managed in Leonteq's own name or for issuance partners, which act as the issuer or guarantor of the respective products. Leonteq also offers 21 third-party issuers in a manual or semi-automated manner on its platform. Our services cover the entire lifecycle of a structured product. Leonteq's clients are serviced by an experienced sales team and they can select from a variety of issuers, asset classes and pay-offs that are available on the platform.

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

In Leonteq's Investment Solutions business line, platform assets in Leonteq's own products totalled CHF 5.8 billion as of 30 June 2021, an increase of 18% compared to end-2020. Turnover in own products increased by 26% to CHF 7.8 billion in the first half of 2021 (up 44% from the second half of 2020), while margins remained elevated at 111 basis points, compared to 127 basis points in the prior-year period (104 basis points in the second half of 2020).

In its business with platform partners, outstanding volumes in platform partners' products increased by 7% to CHF 9.6 billion as of end-June 2021, and turnover generated with platform partners decreased to CHF 8.1 billion in the first half of 2021 compared to the very strong performance of CHF 9.2 billion in the prior-year period (up 45% form the second half of 2020). Margins continued to normalise to 96 basis points compared to exceptionally high levels of 130 basis points in the first half of 2020 (104 basis points in the second half of 2020).

Segment results

Investment Solutions	H1 2021	H2 2020	H1 2020	Change from H1 2020	Change from H2 2020
Total operating income (CHFm)	194.4	121.0	76.8	153%	61%
Total operating expenses (CHFm)	(94.3)	(77.1)	(82.3)	15%	22%
Segment profit / (loss) before taxes (CHFm)	**100.1**	**43.9**	**(5.5)**	**N/A**	**128%**
Platform assets (CHFbn)[1]	**15.4**	**14.1**	**13.1**	**18%**	**9%**
of which platform partner business (CHFbn)[1]	9.6	9.2	9.0	7%	4%
of which Leonteq business (CHFbn)[1]	5.8	4.9	4.1	41%	18%
Turnover (CHFbn)	**15.9**	**11.0**	**15.4**	**3%**	**45%**
of which platform partner business (CHFbn)	8.1	5.6	9.2	(12%)	45%
of which Leonteq business (CHFbn)	7.8	5.4	6.2	26%	44%
Fee income margin (bps)	**103**	**104**	**129**	**(26 bps)**	**(1 bps)**
Platform partner margin (bps)	96	104	130	(34 bps)	(8 bps)
Leonteq margin (bps)	111	104	127	(16 bps)	7 bps

[1] As of 30 June 2021, 31 December 2020, and 30 June 2020, respectively

Reflecting this strong performance, the number of structured products issued increased by 28% to 20,610 products. The number of clients making at least one primary or secondary market transaction grew from 884 to 911 intermediaries.

Total operating income in the Investment Solutions business line increased by 153% year-on-year to CHF 194.4 million in the first half of 2021, reflecting strong net fee income as well as a substantial positive net trading result. Total operating expenses increased by 15% to CHF 94.3 million in the period under review, primarily reflecting a performance-driven increase in variable costs. For the first half of 2021, the Investment Solutions business line reported a segment profit before taxes of CHF 100.1 million compared to a segment loss before taxes of CHF -5.5 million in the prior-year period.

INSURANCE & WEALTH PLANNING SOLUTIONS

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

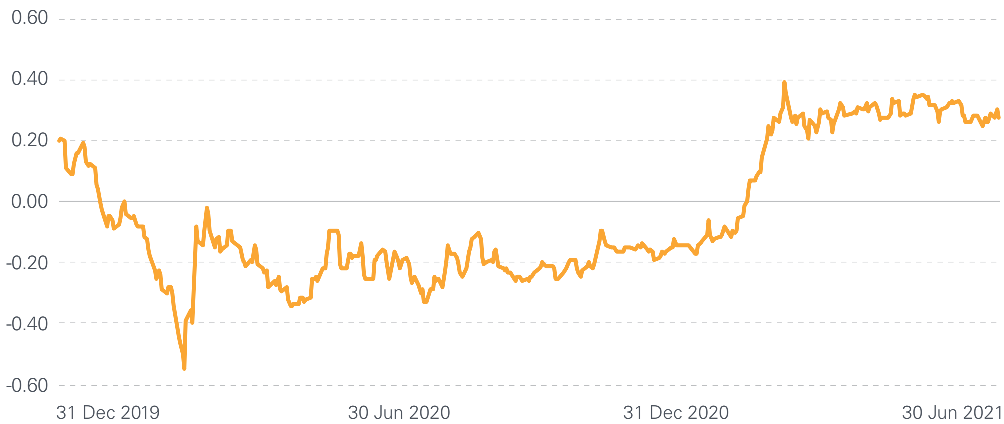
Our proprietary Omega insurance platform enables the fully automated, digital processing of the entire lifecycle of insurance policies and capitalisation products. A key feature is the Omega Portal, which is a Web-based application that enables our insurance partners to create, administer and track unit-linked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

In the first half 2021, Leonteq worked with Glarner Kantonalbank to develop an innovative a purely digital, innovative retail savings solution that provides a combination of a guarantee and an upside potential, as opposed to ongoing interest payments of traditional deposits.

In this context, Leonteq's Insurance & Wealth Planning Solutions business unit has created a new digital platform, SIGMA, for its partnership with banks in the area of savings solutions based on the existing platform for insurance companies. The SIGMA platform will make it possible to offer and administer savings solutions of this kind on an automated and scalable basis. In addition, Leonteq will operate a mobile app and a related website with easy navigation and digital onboarding.

The Swiss franc interest rate reached historically low levels in 2020. To combat the impacts of the Covid-19 pandemic, governments and central banks around the globe implemented substantial and far-reaching measures, driving even very long-term Swiss franc interest rates below zero for a prolonged period for the first time in history. In the first half of 2021, long-term interest rates started recovering and levelled off around 0.3% at 30 years. However, long-term levels are still comparably low, applying pressure on product terms and conditions compared to products not directly linked to market rates. Furthermore, Leonteq depends on the distribution channels of its insurance partners, including insurance brokers. Communication and meetings with potential end-clients continued to be impacted by the Covid-19 pandemic in the first half of 2021.

CHF 30Y swap (%)



The Insurance & Wealth Planning Solutions business line saw the number of outstanding policies serviced on the platform increase by 2% to 52,417 policies as of 30 June 2021. Total operating income decreased to CHF 8.8 million in the first half of 2021 from CHF 24.7 million in the prior-year period, primarily reflecting the continued challenging log-term interest rate environment and pandemic-related effects impacting the in-person sales activities of third-party distribution channels.

Total operating expenses remained stable at CHF 8.6 million (+1%) in the first half of 2021, compared to CHF 8.5 million in the first half of 2020. The Insurance & Wealth Planning Solutions business line reported a decrease in segment profit before taxes of CHF 16.0 million to CHF 0.2 million, compared to CHF 16.2 million in the first half of 2020.

Segment results

Insurance & Wealth Planning Solutions	H1 2021	H2 2020	H1 2020	Change from H1 2020	Change from H2 2020
Total operating income (CHFm)	8.8	8.8	24.7	(64%)	(0%)
Total operating expenses (CHFm)	(8.6)	(7.0)	(8.5)	1%	23%
Segment profit before taxes (CHFm)	**0.2**	**1.8**	**16.2**	**(99%)**	**(89%)**
Number of outstanding policies[1]	**52,417**	**51,577**	**49,746**	**5%**	**2%**

[1] As of 30 June 2021, 31 December 2020, and 30 June 2020, respectively

RISK & CONTROL

24 Risk management and control framework
31 Risk control
40 Liquidity management
43 Capital management

REVIEWED INFORMATION

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

Signposts

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

RISK MANAGEMENT AND CONTROL FRAMEWORK

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

Risk management and control principles

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

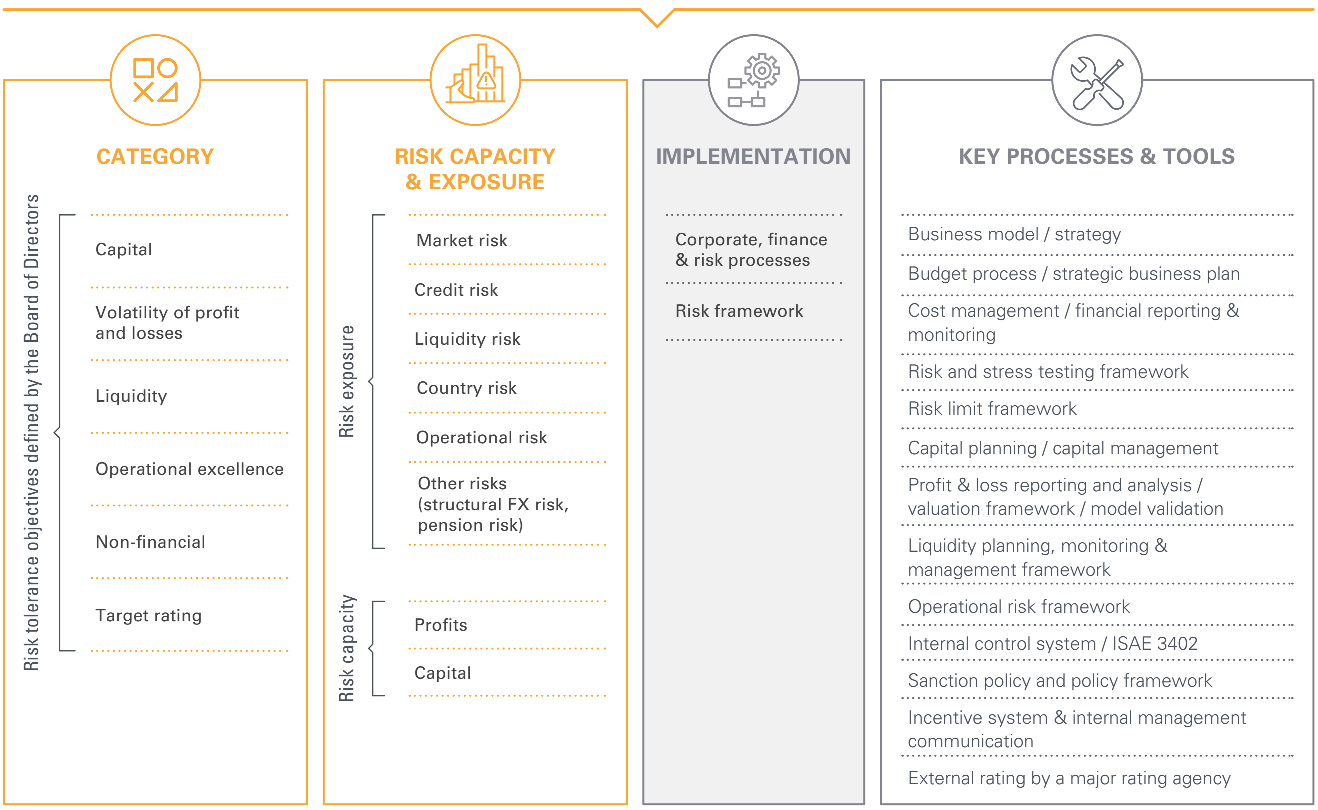
The following guiding principles are designed to maintain and further develop Leonteq's client-focused business approach:

- 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 regulatory requirements must be ensured at all times;
- The capital base and risk exposures must be continuously managed to ensure that the Group remains adequately capitalized 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 appetite;
- Accurate, timely and detailed risk disclosures are provided to senior management and the Board of Directors, as well as to regulators and auditors.

RISK MANAGEMENT AND CONTROL ENSURE THAT **ACTIVITIES ARE CLIENT-DRIVEN** RATHER THAN MOTIVATED BY PROPRIETARY RISK-TAKING ACTIVITIES

Leonteq's policies, risk measurement and reporting methodologies and the risk limit framework reflect the above principles. The risk framework is continuously being developed to take account of new business activities and changes to its risk profile.

RISK TOLERANCE FRAMEWORK



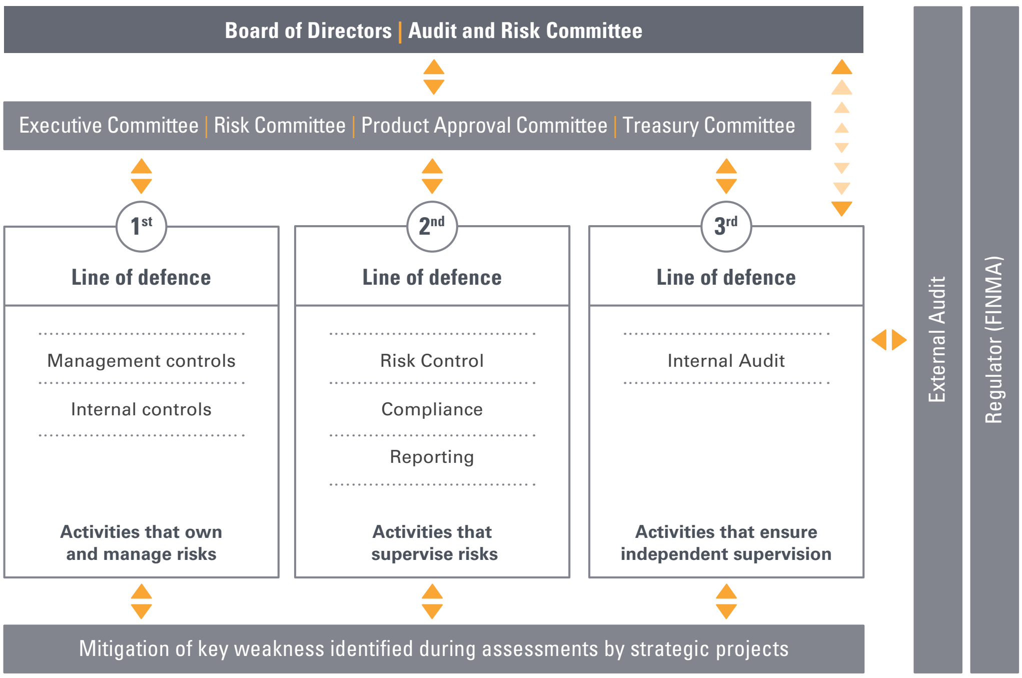
Risk governance

THE THREE LINES OF DEFENCE ENHANCE CLARITY REGARDING RISKS AND CONTROLS AND HELP TO IMPROVE THE EFFECTIVENESS OF RISK MANAGEMENT SYSTEMS

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

Overall responsibility for the Group-wide internal control system lies with the Board of Directors and its committees. The Board of Directors defines the overall guidelines and performs an assessment of the internal control system on a regular basis. It delegates the implementation and maintenance of the internal control system to the Executive Committee. The first line of defence is formed by managers and "risk owners", who are responsible for identifying, assessing and managing inherent risks associated with business activities. Line managers must implement effective internal controls, operational activities and other risk responses to address the risks associated with the processes they manage. The second line of defence consists of functions such as compliance and risk control and provides independent oversight of the risk management activities implemented by the first line of defence. The second line of defence 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 of defence comprises the Internal Audit function, which reports independently to the Board of Directors and is not part of the risk management processes. Internal Audit provides an assessment and assurance, using a risk-based approach, of the effectiveness of governance, risk management, and internal control and submits it to the company's Board of Directors and Executive Committee.

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



Reviewed | The Board of Directors is responsible for defining an appropriate framework for the measurement, limitation, management and supervision of all risks to which the Group is exposed. It approves the overall risk policies and global 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 – especially credit (clients, counterparties, bond investment portfolios, countries, risk concentrations), market, liquidity, reputational and operational risks. It also oversees general risks within the policy, framework, rules and limits set by the Board of Directors or by the Committee itself, as well as the internal control system and risk management process throughout the Group.

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

- The Product Approval Committee is responsible for approving new types of financial products before they are issued and new services before they are launched. The Product Approval Committee is composed of both members of the Executive Committee and employees responsible for operational risk control, trading and treasury.
- The Risk Committee of the Executive Committee is responsible, among other things, for determining and monitoring limits on liquidity risk, market risk, counterparty risk and country-specific risk 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 Risk Control department is responsible for ensuring that risk exposures remain in line with the risk appetite defined by the Board of Directors. The main responsibilities of Risk Control include:

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

Risk limit framework

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

Governance | Risk and Product Approval Committees | Policies

Capital management | Capital reporting, monitoring and planning

Liquidity framework | Liquidity Excess Reserves (LER)

Risk and limit framework

Market risk framework

Board market risk limits and alerts
Represent the risk appetite 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 appetite for the main portfolio credit sensitivities

EC credit limits
Limits are set on individual counterparty group level

Risk diversification rules
Sets upper bounds for credit limits set by the Executive Committee

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

Operational risk framework

Monetary operational risk
Tolerance level defines accepted loss level

Risk identification
Event reporting, control assessments and risk register

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

Risk mitigation
IT initiatives and projects, education and policies

The limit framework has three different levels of limits:

- Board of Directors limits represent the Group's overall risk appetite set by the Board of Directors. Breaches of these limits are escalated to the Board of Directors.
- Executive Committee limits are additional granular limits imposed by the Risk Committee of the Executive Committee.
- 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

Recognizing the increased potential for significant disruptions 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 ascertain its operational resilience approach and capitalizes on existing governance structures to establish, to oversee and to implement an effective operational resilience framework. The Group considers the roles of senior management, risk function and independent assurance functions to be part of the operational resilience governance framework. Stakeholders from across the three lines are involved in operational resilience governance. Please refer to Risk Governance disclosure on page 25 for more details.

Operational risk management - The Group has a broad operational risk framework to manage and control operational risk. The operational resilience approach of the Group is built into operational risk procedures, where any event or disruption is analysed and triggers the implementation of correctives measures. Leonteq's operational risk approach considers any operational event that is reported as a unique opportunity to learn and to extend the operational resilience of the company. Please refer to the Operational Risk disclosure on page 37 for further details.

Business continuity planning and testing - The Group applies a pragmatic approach to business continuity management (BCM) which aims to ensure the protection of business-critical applications and services. The BCM programme is specifically designed to handle severe but plausible scenarios potentially faced by the Group and to ensure business can continue should an event impact the business operations. 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 on page 38 for further details.

Mapping interconnections and interdependencies - The interconnection and interdependencies of the various elements necessary to deliver the company's critical operations are assessed on an ongoing basis. Interconnection and interdependencies are identified and mapped during the annual Business Impact Analysis (BIA) process. The BIA is a systematic process 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 aims to reveal any vulnerabilities and to develop strategies for minimising risk.

Third-party dependency management - The Group fulfils the FINMA supervisory requirements for outsourcing solutions in terms of organization 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 tasks or functions that are significant to 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, third-party capacity to absorb and manage disruptive events was evaluated before entering into a service agreement, at the start of the pandemic and is regularly reassessed.

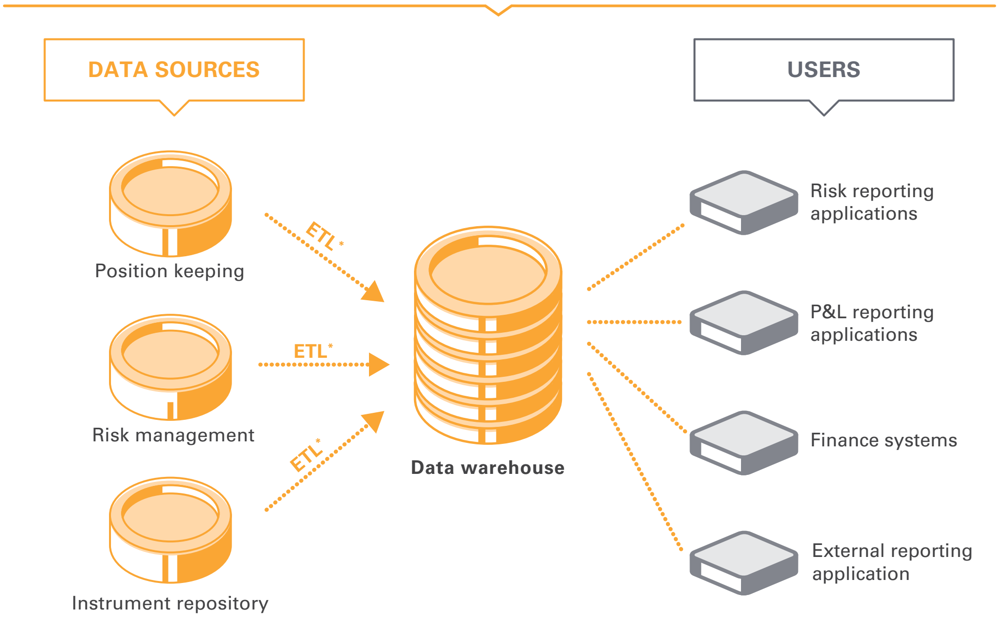
Incident management - Incidents associated with infrastructure, software bugs, operational failures, vendor generated outages and database failures are recorded based on their criticality. All incidents which fall into the criticality classification require to be recorded using Leonteq's internal ticketing system JIRA. Most critical incidents require a "Major Incident" ticket to be raised retrospectively to prevent an identified incident from being repeated.

Information and communication technology (ICT) including cyber security - The Group has a dedicated cyber security team who is supported by external cyber security specialists. Their role is to identify threats and risks, implement the safeguards needed to deal with them, monitor the safeguards and assets required to manage security breaches, and respond to cyber security issues as they occur in order to ensure the reliability of information systems and communication technology used in Leonteq's critical operations. Please refer to the Cyber Security Risk disclosure page 38 for further details.

Risk infrastructure

The Group's risk infrastructure has been continuously developed since Leonteq commenced operations in 2007. It has since made significant investments in maintaining and further developing 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 a high level of efficiency and timeliness when monitoring and reporting risks and risk exposures. Significant computational resources are available to handle 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.

RISK INFRASTRUCTURE



* Extract, Transform, Load

As of 30 June 2021, over 100 experienced IT professionals were responsible for maintaining and further developing the Group's systems. The same core information technology system is used across all asset classes, integrating important front-, mid- and back-office functions as well as risk management and risk control and quantitative modelling. Leonteq's structured investment service platform consists of its proprietary information technology systems and processes as well as standard hardware and software tools for non-differentiating and commoditised functions.

OVER 100 EXPERIENCED IT PROFESSIONALS MAINTAIN AND FURTHER DEVELOP THE GROUP'S SYSTEMS

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-office and the back office areas. Sophis RISQUE is also integrated with in-house systems used in risk control to perform stress scenario, sensitivity and other calculations. Following an upgrade of Sophis RISQUE to a new version of the system in 2020, the Group benefits from additional features and continues to be supported by Finastra, the developer of Sophis RISQUE. In addition, the Group developed internally an enhanced stress engine reducing dependency from third party providers and allowing the Group to perform a wider range of stress calculations 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 calibration 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 times 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. Data and reports are distributed and provided to end-users via automated schedules or visualised in dashboards using business intelligence tools.

RISK CONTROL

Reviewed | Leonteq's Risk Control department is responsible for identifying, measuring, monitoring and controlling risks resulting from the issuance of structured investment products to clients, which the Group seeks to hedge efficiently. The business activity exposes the Group to market risk, credit risk, liquidity risk, operational risk as well as legal and regulatory risk.

Risk measures

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

MORE THAN **300 STRESS SCENARIOS ARE EVALUATED DAILY** TO ENSURE THAT THE TRADING BOOK **REMAINS WITHIN THE DEFINED RISK LIMITS**

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

Stress testing

Daily stress testing of the Group's portfolios is performed in order to monitor and control exposures to various risks. More than 300 daily stress tests are performed 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.

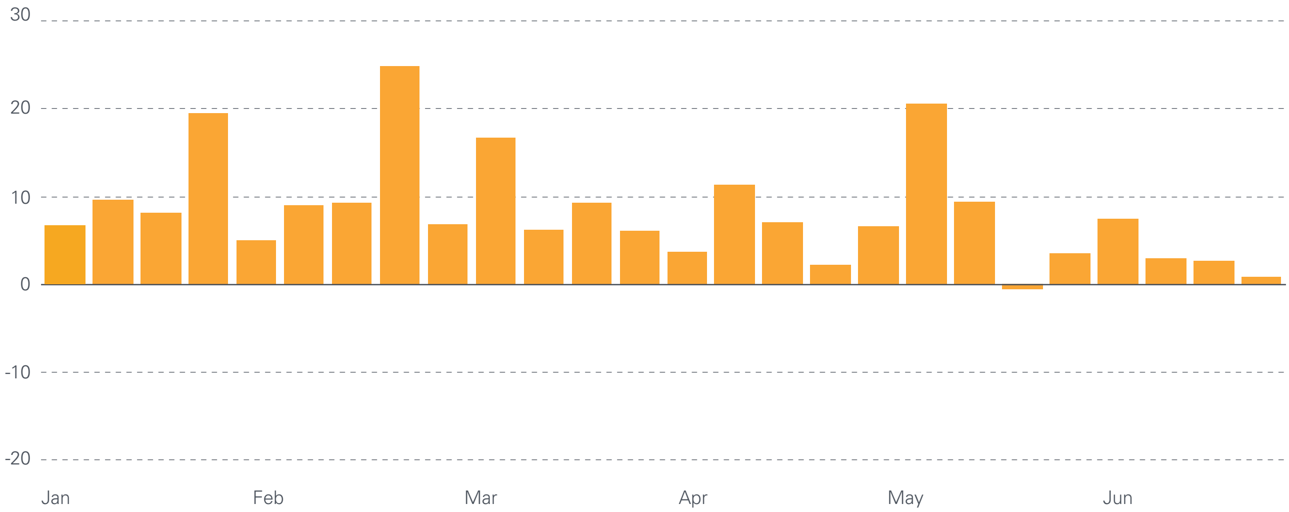
Risk concentration

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

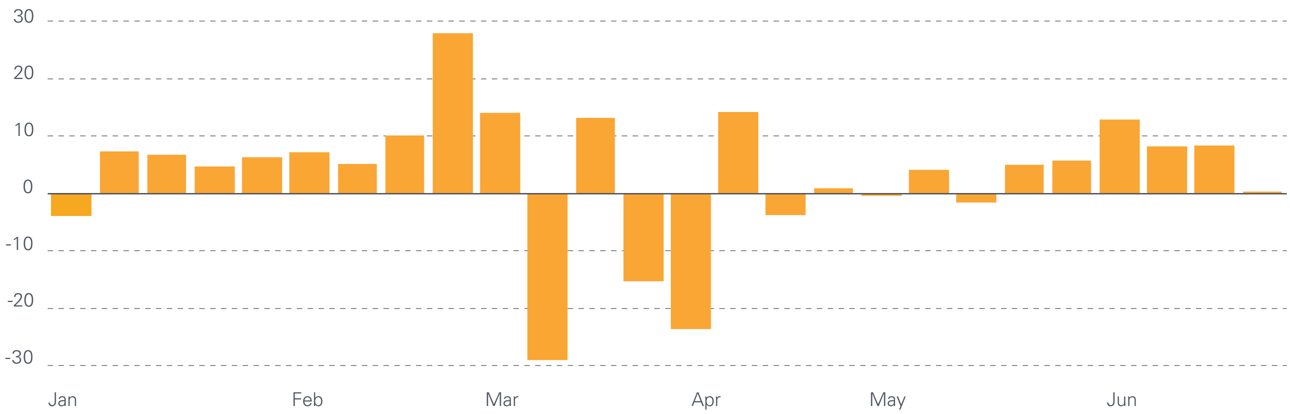
Profit and loss analysis

The Group performs daily profit and loss analysis and reports economic revenues on a consolidated as well as individual trading book level to senior management. Economic revenues consist of sales and trading income earned and are considered as recognised at the trade date without applying IFRS revenue recognition rules. Economic revenues do not include certain other income components such as partner project cost reimbursements. The below charts show the weekly economic revenues for the first half 2021 and 2020. Following a strong start to the year, Leonteq continued to record high levels of client activity in a favourable market environment in the first six months of 2021. Leonteq saw strong client demand across its entire range of investment solutions. At the same time, it continued to focus on disciplined risk management and generated a positive net trading result.

Weekly economic revenues | H1 2021 (CHFm)



Weekly economic revenues | H1 2020 (CHFm)



Market risk

Reviewed | Market risk is the risk of loss resulting from adverse movements in the market price or model price of financial assets. The Group distinguishes between six 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;
- Cryptocurrencies, i.e. the risk of adverse movements in cryptocurrency 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, 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 fixed income-based assets.

Monitoring of market risk

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

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

Sensitivity analysis

As of 30 June 2021, the Group had the following exposures relating to its financial assets and liabilities.

Impact on the income statement

CHF thousand	30.06.2021	31.12.2020
Risk factor		
Equity delta	(868)	36
Precious metal delta	17	36
Commodity delta	(10)	13
Equity vega	6,607	5,067
Precious metal vega	62	(16)
Commodity vega	113	32
Equity correlation	(6,479)	(7,723)
Equity dividend	(9,022)	(11,634)
FX G10 delta	(273)	(604)
FX EM delta	(6)	(156)
CS10 Credit linked products	140	231
CS10 Government and agencies	(163)	(626)
CS10 Corporations and banks	(284)	(553)
IR G10 DV100	(6,906)	(10,102)
IR EM DV100	(134)	195
IR vega	(48)	57
Crypto Delta	(0)	—

Impact on equity

CHF thousand	30.06.2021	31.12.2020
Risk factor		
FX G10 delta	3,241	3,097
CS10 Government and agencies	(2,136)	(1,088)
CS10 Corporations and banks	(8,113)	(6,714)

In the first half of 2021, the risk profile of products issued by Leonteq and its partners improved compared to end-2020, as markets rallied and implied volatility decreased. Correlation sensitivity and dividend exposure have been reduced but are still higher than historical averages due to the growth of the business. Further, the size of Leonteq's investment portfolio size has remained almost unchanged, the increase in credit spread sensitivity is explained by the increase in average duration of the bonds.

The Group operates a branch in Guernsey (Leonteq Securities AG, Guernsey Finance Branch), whose primary function is the management of a portfolio of mainly US dollar denominated bonds. Consequently, the branch's functional currency is the US dollar. As of 30 June 2021, the capital allocation amounted to USD 350 million. The Sensitivity between the US dollar and Swiss franc relating to the foreign exchange structural position affecting the Group's equity is shown in the above table.

The Group invests a portion of the proceeds from own product issuance in mid-term high-quality 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. ▲

THE GUERNSEY BRANCH HAD A US DOLLAR EXPOSURE OF APPROXIMATELY USD 350 MILLION

Stress analysis

Reviewed | In March 2020, the impact of Covid-19 represented a unique event in terms of size and speed of the market correction, and therefore Risk Control took the opportunity to replace the old scenarios by introducing new shocks that are based on the recent market events. The Group reports the impacts on its income statement when the following relevant historical stress scenarios are applied to its portfolio:

- Covid-19 Black Thursday is a 1-day crash scenario that happened on 12 March 2020 as a part of the wider Covid-19 stock market crash. US stocks 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 2021 and 31 December 2020.

Structured products

30 June 2021 CHF thousand	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	(63,280)	(24,996)	(3,108)	16,537	42,486	77,133
Spot -5%	(34,605)	(10,662)	4,912	20,257	42,331	74,936
Spot -2%	(32,852)	(11,706)	2,376	16,315	36,670	68,126
Spot 0%	(34,409)	(13,129)	0	13,234	32,675	63,643
Spot +2%	(31,112)	(13,314)	(1,099)	10,978	29,686	60,327
Spot +5%	(22,130)	(10,323)	262	11,333	28,225	58,680
Spot +10%	(301)	3,594	10,551	19,781	35,799	64,480

31 December 2020 CHF thousand	Vol. –5%	Vol. –2%	Vol. 0%	Vol. +2%	Vol. +5%	Vol. +10%
Spot -10%	(51,324)	(25,718)	(10,475)	2,982	20,574	43,302
Spot -5%	(28,626)	(11,652)	(563)	10,378	26,053	48,731
Spot -2%	(26,815)	(10,461)	(4)	10,288	25,512	48,747
Spot 0%	(25,040)	(10,245)	—	9,944	24,885	48,856
Spot +2%	(21,813)	(9,250)	338	10,043	24,840	49,757
Spot +5%	(14,198)	(5,097)	3,033	12,082	26,821	52,786
Spot +10%	1,043	6,703	13,107	21,221	35,681	62,831

Pension products

30 June 2021 CHF thousand	Vol. –20bp	Vol. –10bp	Vol. 0bp	Vol. +10bp	Vol. +20bp
Spot -50bp	(2,351)	(1,637)	(1,013)	(425)	147
Spot -25bp	4	(250)	(310)	(236)	(62)
Spot 0bp	1,470	540	—	(291)	(410)
Spot +25bp	1,726	427	(360)	(837)	(1,108)
Spot +50bp	1,270	(256)	(1,160)	(1,713)	(2,044)

31 December 2020 CHF thousand	Vol. –20bp	Vol. –10bp	Vol. 0bp	Vol. +10bp	Vol. +20bp
Spot -50bp	(1,980)	126	1,708	2,967	4,018
Spot -25bp	(2,554)	(1,020)	95	989	1,746
Spot 0bp	(375)	(197)	—	218	462
Spot +25bp	2,320	1,146	398	(69)	(349)
Spot +50bp	3,442	1,571	262	(660)	(1,312)

Credit risk

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

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

Monitoring of credit risk

Leonteq is exposed to credit risks related to over-the-counter (OTC) derivatives and securities lending and borrowing activities with counterparties. 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 securities lending and borrowing activities is typically mitigated through the use of mark-to-market collateral and close-out netting arrangements. Investments in bonds or other fixed income instruments are subject to additional limits.

Counterparty exposures

CHF million	30.06.2021 Exposure	31.12.2020 Exposure
OTC	19.0	13.4
SLB	111.4	101.1
Total	**130.4**	**114.5**

Investment portfolio

The Group has primarily invested the proceeds from own product issuance in short- to mid-term 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:

30 June 2021 CHF thousand	Maturity						Total 30.06.2021	Total 30.06.2021 in %
	0 - 12 months	12 - 24 months	24 - 36 months	36 - 48 months	48 - 60 months	>60 months		
Governments and agencies[1]	97.3	104.8	61.6	42.1	202.3	162.1	670.2	27.2%
of which Aaa	95.1	48.4	39.5	42.1	85.0	89.0	398.9	16.2%
of which Aa1-Aa3	2.3	56.4	15.7	—	111.8	65.6	251.7	10.2%
of which A1-A3	—	—	6.5	—	5.5	7.6	19.6	0.8%
Corporations/institutions	5.2	41.0	78.4	305.8	210.2	575.7	1,216.3	49.4%
of which Aaa	—	—	—	57.8	13.8	39.3	110.9	4.5%
of which Aa1-Aa3		9.6	24.3	83.3	69.2	242.0	428.4	17.4%
of which A1-A3	0.5	27.4	53.5	148.9	96.1	246.6	573.1	23.3%
of which Baa1-Baa3	4.7	4.1	0.6	15.7	31.1	47.7	103.9	4.2%
Banks	27.1	47.5	111.1	98.5	160.0	130.3	574.5	23.3%
of which Aaa	—	—	—	23.7	7.6	—	31.3	1.3%
of which Aa1-Aa3	20.5	0.5	46.9	13.8	55.7	20.1	157.4	6.4%
of which A1-A3	—	47.1	64.2	61.0	84.7	58.3	315.2	12.8%
of which Baa1-Baa3	6.6	—	—	—	12.1	51.9	70.6	2.9%
Total	**129.6**	**193.3**	**251.1**	**446.4**	**572.5**	**868.1**	**2,460.9**	**100.0%**

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

31 December 2020 CHF thousand	Maturity						Total 31.12.2020	Total 31.12.2020 in %
	0 - 12 months	12 - 24 months	24 - 36 months	36 - 48 months	48 - 60 months	>60 months		
Governments/public sector bodies/supranational agencies	218.8	237.3	177.8	6.0	134.1	55.6	829.6	33.8%
of which Aaa	163.6	144.0	150.8	6.0	93.6	31.9	589.9	24.0%
of which Aa1-Aa3	55.1	93.3	27.0	—	35.2	16.1	226.8	9.2%
of which A1-A3	—	—	—	—	5.3	7.7	13.0	0.5%
Corporations/institutions	24.0	75.2	101.4	227.0	281.9	426.9	1,136.5	46.3%
of which Aaa	—	7.4	—	—	56.3	65.8	129.5	5.3%
of which Aa1-Aa3	13.4	14.6	26.5	78.8	100.3	173.4	407.0	16.6%
of which A1-A3	1.6	53.2	65.1	127.0	125.3	137.0	509.1	20.7%
of which Baa1-Baa3	9.0	—	9.8	21.2	—	50.8	90.8	3.7%
Banks	19.8	66.3	51.8	84.6	145.7	122.7	490.9	20.0%
of which Aaa	—	—	—	—	24.7	7.4	32.1	1.3%
of which Aa1-Aa3	19.8	39.0	29.2	36.4	23.4	22.9	170.7	6.9%
of which A1-A3	—	27.3	22.6	48.1	97.6	32.4	228.0	9.3%
of which Baa1-Baa3	—	—	—	—	—	60.0	60.0	2.4%
Total	**262.5**	**378.8**	**331.1**	**317.6**	**561.8**	**605.2**	**2,457.0**	**100%**

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, it's IT system and 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 damage that could have longer-term financial consequences.

A BROAD OPERATIONAL RISK FRAMEWORK HAS BEEN PUT IN PLACE TO MANAGE AND CONTROL OPERATIONAL RISK, WHICH IS CONSIDERED ONE OF THE MAJOR RISKS FOR THE GROUP

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

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

Business continuity management

The Group maintains a comprehensive business continuity management (BCM) plan, including contingency measures for a number of potential events and scenarios that could affect the Group's ability to operate. These events include potential IT failures, damage to its premises, natural disasters and diseases, including pandemics.

Key elements of the Group's BCM plan are the establishment of a crisis management team, including the CEO and COO, the definition of communication plans for internal and external stakeholders, IT and infrastructure redundancies, and a flexible IT set-up that allows nearly all Leonteq employees to work from home or other locations without their ability to perform essential tasks being affected.

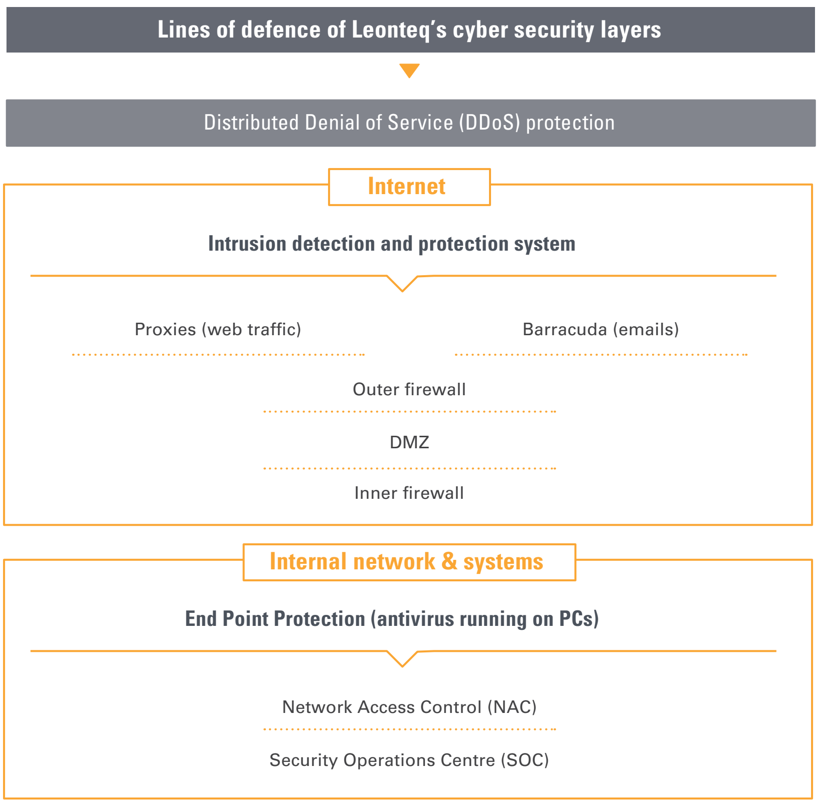
The Group's BCM plans were implemented early on as a result of the Covid-19 pandemic beginning of 2020, with the priority being to safeguard the health and safety of employees, clients and other stakeholders, as well as protecting the business and profitability. All of Leonteq's offices were required to close or operate with significantly fewer employees through much of 2020 and first half of 2021. Employees were able to work from home for extended periods of time without any disruptions. Specifically, Leonteq did not experience any issues relating to its trading and risk management activities, with all hedging and risk management activities continuing uninterrupted.

Working situations have been actively addressed by the company on an ongoing and proactive basis to ensure employee safety and alignment with local government recommendations. Leonteq set up full home office capabilities, including sophisticated trading and IT development set-ups, early on. This meant that once lockdowns were imposed staff was able to seamlessly transition to working from home from one day to the next. As some governments eased restrictions, Leonteq also took a phased approached to bringing staff back to its offices. The sophisticated remote access set-up that Leonteq has in place has allowed for swift transition since the start of the pandemic between on site and remote working options.

Cyber security risks

Technical defences

The Group follows state-of-the-art cyber security practices by implementing multiple layers of technical defences against unauthorised access from internal or external sources, as illustrated in detail in the chart below. This includes the use of next-generation firewalls, intrusion detection systems and distributed denial of service protection at the network perimeter, together with internal counter-measures. This configuration is designed to ensure that no part of the Group's network is exposed to cyber-security risks due to the failure of any single component and there is no direct route to its data without passing through multiple checks. In cases where the Group is dependent on third-party services and service providers, any failure or interruption of, or damage to, the services of such third-party service providers could affect the Group's business.



Governance defences

Technical defences alone are not sufficient to ensure that 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.

External certifications

The Group's processes and procedures are subject to annual external validation by two leading international organizations.

The Group's internal control system, which comprises controls relating to its business, operational and IT processes as well as controls of information security, is audited on an annual basis in accordance with ISAE 3402. A comprehensive report documenting these controls is produced on an annual basis and is certified by means of an external audit.

The Group's BCM plan, which covers its disaster recovery and crisis management procedures, is audited in accordance with ISO 22301.2012. This audit is conducted annually and covers the planning, implementation and operation of the Group's plan to protect against, reduce the likelihood of, prepare for, respond to, and recover from disruptive incidents, if and when they arise.

Other risks

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

Reputational risk is the risk of a potential loss of reputation due to a financial loss or any other real or perceived event with a negative impact on reputation. In particular, this includes the risk arising from any cases of employee misconduct. The 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.

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

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

Brexit: The UK's withdrawal from the EU did not have a significant impact on Leonteq's business. Leonteq has offices in the UK (London) and the EU (Amsterdam, Paris, Frankfurt and Milan) and holds the necessary licenses to continue to serve its clients in both the UK and the EU. ▲

LIQUIDITY MANAGEMENT

Reviewed | **The Group distinguishes between market liquidity risk, or the risk that it may not be able to sell or buy assets at fair value, and funding liquidity risk, or the risk that Leonteq may not have sufficient cash or other liquid assets to meet its obligations as they 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 and commodities) and markets;
- Diversification of OTC hedging counterparties;
- Quotation of structured investment products, including a bid-ask spread that provides an adequate buffer for less liquid underlyings. The buffer between the value of the product using the current market value of illiquid underlyings and the prices at which Leonteq is willing to trade these products is needed in order to compensate for the possibility that it may not be able to hedge its liabilities at the current market prices of the illiquid underlyings.

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

- Ensuring the investment universe comprises government and supranational agency credits with a high-grade credit rating as well as bonds issued by corporates and 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.

Funding liquidity risk

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

The Group is exposed to funding liquidity and refinancing risk due primarily to the issuance 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 certain offshore cash placements is subject to Swiss withholding tax. Leonteq therefore avoids using such unsecured liquidity held in the Guernsey and Amsterdam branches of Leonteq Securities AG to fund the purchase of securities needed to hedge market risks in Switzerland.

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

Maturity analysis of assets and liabilities

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

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

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

CHF thousands	Due				30.06.2021
	Up to 1 month	1-3 months	3-12 months	Over 12 months	
Assets					
Liquid Assets	55,935	—	—	—	55,935
Amounts due from banks	687,288	—	—	—	687,288
Amounts due from securities financing transactions	2,949	—	—	—	2,949
Amounts due from customers	825,773	—	—	—	825,773
Trading financial assets	3,774,355	6,419	34,522	176,424	3,991,721
Positive replacement values of derivative financial instruments	29,104	1,164,434	1,619,530	817,191	3,630,260
Other financial assets designated at fair value through profit or loss	11,993	33,576	86,446	383,388	515,403
Financial investments measured at fair value through other comprehensive income	—	7,815	32,045	2,104,854	2,144,714
Accrued income	15,614	6,692	—	—	22,305
Total financial assets	**5,403,011**	**1,218,937**	**1,772,543**	**3,481,857**	**11,876,347**
Liabilities					
Amounts due to banks	277,348	—	—	—	277,348
Liabilities from securities financing transactions	935,662	—	—	—	935,662
Amounts due to customers	640,443	—	—	—	640,443
Trading financial liabilities	145,331	—	—	1,231	146,562
Negative replacement values of derivative financial instruments	37,736	629,498	1,461,140	1,433,083	3,561,458
Other financial liabilities designated at fair value through profit or loss	1,254,817	1,170,274	1,018,091	2,473,438	5,916,621
Lease liability	—	—	8,500	40,133	48,633
Accrued expenses	107,405	46,031	—	—	153,436
Total financial liabilities	**3,398,743**	**1,845,803**	**2,487,731**	**3,947,886**	**11,680,163**

CHF thousands	Due				31.12.2020
	Up to 1 month	1-3 months	3-12 months	Over 12 months	
Assets					
Liquid Assets	215,645	—	—	—	215,645
Amounts due from banks	597,174	—	—	—	597,174
Amounts due from securities financing transactions	4,188	—	—	—	4,188
Amounts due from customers	507,533	—	—	—	507,533
Trading financial assets	3,226,572	5,799	16,808	161,933	3,411,112
Positive replacement values of derivative financial instruments	168,253	2,289,429	1,107,837	1,105,490	4,671,008
Other financial assets designated at fair value through profit or loss	1,830	25,209	226,147	661,565	914,750
Financial investments measured at fair value through other comprehensive income	—	—	48,849	1,653,802	1,702,651
Accrued income	13,873	5,945	—	—	19,818
Total financial assets	**4,735,067**	**2,326,382**	**1,399,640**	**3,582,790**	**12,043,880**
Liabilities					
Amounts due to banks	380,636	—	—	—	380,636
Liabilities from securities financing transactions	1,146,648	—	—	—	1,146,648
Amounts due to customers	812,495	—	—	—	812,495
Trading financial liabilities	199,247	—	—	1,297	200,544
Negative replacement values of derivative financial instruments	151,551	947,693	1,248,370	1,711,318	4,058,933
Other financial liabilities designated at fair value through profit or loss	1,249,651	1,181,513	860,003	1,803,504	5,094,672
Lease liability	—	—	9,528	47,998	57,526
Accrued expenses	99,790	42,767	—	—	142,557
Total financial liabilities	**4,040,018**	**2,171,973**	**2,117,901**	**3,564,118**	**11,894,011**

CAPITAL MANAGEMENT

LEONTEQ ENGAGES IN ROBUST CAPITAL PLANNING PROCESSES BASED ON A DEFINED SET OF STRESS SCENARIOS

The Swiss Financial Institutions Act (FinIA) and the Financial Institutions Ordinance (FinIO) entered into force on 1 January 2020. FinIA regulates the licensing requirements and further organisational rules for certain financial institutions, including securities dealers such as Leonteq, which are now designated as securities firms. The new regime distinguishes between account-holding and non-account-holding securities firms for the application of capital requirements. Securities firms that do not hold accounts for clients are no longer subject to the Capital Adequacy Ordinance but must permanently hold capital of at least one quarter of the fixed costs of the last annual financial statement, up to a maximum of CHF 20 million. Leonteq does not hold client accounts and is thus no longer subject to the requirements of the Capital Adequacy Ordinance. Under the new regulatory framework for securities firms, Leonteq significantly exceeded its regulatory capital requirement of CHF 20 million as of 30 June 2021.

Leonteq engages in a robust capital planning process based on a defined set of stress scenarios in order to ensure that shareholders' equity is sufficient to cover potential losses in the event of severe adverse market shocks or other events. The Group's defined stress scenarios include the simulated combined effect of a variety of market and business events, including potential losses related to equity market shocks, interest rate changes, foreign exchange rate movements, credit losses and operational losses, as well as adverse changes to the business environment. These potential losses are then compared to the Group's shareholders' equity in order to ensure that a significant buffer is maintained in each defined scenario.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONTENT

Interim consolidated financial statements

Income statement 46
Statement of other comprehensive income 46
Statement of financial position 47
Statement of changes in equity 48
Statement of cash flows 50

Notes to the consolidated financial statements

1 General information 52
2 Basis of presentation 52
3 Critical accounting estimates and judgments in applying accounting policies 52
4 Changes to critical accounting estimates 53
5 Changes in accounting policies and presentation 53
6 Risk management and control framework 53
7 Interest Rate Benchmark Reform 53

Information on the income statement

8 Segment reporting 54
9 Net fee income 58
10 Result from trading activities and the fair value option 60
11 Net result from interest operations 60

Information on the statement of financial position

12 Fair value of financial instruments and trading inventories 61
13 Provisions 68
14 Shareholders' equity 69

Additional information

15 Significant shareholders 70
16 Related-party transactions 71
17 Off-balance 72
18 Post-balance sheet events 72

Leonteq AG

Interim consolidated income statement for the six months ended 30 June 2021

CHF thousand	Note	H1 2021	H1 2020
Fee income from securities trading and investment activities		174,041	215,983
Fee expense		(4,034)	(2,993)
Net fee income	9	**170,007**	**212,990**
Result from trading activities and the fair value option	10	**35,374**	**(107,101)**
Interest and discount income		1,421	4,436
Interest expense		(3,446)	(7,755)
Changes in value adjustments for default risks and losses from interest operations		(364)	(1,665)
Net result from interest operations	11	**(2,389)**	**(4,984)**
Other ordinary income		2,838	2,604
Total operating income		**205,830**	**103,509**
Personnel expenses		(74,968)	(63,370)
Other operating expenses		(25,621)	(23,001)
Depreciation of long-lived assets		(16,564)	(16,345)
Changes to provisions and other value adjustments, and losses	13	(8,112)	3,978
Total operating expenses		**(125,265)**	**(98,738)**
Result from operating activities		**80,565**	**4,771**
Taxes		(6,164)	705
Group net profit		**74,401**	**5,476**
of which allocated to shareholders of Leonteq AG		74,401	5,476
Share information			
Basic earnings per share (CHF)		4.04	0.29
Diluted earnings per share (CHF)		3.98	0.29

Interim consolidated statement of other comprehensive income for the six months ended 30 June 2021

CHF thousand	Note	H1 2021	H1 2020
Group net profit		**74,401**	**5,476**
Other comprehensive income/(loss) that will not be reclassified to the income statement			
Remeasurement of the defined benefit plan		2,268	2,806
Change in own credit spread		27,037	22,133
Income tax on items that will not be reclassified		(792)	(930)
Total other comprehensive income/(loss) that will not be reclassified to the income statement		**28,513**	**24,009**
Other comprehensive income/(loss) that will be reclassified to the income statement			
Net unrealised gains/(losses) on debt instruments measured at fair value through other comprehensive income		2,121	(23,614)
Expected credit loss changes on debt instruments measured at fair value through other comprehensive income		360	1,838
Currency translation adjustments		15,638	(8,775)
Income tax on items that may be reclassified		(194)	425
Total other comprehensive income/(loss) that may be reclassified to the income statement		**17,925**	**(30,126)**
Total other comprehensive income/(loss)		**46,438**	**(6,117)**
Total comprehensive income		**120,839**	**(641)**
of which allocated to shareholders of Leonteq AG		120,839	(641)

The notes on pages 52 to 72 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of financial position as of 30 June 2021

CHF thousand	Note	30.06.2021	31.12.2020
Assets			
Liquid assets		55,935	215,645
Amounts due from banks		687,288	597,174
Amounts due from securities financing transactions		2,949	4,188
Amounts due from customers		825,773	507,533
Trading financial assets		3,991,726	3,411,093
Trading inventories		304,774	155,217
Positive replacement values of derivative financial instruments		3,630,260	4,671,008
Other financial assets designated at fair value through profit or loss		520,565	936,932
Financial investments measured at fair value through other comprehensive income		2,177,184	1,763,296
Accrued income and prepaid expenses		22,305	19,818
Current tax assets		789	855
Deferred tax assets		2,337	7,736
Long-lived assets		108,327	117,671
Other assets		23,837	11,046
Total assets		**12,354,049**	**12,419,212**
Total subordinated claims		58,057	46,271
of which subject to mandatory conversion and/or debt waiver		—	—
Liabilities			
Amounts due to banks		277,348	380,636
Liabilities from securities financing transactions		935,662	1,146,648
Amounts due to customers		640,443	812,495
Trading financial liabilities		146,562	200,544
Negative replacement values of derivative financial instruments		3,561,458	4,058,933
Other financial liabilities designated at fair value through profit or loss		5,831,059	4,944,510
Accrued expenses and deferred income		153,436	142,557
Current tax liabilities		2,205	2,239
Deferred tax liabilities		168	—
Other liabilities		69,718	74,648
Expected credit loss provision		56	53
Provisions	13	14,530	8,437
Total liabilities		**11,632,645**	**11,771,700**
Equity			
Share capital	14	18,934	18,934
Share premium		276,992	283,888
Retained earnings[1]		480,691	441,714
Accumulated other comprehensive income/(loss)		(32,234)	(78,672)
Own shares	14	(22,979)	(18,352)
Total shareholders' equity		**721,404**	**647,512**
Total liabilities and equity		**12,354,049**	**12,419,212**
Total subordinated liabilities		—	—
of which subject to mandatory conversion and/or debt waiver		—	—

[1] Retained earnings comprise cumulated earnings, including Group net profit for the period ended 30 June 2021 and the year ended 31 December 2020, respectively.

The notes on pages 52 to 72 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of changes in equity as of 30 June 2021

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

CHF thousand	Note	Share capital	Share premium	Retained earnings
Balance as of 1 January 2021		**18,934**	**283,888**	**441,714**
Employee participation schemes		—	—	(1,379)
Net disposal/(purchase) of own shares		—	—	(112)
Dividends and other distributions		—	(6,896)	(6,896)
Other allocations to/(transfers from) other comprehensive income[1]		—	—	(27,037)
Group net profit		—	—	74,401
Balance as of 30 June 2021		**18,934**	**276,992**	**480,691**

[1] 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.

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

OCI					Own shares	Total shareholders' equity
Defined benefit plans	Change in own credit	Unrealised income related to debt instruments at fair value through OCI	Changes in expected credit loss on debt instruments at fair value through OCI	Currency translation adjustments		
(4,995)	**(35,046)**	**1,138**	**2,164**	**(41,933)**	**(18,352)**	**647,512**
—	—	—	—	—	—	(1,379)
—	—	—	—	—	(4,627)	(4,739)
—	—	—	—	—	—	(13,792)
1,821	26,692	1,927	360	15,638	—	19,401
—	—	—	—	—	—	74,401
(3,174)	**(8,354)**	**3,065**	**2,524**	**(26,295)**	**(22,979)**	**721,404**

The notes on pages 52 to 72 are an integral part of these interim consolidated financial statements.

Leonteq AG

Interim consolidated statement of cash flows for the six months ended 30 June 2021

CHF thousand	Note	H1 2021	H1 2020
Cash flow from operating activities			
Group net profit		74,401	5,476
Reconciliation to net cash flows from operating activities			
Non-cash positions in Group net profit			
Depreciation		16,564	16,345
Deferred tax expense/(benefit)		5,567	(1,472)
Change in expected credit loss provision		364	1,665
Change in general provision	13	8,112	(3,978)
Share-based benefit programmes		4,058	3,021
Other non-cash income and expenses		24,631	(962)
Net (increase)/decrease in assets related to operating activities			
Amounts due from banks		(48,618)	(512,086)
Amounts due from securities financing transactions		1,239	22,721
Amounts due from customers		(328,432)	(34,425)
Trading financial assets		(644,892)	(156,854)
Trading inventories		(149,557)	(4,170)
Positive replacement values of derivative financial instruments		1,040,748	(3,261,277)
Other financial assets designated at fair value through profit or loss		416,367	411,223
Net (investment)/disposal of financial investments measured at fair value through other comprehensive income		(413,888)	(520,153)
Accrued income and prepaid expenses		(2,487)	2,788
Other assets		(12,792)	1,946
Net increase/(decrease) in liabilities related to operating activities			
Amounts due to banks		(148,066)	587,419
Liabilities from securities financing transactions		(210,986)	553,486
Amounts due to customers		(177,068)	1,020,015
Trading financial liabilities		(53,982)	(189,250)
Negative replacement values of derivative financial instruments		(497,475)	2,400,180
Other financial liabilities designated at fair value through profit or loss		886,549	4,537
Accrued expenses and deferred income		10,879	(43,905)
Other liabilities		(514)	9,341
Utilisation of general provision		(2,065)	(2,664)
Dividends received		64,259	44,368
Interest received		1,421	4,727
Interest paid		(1,716)	(7,035)
Current taxes, non-cash adjustment		1,724	1,378
Current taxes paid		(1,692)	(1,104)
Cash flow from operating activities		**(137,347)**	**351,301**

CHF thousand	Note	H1 2021	H1 2020
Cash flow from investing activities			
Purchases of long-lived assets		(12,937)	(11,205)
Proceeds from long-lived assets		6	—
Cash flow from investing activities		**(12,931)**	**(11,205)**
Cash flow from financing activities			
Lease payments (excl. short term/low-value leases)		(4,416)	(10,712)
Distribution of capital contribution reserves		(6,896)	(4,644)
Dividend distribution		(6,896)	(4,644)
Purchases of own shares		(10,064)	(7,688)
Cash flow from financing activities		**(28,272)**	**(27,688)**
Exchange rate differences		55	(35)
Net (decrease)/increase in cash and cash equivalents		**(178,495)**	**312,373**
Cash and cash equivalents, beginning of the year		582,464	328,375
Cash and cash equivalents at the balance sheet date		**403,969**	**640,748**
Cash and cash equivalents			
Liquid assets		55,935	240,556
Due from banks on demand[1]		316,831	335,402
Due to banks on demand[1]		(69,263)	(57,014)
Net cash balances with financial market infrastructure entities[2]		100,466	121,804
Net cash and cash equivalents at the balance sheet date		**403,969**	**640,748**

[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".

Cash and cash equivalents include liquid assets, amounts due from/to banks on demand and cash balances with financial market infrastructure entities.

The notes on pages 52 to 72 are an integral part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 General information

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

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

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

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

These interim consolidated financial statements were approved for publication by the Board of Directors on 20 July 2021.

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

2 Basis of presentation

The Group prepares its interim consolidated financial statements in accordance with IAS 34 "Interim financial reporting". These interim consolidated financial statements for the six months ended 30 June 2021 should be read in conjunction with the consolidated financial statements for the year ended 31 December 2020, 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 2020. The interim consolidated financial statements are unaudited.

3 Critical accounting estimates and judgments in applying accounting policies

The preparation of interim consolidated financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Such 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 2020, 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 2020.

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 2021 and were applied by the Group for the first time in the financial year 2021:

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs that address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- Require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no significant impact on the interim consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

6 Risk management and control framework

In compliance with regulatory requirements in Switzerland and other applicable jurisdictions, the Group has established a comprehensive risk management and control framework covering market, credit, operational and liquidity risks. Disclosures provided in the "Risk and Control" section of this report (pages 23 to 43) that are marked as reviewed form an integral part of the interim consolidated financial statements.

7 Interest rate benchmark reform

The reform and replacement of benchmark interest rates has become a priority for global regulators since the financial crisis. This includes the replacement of some interbank offered rates (IBORs) with alternative reference rates (ARRs). In March 2021, the Financial Conduct Authority (FCA) announced that the publication of London Interbank Offered Rates (LIBORs) will cease for all non-US dollar LIBORs, as well as for one-week and two-month USD LIBOR tenors, after 31 December 2021. Publication of the remaining USD LIBOR tenors will cease immediately after 30 June 2023.

The transition to ARRs has started and includes several active steps that will also benefit from the support of associated regulatory activities. However, there is still some uncertainty surrounding the transition with regard to major interest rate benchmarks.

The Group has a significant exposure to LIBOR, predominantly in financial instruments such as derivatives and structured products. Most of the Group's LIBOR exposure is to the CHF LIBOR, EUR LIBOR and USD LIBOR.

The Group's transitioning approach for existing contracts is to reach bilateral and multilateral agreements, leveraging industry solutions (e.g. the use of fallback provisions), as well as third-party actions (clearing houses, agents, etc.). For derivatives transacted with clearing houses, the Group is dependent upon industry-wide compression activities to reduce exposures and clearing house actions to convert any remaining derivatives closer to the cessation dates. For derivatives not transacted with clearing houses, the Group adhered to the International Swaps and Derivatives Associations (ISDA) IBOR Fallbacks Protocol on 18 November 2020. As part of the preparations for the transition away from LIBOR in the area of structured products, new fallback provisions have been specified under the latest terms of the base prospectus for an issuance and offering programme.

In 2020, the Group started its LIBOR transition programme, which is sponsored and supervised by the Chief Financial Officer. The Group established an organisation-wide working group that continuously assesses and coordinates the actions needed to manage the requisite changes to internal processes and systems, including pricing, risk management, agreements, as well as the impact on partners and other counterparties. The management team is continuously updated on the progress of the project.

As part of the LIBOR transition programme, the Group performed a comprehensive risk assessment and identified inherent risks associated with the IBOR transition. Identified risks include, but are not limited to:

- Operational risks arising from changes to key processes and systems impacted by the LIBOR reform;
- Valuation risks arising from the difference between benchmarks that will cease and ARRs, affecting the risk profile of financial instruments;
- Accounting, tax and financial reporting risks, where the transition impacts on the accounting and tax treatment and requires disclosure;
- Legal and conduct risks relating to the Group's engagement with counterparties around new benchmark products and amendments required for existing contracts referencing benchmarks that will cease.

The Group is continuing to mitigate these risks with the implementation of changes to processes and systems, the monitoring of current developments, and its engagement with regulators, standard setters and industry groups in relation to LIBOR cessation.

8 Segment reporting

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

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

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

Investment Solutions

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

Insurance & Wealth Planning Solutions

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

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

Corporate Centre

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

CHF thousand	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total H1 2021
Net fee income	164,327	5,680	—	170,007
Net trading income/(loss)	32,491	2,883	—	35,374
Net interest income/(expense)	(2,536)	185	(38)	(2,389)
Other ordinary income	180	—	2,658	2,838
Total operating income	**194,462**	**8,748**	**2,620**	**205,830**
Personnel expenses	(62,334)	(5,408)	(7,226)	(74,968)
Other operating expenses	(19,579)	(1,197)	(4,845)	(25,621)
Depreciation of long-lived assets	(12,416)	(1,987)	(2,161)	(16,564)
Changes to provisions and other value adjustments, and losses	—	—	(8,112)	(8,112)
Total operating expenses	**(94,329)**	**(8,592)**	**(22,344)**	**(125,265)**
Result from operating activities	**100,133**	**156**	**(19,724)**	**80,565**

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

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

Total operating income in the Investment Solutions business line increased by CHF 117.7 million year on year to reach CHF 194.4 million in the first half of 2021, reflecting strong net fee income of CHF 164.3 million as well as a substantial positive net trading result.

The Investment Solutions business line registered high levels of client activity in a favourable market environment in the first half of 2021 and saw strong client demand across its entire range of services and products. As a result, the business line generated net fee income of CHF 164.3 million in the first half of 2021, compared to exceptionally strong income of CHF 198.7 million in the prior-year period, which was primarily driven by Covid-19 related market developments. Positive contributions from the business lines' hedging and investment portfolio activities resulted in net trading income of CHF 32.5 million in the first half of 2021, compared to a net trading loss of CHF -117.3 million in the prior-year period, which was primarily affected by a significant increase in hedging-related costs and one-off hedging-related losses. The net interest result in Investment Solutions improved from CHF -5.2 million in the first half of 2020 to CHF -2.5 million in the first half of 2021, mainly reflecting lower credit facility expenses.

Total operating expenses in Investment Solutions increased to CHF 94.3 million in the first half of 2021 compared to CHF 82.3 million in the prior-year period as a result of higher personnel expenses. This is due to higher variable compensation related to the business lines' growth in total operating income as well as the significant improvement in results from operating activities to CHF 100.1 million.

In the Insurance & Wealth Planning Solutions business line, total operating income decreased to CHF 8.8 million in the first half of 2021 from CHF 24.7 million in the same period in 2020, primarily reflecting the continued challenging long-term interest rate environment and pandemic-related effects. Together with stable total operating expenses of CHF 8.6 million, the Insurance & Wealth Planning Solutions business line saw a decrease in results from operating activities of CHF 16.0 million to CHF 0.2 million in the first half of 2021.

The Corporate Centre's result from operating activities amounted to CHF -19.7 million in the first half of 2021, compared to CHF -5.9 million in the prior-year period, which is driven by an increase in variable compensation, higher project related costs and increased investments as well as additional provisions for legal cases.

Information by geographic location

CHF thousand	Switzerland	Europe (excl. Switzerland)	Middle East / Asia	Total H1 2021
Net fee income	60,026	85,749	24,232	170,007
Net trading income/(loss)	15,157	15,527	4,690	35,374
Net interest income/(expense)	(1,072)	(1,027)	(290)	(2,389)
Other ordinary income	1,699	15	1,124	2,838
Total operating income	**75,810**	**100,264**	**29,756**	**205,830**

CHF thousand	Switzerland	Europe (excl. Switzerland)	Middle East / Asia	Total 30.06.2021
Accrued income and prepaid expenses	8,834	12,931	540	22,305
Current tax assets	573	216	—	789
Deferred tax assets	1,962	129	246	2,337
Long-lived assets	99,340	3,782	5,205	108,327
Other assets	22,134	1,534	169	23,837

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

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2020
Accrued income and prepaid expenses	4,895	14,535	388	19,818
Current tax assets	574	208	73	855
Deferred tax assets	7,245	131	360	7,736
Long-lived assets	104,065	4,194	9,412	117,671
Other assets	9,703	1,230	113	11,046

The Group has offices in various international locations to diversify its revenue generation. The Group distributes its own and issuance partners' structured investment products, either through its own sales distribution and coverage desks or through the distribution channels of its issuance partners. The distribution network is empowered by the related group companies outside of Switzerland. The geographical allocation of the Group's net fee income is undertaken based on the location of the distributing group entity, servicing primarily banks, insurance companies and asset managers/financial intermediaries. The net trading income from Investment Solutions is allocated across the regions whereas the net trading income from Insurance & Wealth Planning Solutions is recognised in Switzerland.

Switzerland consists of the headquarters in Zurich and of its office in Geneva. Europe subsumes the Group's operations in its offices located in Amsterdam, Frankfurt, Guernsey, London, Milan, Monaco and Paris. Asia (incl. Middle East) represents the locations Dubai (which commenced operations in January 2021), Hong Kong, Singapore and Tokyo.

In the first half of 2021 and 2020, around 20% and 27%, respectively, of the group's total operating income have been generated by the office in Monaco.

9 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 products issued.

In the Investment Solutions division, 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 9 months (31 December 2020: 9 months). Material and customised contracts are accounted for to best reflect the actual patterns of the individual agreements.

In the Insurance & Wealth Planning Solutions division, 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 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. Consequently, the incremental costs of obtaining a contract are not recognised as an asset. Since Leonteq does not sell its products to the end-investor but acts through distribution partners, Leonteq discloses its fee income net of directly attributable costs that were agreed upfront.

CHF thousand	H1 2021	H1 2020
Fee income of Investment Solutions	168,361	201,693
of which recognised at a point in time	150,188	166,259
of which recognised over time	18,173	35,434
Fee income of Insurance & Wealth Planning Solutions	5,680	14,290
of which recognised at a point in time	648	979
of which recognised over time	5,032	13,311
Total fee income from securities trading and investment activities	**174,041**	**215,983**
Fee expense	(4,034)	(2,993)
Total fee expense	**(4,034)**	**(2,993)**
Net fee income	**170,007**	**212,990**

Leonteq registered high levels of client activity in a favourable market environment and generated net fee income of CHF 170.0 million in the first half of 2021, compared to the exceptionally high CHF 213.0 million in the prior year period which was primarily driven by the extraordinary market situation around the Covid-19 outbreak. It also recorded a notable increase in large ticket transactions in the period under review, which accounted for 10%, or CHF 16.9 million, of net fee income in the first half of 2021, compared to 7%, or CHF 14.6 million, in the first half of 2020.

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

CHF thousand	30.06.2021	31.12.2020
Balance of deferred fees as of 1 January	**75,106**	**106,899**
Recognition of deferred fees in the income statement	(23,204)	(79,453)
Deferral of fees collected	26,929	47,660
Balance of deferred fees at the balance sheet date	**78,831**	**75,106**
of which recognised within the next 12 months	23,447	17,362
of which recognised after 12 months	55,384	57,744

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.

In the Investment Solutions division, performance obligations that are not satisfied upon issuance of the product are deemed to be satisfied over the average effective lifetime of issued products, which is estimated to be 9 months as of 30 June 2021. Consequently, an amount of CHF 23.4 million is expected to be recognised as fee income over a period of 12 months. Due to the long-term nature of the pension business, performance obligations in the Insurance & Wealth Planning Solutions division are satisfied over a period of up to 48 years (31 December 2020: 48 years). CHF 14.4 million are expected to be recognised as fee income between 2 and 5 years, CHF 28.4 million between 6 and 20 years and CHF 12.6 million after 20 years.

10 Result from trading activities and the fair value option

CHF thousand	H1 2021	H1 2020
Result from trading activities and the fair value option	35,374	(107,101)

The favourable market environment and Leonteq's continued focus on disciplined risk management resulted in positive hedging contributions of CHF 21.2 million in the first half of 2021, compared to CHF -99.4 million in the prior-year period which was primarily affected by a significant increase in hedging-related costs and one-off hedging-related losses of CHF 58 million. The market environment and a stringent investment policy also benefitted Leonteq's AA-rated investment portfolio, resulting in a positive contribution from treasury activities of CHF 14.2 million in the first half of 2021, compared to CHF -7.7 million in the prior-year period. As a result, Leonteq's net trading income amounted to CHF 35.4 million in the first half of 2021, compared to a net trading loss of CHF -107.1 million in the prior-year period.

11 Net result from interest operations

CHF thousand	H1 2021	H1 2020
Interest income from assets at fair value	1,421	4,436
Total interest and discount income	**1,421**	**4,436**
Interest expense from financial liabilities at fair value	(3,446)	(7,755)
Total interest expense	**(3,446)**	**(7,755)**
Gross result from interest operations	**(2,025)**	**(3,319)**
Changes in value adjustments for default risks and losses from interest operations	(364)	(1,665)
Net result from interest operations	**(2,389)**	**(4,984)**

The reduction in interest income and expense is primarily due to the prolonged environment of low interest rates and the decline in US dollar interest rates throughout the first half of 2021.

The changes in value adjustments for default risks and losses from interest operations includes the CHF 0.4 million increase in the expected credit loss allowance from CHF 2.2 million as of 31 December 2020 to CHF 2.6 million as of 30 June 2021.

12 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 deviation between fair value and book value

Measurement methodologies

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

All models are validated before they are used as a basis for financial reporting, and they are periodically reviewed thereafter by qualified 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 ending 30 June 2021.

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 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 used valuation models, the daily analysis of profit and loss, and regular independent price verification, including the review of used input parameters. The controls are performed by risk control specialists who possess the relevant knowledge and operate independently from trading and treasury functions

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 in the same period as the sales fee income is deemed earned.

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. No own credit spread adjustment was required for the period ending 30 June 2021.

Day 1 result

According to IFRS 13, the transaction price represents the best indication of the fair value of a financial instrument unless the fair value of the instrument can be better determined by comparing it with other observable current market transaction involving the same instrument (level 1 instrument) or is based on a valuation method 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 deferred day-1 result.

CHF thousand	Level 1	Level 2	Level 3	Total 30.06.2021
Financial assets				
Trading financial assets				
Debt securities (listed)	180,446	30,481	—	210,927
Equity securities	2,797,709	3,505	—	2,801,214
Funds	964,222	10,112	—	974,334
Other securities	—	5,251	—	5,251
of which hybrid financial instruments	—	5,251	—	5,251
Total trading financial assets	3,942,377	49,349	—	3,991,726
Positive replacement values of derivative instruments	2,716,298	913,962	—	3,630,260
Other financial assets designated at fair value through profit or loss	274,443	246,122	—	520,565
Financial investments measured at fair value through other comprehensive income	2,158,341	18,843	—	2,177,184
Total financial assets	**9,091,459**	**1,228,276**	**—**	**10,319,735**
Trading inventories	304,774	—	—	304,774
Total trading inventories	**304,774**	**—**	**—**	**304,774**
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	1,230	—	—	1,230
Equity securities	141,458	—	—	141,458
Funds	3,874	—	—	3,874
Other securities	—	—	—	—
of which hybrid financial instruments	—	—	—	—
Total trading financial liabilities	146,562	—	—	146,562
Negative replacement values of derivative instruments	2,370,370	1,175,902	15,186	3,561,458
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	323,248	—	323,248
Equities	—	5,144,521	—	5,144,521
Foreign currency	—	2,991	—	2,991
Commodities (incl. precious metals)	—	360,299	—	360,299
Total other financial liabilities designated at fair value through profit or loss	—	5,831,059	—	5,831,059
Total financial liabilities	**2,516,932**	**7,006,961**	**15,186**	**9,539,079**

In the first six months of 2021, there were no significant reclassifications of positions between level 1 and level 2 and vice versa.

CHF thousand	Level 1	Level 2	Level 3	Total 31.12.2020
Financial assets				
Trading financial assets				
Debt securities (listed)	98,036	82,290	—	180,326
Equity securities	2,646,598	4,389	—	2,650,987
Funds	273,473	299,490	—	572,963
Other securities	—	6,817	—	6,817
of which hybrid financial instruments	—	6,817	—	6,817
Total trading financial assets	3,018,106	392,987	—	3,411,093
Positive replacement values of derivative instruments	3,170,563	1,500,445	—	4,671,008
Other financial assets designated at fair value through profit or loss	680,464	256,468	—	936,932
Financial investments measured at fair value through other comprehensive income	1,763,296	—	—	1,763,296
Total financial assets	**8,632,429**	**2,149,900**	**—**	**10,782,329**
Trading inventories	155,217	—	—	155,217
Total trading inventories	**155,217**	**—**	**—**	**155,217**
Financial liabilities				
Trading financial liabilities				
Debt securities (listed)	—	1,296	—	1,296
Equity securities	192,582	2,233	—	194,814
Funds	4,433	—	—	4,433
Other securities	—	—	—	—
of which hybrid financial instruments	—		—	—
Total trading financial liabilities	197,015	3,529	—	200,544
Negative replacement values of derivative instruments	2,690,400	1,347,449	21,084	4,058,933
Other financial liabilities designated at fair value through profit or loss				
Interest rate instruments	—	351,897	—	351,897
Equities	—	4,418,303	—	4,418,303
Foreign currency	—	7,332	—	7,332
Commodities (incl. precious metals)	—	166,978	—	166,978
Total other financial liabilities designated at fair value through profit or loss	—	4,944,510	—	4,944,510
Total financial liabilities	**2,887,415**	**6,295,488**	**21,084**	**9,203,987**

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

Level 3 financial instruments

CHF thousand	30.06.2021	31.12.2020
Statement of financial position		
Balance at the beginning of the year	21,084	21,105
Additions	2,320	2,617
Disposals	(212)	(2,199)
Result recognised in the income statement	(6,415)	2,648
Result recognised in the statement of other comprehensive income	—	—
Reclassifications to level 3	—	—
Reclassifications from level 3	(1,591)	(3,087)
Translation differences	—	—
Total balance at the end of the period	**15,186**	**21,084**
Income in the period on holdings at balance sheet date		
Unrealised income/(loss) recognised in the trading income	6,203	(448)
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 1.6 million of level 3 financial instruments were reclassified to level 2 (2020: CHF 3.1 million). No level 2 financial instruments were reclassified to level 3 for the six months ended 30 June 2021 or for the 12 months ended 31 December 2020, respectively. The result recognised in the income statement relates to trading (gains)/losses in connection with the increase in long-term interest rates in 2021.

No day-1 gains or losses were recognised as a result of transactions involving level 3 instruments during the year. In 2021, an unrealised gain of CHF 6.2 million (2020: loss of CHF 0.4 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 2021 totalled CHF 15.2 million (31 December 2020: CHF 21.1 million). The decrease is mainly driven by higher 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	30.06.2021	31.12.2020	Valuation technique	Significant unobservable input	Range of unobservable inputs 30.06.2021 low	high	31.12.2020 low	high	Unit
Negative replacement values of derivative financial instruments	**15,186**	21,084	Generic replication model[1]	Volatility of interest rates	**47**	**52**	50	53	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

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

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

CHF thousand	30.06.2021	31.12.2020
Impact of shifts of unobservable input parameters on fair values		
Increase of volatility of interest rates (+5 bps)	22	198
Decrease of volatility of interest rates (-5 bps)	(22)	(198)

Financial assets and liabilities at amortised costs

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

13 Provisions

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

CHF thousand			30.06.2021	31.12.2020
	Reinstatement cost provisions	Other provisions	Total provisions	Total provisions
Balance at the beginning of the period	3,659	4,778	8,437	16,462
Utilisation in compliance with designated purpose	(172)	(1,893)	(2,065)	(5,526)
Increase in provisions recognised in the income statement	23	8,465	8,488	3,535
Release of provisions recognised in the income statement	(376)	—	(376)	(5,986)
Translation differences	15	31	46	(48)
Balance at the end of the period	**3,149**	**11,381**	**14,530**	**8,437**
of which short-term provisions	—	4,943	4,943	7,750
of which long-term provisions	3,149	6,438	9,587	687

Other provisions

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

In March 2018, Quilter International Isle of Man Limited and Quilter International Ireland dac (previously known as "Old Mutual International Isle of Man Limited" and "Old Mutual International Ireland DAC", respectively, and collectively referred to as "Quilter") initiated proceedings before the High Court of Justice of the Isle of Man against Leonteq Securities AG and other (non-Leonteq Group) parties in relation to structured products transactions and related fees and commissions. On 4 December 2018, Leonteq Securities (Europe) GmbH was added as a defendant to the same proceedings. On 27 February 2020, the High Court of Justice of the Isle of Man issued a judgment in which it found it had no jurisdiction in respect of the proceedings insofar as they were brought against Leonteq Securities AG and Leonteq Securities (Europe) GmbH. Quilter's appeal against this judgment was dismissed by the Staff of Government Division of the Isle of Man Court on 19 June 2020. On 12 May 2020, Quilter initiated proceedings against Leonteq Securities AG and Leonteq Securities (Europe) GmbH (and the same other non-Leonteq Group parties as against which it had brought proceedings in the Isle of Man) before the High Court in England, raising materially similar allegations to those raised in the Isle of Man proceedings, in relation to approximately 1,400 structured products that Quilter alleges it purchased between approximately 2012 and 2016. Quilter's allegations relate to a number of causes of action and Quilter alleges that it has suffered extensive losses and damages, as well as being entitled to further remedies. In particular, Quilter alleges in its particulars of claim, dated 6 November 2020, that as of 30 September 2020, the net difference between the sums invested and the redemption value of those investments which have reached their redemption date and / or been fully sold and have made a loss was approximately GBP 28 million, and it is claiming this sum, together with further unspecified (and potentially significant) amounts, as part of the remedies sought in the proceedings. Leonteq Securities AG and Leonteq Securities (Europe) GmbH filed and served their formal defence on 15 February 2021. Quilter filed and served their formal reply on 25 June 2021. The development and outcome of litigation is difficult to predict and the sums claimed may increase, potentially by a significant amount.

14 Shareholders' equity

Share capital

	30.06.2021 Total par value (CHF)	Number of shares	Capital eligible for dividends	31.12.2020 Total par value (CHF)	Number of shares	Capital eligible for dividends
Share capital fully paid in	18,934,097	18,934,097	18,934,097	18,934,097	18,934,097	18,934,097
Authorised capital	4,000,000	4,000,000	N/A	4,000,000	4,000,000	N/A
of which capital increase completed	—	—	N/A	—	—	N/A
Conditional share capital	1,000,000	1,000,000	N/A	1,000,000	1,000,000	N/A
of which capital increase completed	—	—	N/A	—	—	N/A

Authorised capital

On 31 March 2021, the Annual General Meeting approved the authorisation to increase share capital by up to a maximum amount of CHF 4,000,000 by 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 to hedge its employee share-based benefit/RSU programmes.

	30.06.2021 Number of shares	Total purchase value (CHF thousand)	Average price CHF	31.12.2020 Number of shares	Total purchase value (CHF thousand)	Average Price CHF
Balance at the beginning of the period	450,254	18,352	41	311,951	13,309	43
Purchases	221,362	10,085	46	273,057	10,767	39
Disposals	(125,105)	(5,458)	44	(134,754)	(5,724)	42
Balance at the end of the period	**546,511**	**22,979**	**42**	**450,254**	**18,352**	**41**

Profit and capital distribution

On 31 March 2021, the Annual General Meeting of Leonteq AG approved the proposal of the Board of Directors to distribute a total of CHF 14.2 million (CHF 0.75 per share) in equal amounts out of retained earnings (dividend) and reserves from capital contributions for the financial year 2020. On 8 April 2021, a distribution of CHF 0.75 per share consisting of a dividend of CHF 0.375 (gross) and a distribution from the reserves from capital contributions of CHF 0.375 was paid.

15 Significant shareholders

	30.06.2021 Number of shares held	Voting rights in %	31.12.2020 Number of shares held	Voting rights in %
Raiffeisen Switzerland Cooperative	5,494,996	29.02%	5,494,996	29.02%
Lukas T. Ruflin[1]	1,548,580	8.18%	1,546,168	8.17%
Sandro Dorigo	528,533	2.79%	528,533	2.79%
Subtotal shareholders' agreement	**7,572,109**	**39.99%**	**7,569,697**	**39.98%**
Rainer-Marc Frey[2]	1,900,000	10.03%	1,920,929	10.15%
Credit Suisse Funds AG[3]	936,167	4.94%	936,167	4.94%
Swisscanto Fondsleitung AG[4]	573,783	3.03%	573,783	3.03%
Directors and executives[5]	144,408	0.76%	164,355	0.87%
Total significant shareholders	**11,126,467**	**58.75%**	**11,164,931**	**58.97%**

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

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

3 Creation of obligation to notify: 19 August 2020.

4 Creation of obligation to notify: 3 June 2020.

5 Excluding shareholdings of Lukas T. Ruflin.

16 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 30.06.2021	Amounts due from 31.12.2020	Amounts due to 30.06.2021	Amounts due to 31.12.2020	Income from H1 2021	Income from H1 2020	Expense to H1 2021	Expense to H1 2020
Significant shareholders								
Raiffeisen Switzerland Cooperative								
Amounts due from banks	49,592	27,960	—	—	—	—	—	—
Positive replacement values of derivative instruments	52,680	107,599	—	—	—	—	—	—
Amounts due to banks	—	—	7,156	66,083	—	—	—	—
of which credit facility	—	—	—	—	—	—	—	—
Negative replacement values of derivative instruments	—	—	86,533	59,257	—	—	—	—
Accrued expenses and deferred income	472	136	—	—	—	—	—	—
Platform partner service fee income	—	—	—	—	2,010	4,434	—	—
Other fee expense	—	—	—	—	—	—	434	24
Interest income	—	—	—	—	140	677	—	—
Interest expense	—	—	—	—	—	—	477	2,887
Affiliated companies								
Raiffeisen Switzerland B.V. Amsterdam								
Amounts due from customers	86,345	37,805	—	—	—	—	—	—
Positive replacement values of derivative instruments	63,025	148,127	—	—	—	—	—	—
Accrued expenses and deferred income	301	—	—	—	—	—	—	—
Accrued income and prepaid expenses	—	—		54	—	—	—	—
Amounts due to customers	—	—	83,507	93,860	—	—	—	—
Negative replacement values of derivative instruments	—	—	131,377	108,952	—	—	—	—
Platform partner service fee income	—	—	—	—	9,143	20,380	—	—
Other fee expense	—	—	—	—	—	—	—	16
Interest income	—	—	—	—	160	613	—	—
Interest expense	—	—	—	—	—	—	2	79

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

Simultaneously, the Group entered into a credit facility framework agreement with Raiffeisen (the "Raiffeisen Facility"). The Raiffeisen Facility is valid from 1 April 2018 and ends automatically and without notice on 31 March 2022, if not renewed for another four years by the parties. As of 30 June 2021, the Raiffeisen Facility has a maximum limit of CHF 150.0 million (unsecured) (31 December 2020: CHF 300.0 million). Business activities with related parties are subject to standard market rates.

17 Off-balance

CHF thousand	30.06.2021	31.12.2020
Off-balance sheet transactions		
Contingent liabilities	27,745	36,496
Irrevocable commitments	34	26

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

Irrevocable commitments relate to Swiss Deposit Insurance.

On 10 August 2015, Leonteq AG signed a deed of guarantee with Teighmore Ltd. relating to the lease of the former office premises of the London branch of Leonteq Securities (Europe) GmbH. In October 2017, the lease was assigned to a third party. In connection with the transfer, it was agreed that this deed of guarantee will remain with Leonteq AG. As of 30 June 2021, the total commitment relating to future rental payments under the original lease contract was GBP 6.2 million (CHF 7.9 million) (2020: GBP 6.9 million or CHF 8.3 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 2021, the total commitment relating to future rental payments under this lease was JPY 58.4 million (CHF 0.5 million) (2020: JPY 73.3 million or CHF 0.6 million, respectively), excluding taxes. Leonteq Securities (Japan) Ltd. did not make use of the early termination rights and therefore the provided guarantee is extended until 31 January 2023.

18 Post-balance sheet events

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

Report on the Review

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

Zurich

Introduction

We have reviewed the interim consolidated financial statements (interim consolidated income statement, interim consolidated statement of other comprehensive income, interim consolidated statement of financial position, interim consolidated statement of changes in equity, interim consolidated statement of cash flows and notes) (pages 44 to 72 and the reviewed sections of the risk and control report on pages 22 to 43) of Leonteq AG for the period ended 30 June 2021. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers AG

Andrin Bernet

Dominik Töngi

Zurich, 21 July 2021

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In addition, currently, it is very difficult to provide a meaningful prediction on how the governmental actions in response to the ongoing outbreak of a novel coronavirus disease (COVID-19) and other COVID-19 related factors will affect Leonteq's operations and how long such measures will remain in place. The COVID-19 outbreak has caused, and may continue to cause, uncertainty, economic instability and a significant decrease of total economic output in the affected areas and globally. The impact of the COVID-19 outbreak on the general economic environment in the markets in which Leonteq operates remain uncertain and could be significant. Against the background of these uncertainties, you should not rely on forward-looking statements.

Neither the Company nor any of its affiliates or subsidiaries or their respective bodies, executives, employees and advisers assume any responsibility to prepare or disseminate any supplement, amendment, update or revision to any of the information, opinions or forward-looking statements contained in this half-year report or to adapt them to any change in events, conditions or circumstances, except as required by applicable law or regulation.

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