LEONTEQ

ANNUAL REPORT

2020

LEONTEQ SECURITIES AG

RISK & CONTROL

AUDITED INFORMATION ACCORDING TO IFRS 7 AND IAS 1

Risk and control disclosures provided in line with the requirements of International Financial Reporting Standard 7 (IFRS 7), Financial Instruments: Disclosures, and International Accounting Standard 1 (IAS 1), Presentation of Financial Statements, form part of the financial statements included in the ”Consolidated financial statements” section of this report and audited by the independent registered public accounting firm PricewaterhouseCoopers AG, Zurich. This information is marked as “Audited” within this section of the report.

Signposts

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

RISK MANAGEMENT AND CONTROL FRAMEWORK

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.

RISK MANAGEMENT AND CONTROL ENSURE THAT **ACTIVITIES 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.

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

CATEGORY

Risk tolerance objectives defined by the Board of Directors

- Capital
- Volatility of profit and losses
- Liquidity
- Operational excellence
- Non-financial
- Target rating

RISK CAPACITY & EXPOSURE

Risk exposure

- Market risk
- Credit risk
- Liquidity risk
- Country risk
- Operational risk
- Other risks (structural FX risk, pension risk)

Risk capacity

- Profits
- Capital

IMPLEMENTATION

- Corporate, finance & risk processes
- Risk framework

KEY PROCESSES & TOOLS

- Business model / strategy
- Budget process / strategic business plan
- Cost management / financial reporting & monitoring
- Risk and stress testing framework
- Risk limit framework
- Capital planning / capital management
- Profit & loss reporting and analysis / valuation framework / model validation
- Liquidity planning, monitoring & management framework
- Operational risk framework
- Internal control system / ISAE 3402
- Sanction policy and policy framework
- Incentive system & internal management communication
- External rating by a major rating agency

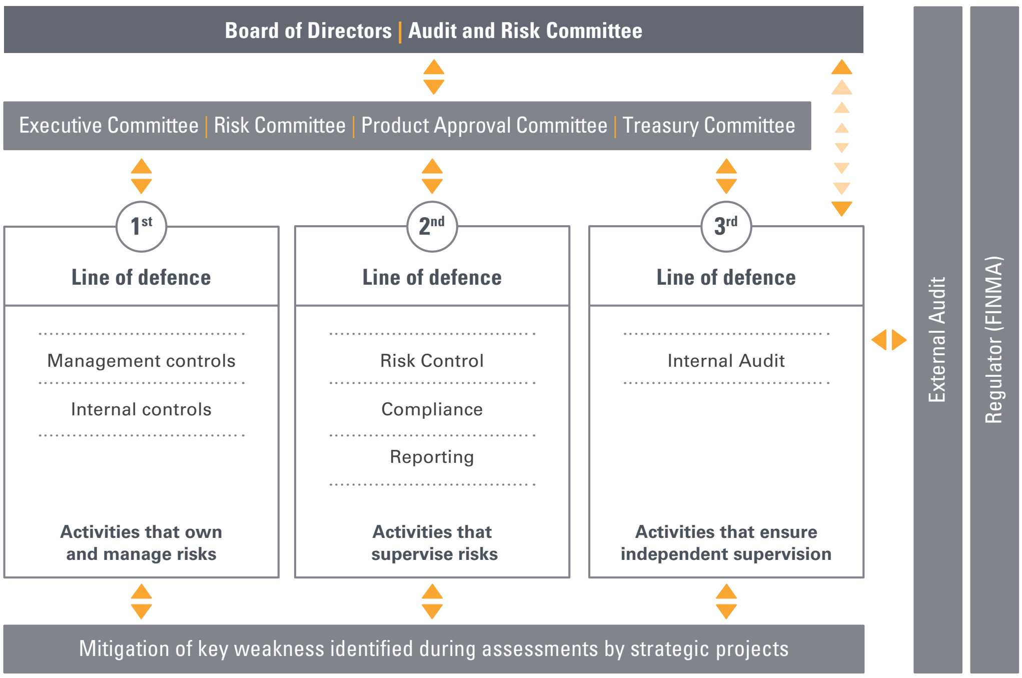
Risk governance

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 of the first line of defence. The second line of defence prepares the policies, frameworks, tools and techniques to be implemented in the first line, conducts monitoring to judge how effectively this is being done, and helps to ensure consistency in the definition and measurement of risk. The third line of defence comprises the Internal Audit function, which reports independently to the Board of Directors and is not part of the risk management processes. Internal Audit provides an evaluation, using a risk-based approach, of the effectiveness of governance, risk management, and internal control and submits it to the company's Board of Directors and Executive Committee.

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



Audited | The Board of Directors is responsible for defining an appropriate framework for the measurement, limitation, management and supervision of all risks to which the 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, large exposures), market, liquidity, reputational and operational risks. It also oversees general risks within the policy, framework, rules and limits set by the Board of Directors or by the Committee itself, as well as the internal control system and risk management process throughout the Group.

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

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

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

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

Risk limit framework

Audited | Risk appetite is defined as the overall level of risk that the 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 RISK LIMIT FRAMEWORK WAS STRENGTHENED THROUGH REFINEMENTS TO ITS LIMIT STRUCTURE

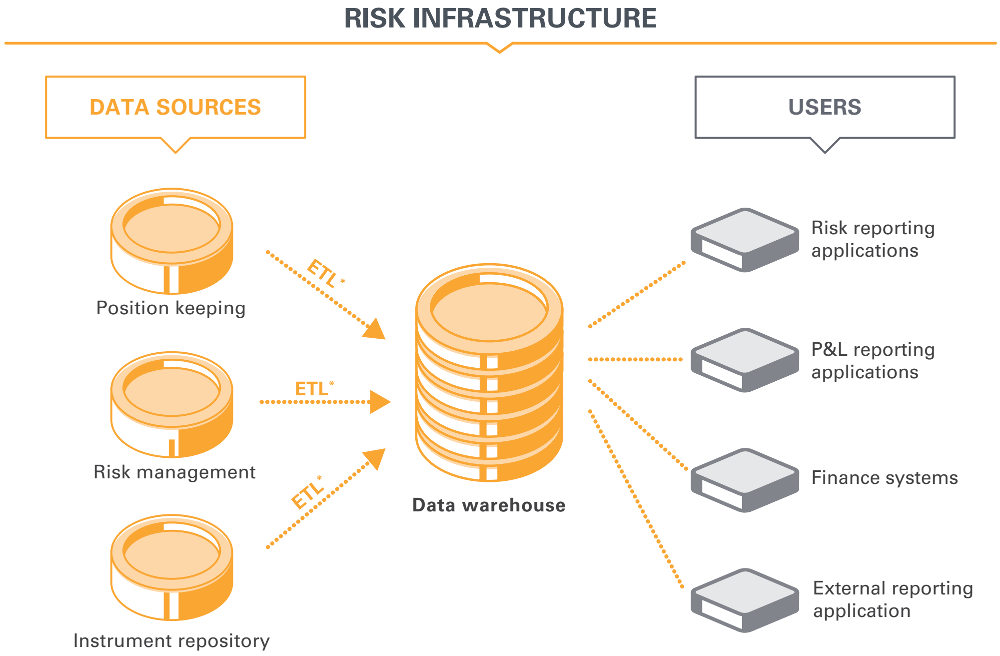
The limit framework has three different levels of limits:

- 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 the part of the limits defined by the Board of Directors and the Executive Committee that the Executive Committee decides to release in order to closely monitor and control trading activities.

Leonteq’s limit framework was strengthened during 2020 through refinements to its limit structure following its analysis of the market turbulence observed in the first half of 2020. The most important of these changes related to certain technical changes in calculation methodology and the introduction of more granular thresholds where appropriate. Leonteq's risk appetite has remained unchanged as a result of refinements to its limit structure.

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.



* Extract, Transform, Load

As of 31 December 2020, over 100 experienced IT professionals were responsible for maintaining and further developing the Group's systems. The same core information technology system is used across all asset classes, integrating important front-, mid- and back-office functions as well as risk management and risk control and quantitative modelling. Leonteq's structured investment service platform consists of its proprietary information technology systems and processes as well as standard hardware and software tools for non-differentiating and commoditised functions.

Sophis RISQUE is the Group's risk management, trading and position keeping system. Leonteq deploys Sophis RISQUE for all products across all asset classes in all its business lines, including for straight-through processing, covering a large part of the value chain from trading to the mid-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. In the second half of 2020, the Group completed its upgrade to a new version of Sophis RISQUE, which allows the Group to benefit from additional features provided in the new version, while continuing to rely on support from Finastra, the developer of Sophis RISQUE. In addition, the Group completed the rollout of an enhanced stress engine, allowing the Group to perform a wider array of stress calculations with increased reliability. The successful migration to the new version of Sophis RISQUE is a key milestone in the ongoing development of the Group's risk infrastructure.

SUCCESSFUL MIGRATION TO THE LATEST VERSION OF SOPHIS RISQUE IS A KEY MILESTONE IN THE ONGOING DEVELOPMENT OF THE RISK INFRASTRUCTURE

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

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

Risk measures

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

MORE THAN **300 DAILY STRESS TESTS ARE PERFORMED AND SCENARIOS ARE CALCULATED** 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

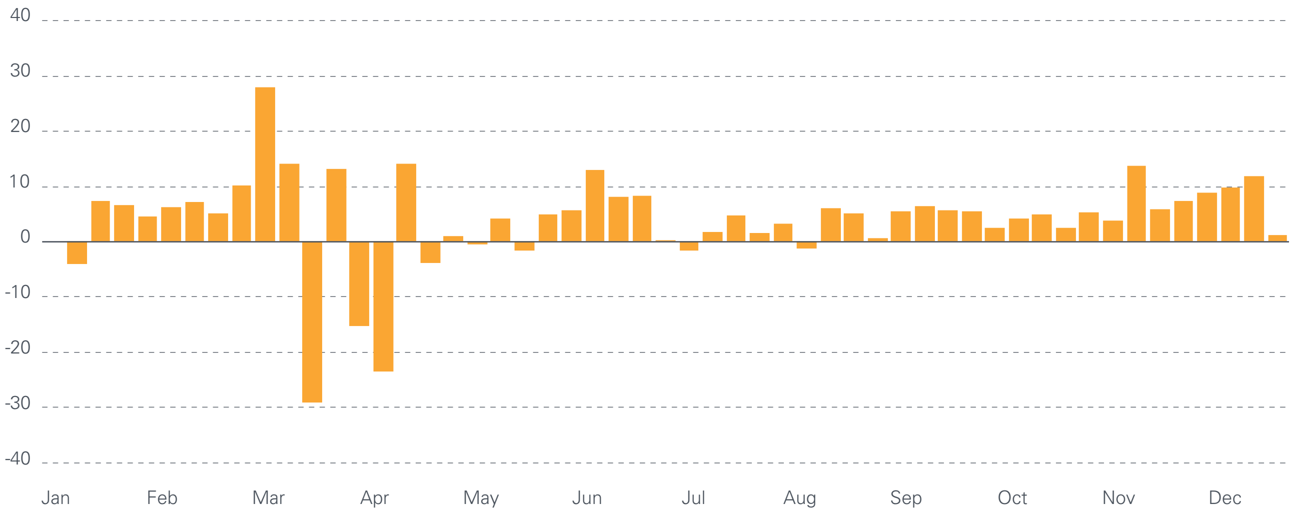
CHALLENGING H1 2020; STABILISED REVENUES H2 2020; RECORD Q4 2020

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 2020 and 2019.

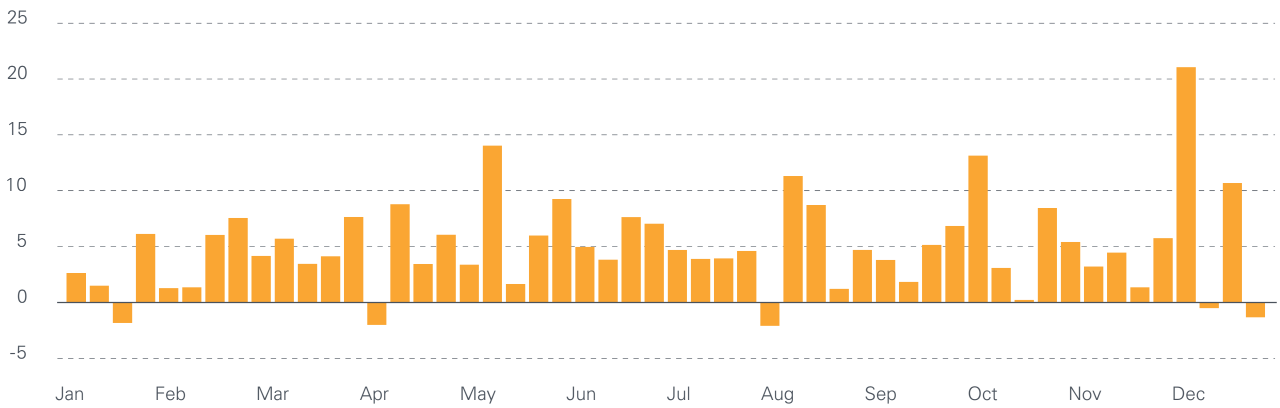
Leonteq achieved a strong start to the 2020 financial year with high levels of client activity and a positive trading result on the back of increased volatility towards the end of February. In March and April, the global spread of Covid-19 and the oil price shock resulted in exceptionally high levels of volatility and turmoil in the global capital markets that affected all asset classes underlying structured products. In this environment, Leonteq generated a significant increase in turnover and fee income. At the same time, Leonteq recorded hedging-related losses driven by the oil price shock in March (approximately CHF -20 million) as well as the widespread and unexpected cancellation of previously announced dividend payments, which affected cashflows from shareholdings owned by Leonteq for hedging purposes (approximately CHF -38 million). In addition, Leonteq recorded a significant increase in hedging-related costs as market risk exposures changed rapidly in an increasingly illiquid hedging market which were only partially offset by positive hedging contributions from Leonteq's structural long volatility position. In May and June, the capital markets recovered significantly, with volatility levels returning to normal.

The start to the second half of 2020 was characterised by slower-than-usual summer months that extended well into September. In October, client demand continued to be lower than in the prior-year period, reflecting investor uncertainty on the back of concerns about a second wave of Covid-19 and in the run-up to the US election. From mid-November onwards, client activity recovered significantly and remained strong until the start of the holiday period at year-end resulting in the best quarter performance in Leonteq's history with revenues totalling CHF 80 million.

Weekly economic revenues | 2020 (CHFm)



Weekly economic revenues | 2019 (CHFm)



Market risk

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

- Equity risk, i.e. the risk of adverse movements in share prices and related derivatives;
- Interest rate risk, i.e. the risk of adverse movements in the yield curve and corresponding movements in the valuation of fixed income-based assets;
- Foreign exchange, i.e. the risk of adverse movements in currency exchange rates and related derivative instruments;
- Credit spread risk, i.e. the risk of adverse movements in credit spreads
- Commodity risk, i.e. the risk of adverse movements in commodity prices and related derivatives.

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

Sensitivity analysis

As of 31 December 2020, the Group had the following exposures relating to its financial assets and liabilities.

Impact on the income statement

CHF thousand	31.12.2020	31.12.2019
Risk factor		
Equity delta	36	65
Precious metal delta	36	134
Commodity delta	13	(43)
Equity vega	5,067	2,294
Precious metal vega	(16)	16
Commodity vega	32	223
Equity correlation	(7,723)	(4,570)
Equity dividend	(11,634)	(3,480)
FX G10 delta	(604)	(44)
FX EM delta	(156)	46
CS10 Credit linked products	231	437
CS10 Government and agencies	(626)	(1,866)
CS10 Corporations and banks	(553)	(1,039)
IR G10 DV100	(10,102)	(7,868)
IR EM DV100	195	(444)
IR vega	57	(107)

Impact on equity

CHF thousand	31.12.2020	31.12.2019
Risk factor		
FX G10 delta	3,097	2,905
CS10 Government and agencies	(1,088)	(81)
CS10 Corporations and banks	(6,714)	(3,836)

In 2020, the risk profile of products issued by Leonteq and its partners changed significantly, primarily as a result of barriers being hit in products with these features and also as a result of increases in implied volatility that have not returned to the levels seen at the end of 2019. In addition, new products issued to clients during this period tended to have different risk characteristics than the existing portfolio. The resulting changes in the risk characteristics of the structured products issued by Leonteq and its partners have increased Leonteq's exposure to certain risks, including equity correlation and equity dividend risks. Further, Leonteq's continued investments into somewhat longer-term bonds as part of its investment portfolio have resulted in an increase in credit spread sensitivities, especially as they relate to bonds issued by banks and corporate issuers.

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 31 December 2020, the branch was funded with capital of USD 150 million as well as a long-term intra-group loan of USD 200 million, resulting in a US dollar exposure for the Group of approximately USD 350 million. This is an increase of USD 50 million during 2020. Sensitivities between the US dollar and Swiss franc are the primary contributor affecting the Group's equity and are shown in the above table.

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

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.

Stress analysis

Audited | The Group reports the impacts on its income statement when the following relevant historical stress scenarios are applied to its portfolio:

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

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

Structured products

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

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

Pension products

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)

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

Credit risk

Audited | Credit or default risk is defined as the general risk of financial loss occurring if a counterparty or an issuer of a financial security does not meet its contractual obligations. The 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	31.12.2020 Exposure	31.12.2019 Exposure
OTC	13.4	23.5
SLB	101.1	46.3
Total	**114.5**	**69.8**

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:

CHF million	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	218.7	237.3	177.8	6.0	134.1	55.7	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	226.7	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	427.0	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	509.2	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	36.5	23.4	22.9	170.8	7.0%
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**	**331.0**	**317.6**	**561.7**	**605.4**	**2,457.0**	**100%**

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

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

Operational risk

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, 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. 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.

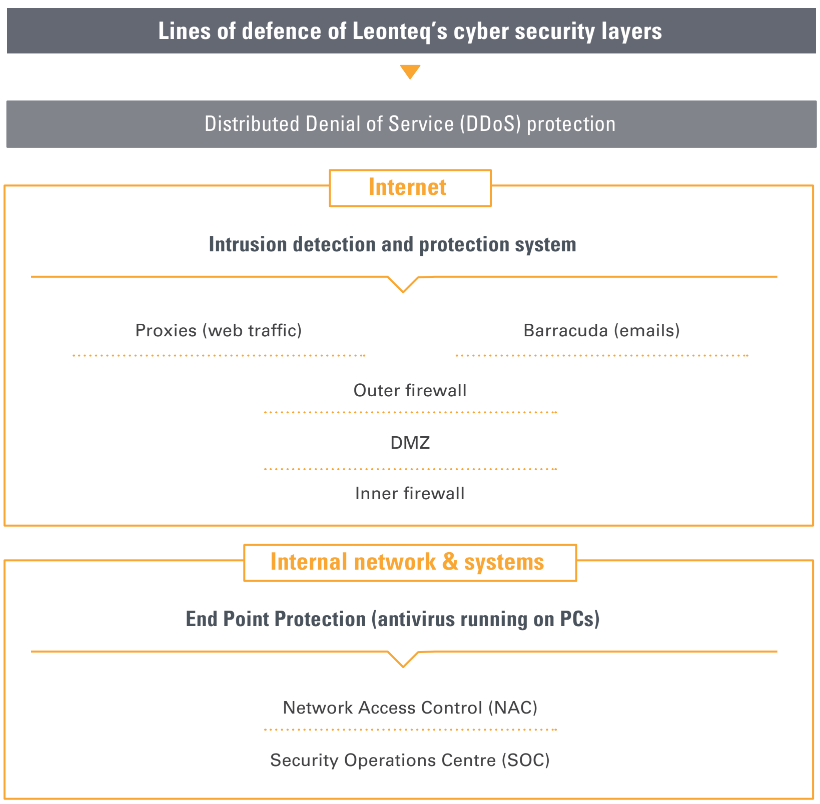
Working situations have been actively addressed by the company on an ongoing and proactive basis to ensure employee safety and alignment with local government recommendations. Leonteq set up full home office capabilities, including sophisticated trading and IT development set-ups, early on. This meant 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 over the summer months, Leonteq also took a phased approached to bringing staff back to its offices, first with only critical functions working on site and then moving to full team A/B split operations. The sophisticated remote access set-up that Leonteq has in place has allowed for swift transition throughout the year between on site and remote working options.

BCM MEASURES WERE IMPLEMENTED EARLY ON AND LEONTEQ CONTINUED TO PROVIDE FULL CLIENT SERVICE AT ALL TIMES

Cyber security risks

Technical defences

The Group follows state-of-the-art cyber security practices by implementing multiple layers of technical defences against unauthorized 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.



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

Audited | 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: Leonteq does not expect that the UK's withdrawal from the EU will have a significant impact on its business. Leonteq maintains offices both in the UK (London) and in the EU (Amsterdam, Paris, Frankfurt and Milan) and holds appropriate licenses to continue to serve its clients in the UK and the EU.

Interest Rate Benchmark Reform: Leonteq is in the process of preparing for the transition from LIBOR interest rates to other benchmark rates, which is expected to occur by the end of 2021 at the latest. Leonteq is well advanced in its preparations for the transition to the new benchmark rates and expects to be able to implement these new rates throughout its businesses in the course of 2021.

LIQUIDITY MANAGEMENT

Audited | 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 thousand	Due				Total 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**

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

CAPITAL MANAGEMENT

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 31 December 2020.

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.

FINANCIAL STATEMENTS

CONTENT

Financial statements

Notes to the financial statements

Information on the income statement

Information on the statement of financial position

Additional information

Leonteq Securities AG

Income statement for the years ended 31 December 2020 and 2019

CHF thousand	Note	2020	2019
Fee income from securities trading and investment activities		341,624	270,792
Fee income from other services		1,060	1,063
Fee expenses		(60,050)	(56,647)
Net fee income	8	**282,634**	**215,208**
Result from trading activities and the fair value option	9	**(97,633)**	**(3,149)**
Interest and discount income		7,431	9,644
Interest expenses		(18,615)	(26,472)
Changes in value adjustments for default risks and losses from interest operations		(1,092)	1,834
Net result from interest operations	10	**(12,276)**	**(14,994)**
Other ordinary income	11	3,898	2,788
Total operating income		**176,623**	**199,853**
Personnel expenses	12	(86,004)	(79,986)
Other operating expenses	13	(37,486)	(33,288)
Depreciation of long-lived assets	28	(29,606)	(26,411)
Changes to provisions and other value adjustments, and losses		3,082	(3,068)
Total operating expenses		**(150,014)**	**(142,753)**
Result from operating activities		**26,609**	**57,100**
Taxes	14	5,405	(1,070)
Net profit		**32,014**	**56,030**
of which allocated to shareholders of Leonteq Securities AG		32,014	56,030

Leonteq Securities AG

Statement of other comprehensive income for the years ended 31 December 2020 and 2019

CHF thousand	Note	2020	2019
Net profit		**32,014**	**56,030**
Other comprehensive income/(loss) that will not be reclassified to the income statement			
Remeasurement of defined benefit plan	31	3,286	(4,750)
Changes in own credit		(35,479)	—
Income tax on items that will not be reclassified	14	(214)	866
Total other comprehensive income/(loss) that will not be reclassified to the income statement		**(32,407)**	**(3,884)**
Other comprehensive income/(loss) that may be reclassified to the income statement			
Net unrealised gains/(losses) on debt instruments measured at fair value through other comprehensive income	26	(4,078)	5,214
Expected credit loss changes on debt instruments measured at fair value through other comprehensive income	32	1,317	847
Currency translation adjustments		(29,946)	(10,038)
Income tax on items that may be reclassified	14	—	2
Total other comprehensive income/(loss) that may be reclassified to the income statement		**(32,707)**	**(3,975)**
Total other comprehensive income/(loss)		**(65,114)**	**(7,859)**
Total comprehensive income		**(33,100)**	**48,171**
of which allocated to shareholders of Leonteq Securities AG		(33,100)	48,171

The notes on pages 30 to 89 are an integral part of these financial statements.

Leonteq Securities AG

Statement of financial position as of 31 December 2020 and 2019

CHF thousand	Note	31.12.2020	31.12.2019
Assets			
Liquid assets	17	215,645	130,891
Amounts due from banks	18	551,235	478,031
Amounts due from securities financing transactions	20	4,188	48,883
Amounts due from customers	19	511,779	393,448
Trading financial assets	21	3,411,093	2,155,040
Trading inventories	22	155,217	26,661
Positive replacement values of derivative financial instruments	23	4,671,008	2,991,746
Other financial assets designated at fair value through profit or loss	24	936,932	1,521,992
Financial investments at fair value through other comprehensive income	26	1,763,296	1,122,302
Accrued income and prepaid expenses	27	19,142	22,703
Current tax assets	14	574	574
Deferred tax assets	14	7,255	2,732
Long-lived assets	28	104,622	109,173
Other assets	29	10,379	19,188
Total assets		**12,362,365**	**9,023,364**
Total subordinated claims		—	11,612
of which subject to mandatory conversion and/or debt waiver		—	—
Liabilities			
Amounts due to banks	18	380,636	232,210
Liabilities from securities financing transactions	20	1,146,648	259,319
Amounts due to customers	19	835,342	622,190
Trading financial liabilities	21	200,544	433,907
Negative replacement values of derivative financial instruments	23	4,058,933	2,527,075
Other financial liabilities designated at fair value through profit or loss	24	4,944,510	4,092,490
Bond issued and central mortgage institution loan	25	100,000	100,000
Accrued expenses and deferred income	27	129,606	166,113
Current tax liabilities	14	100	1,100
Other liabilities	29	61,686	68,639
Expected credit loss provision	32	51	269
Provisions	33	7,197	15,464
Total liabilities		**11,865,253**	**8,518,776**
Equity			
Share capital	34	15,000	15,000
Share premium		269,306	269,306
Retained earnings[1]		289,529	231,891
Accumulated other comprehensive income/(loss)		(76,723)	(11,609)
Total shareholders' equity		**497,112**	**504,588**
Total liabilities and equity		**12,362,365**	**9,023,364**
Total subordinated liabilities		100,000	127,706
of which subject to mandatory conversion and/or debt waiver		100,000	100,000

[1] Retained earnings comprise cumulated earnings, including net profit for the years ended 31 December 2020 and 31 December 2019, respectively.

The notes on pages 30 to 89 are an integral part of these financial statements.

Leonteq Securities AG

Statement of changes in equity for the years ended 31 December 2020 and 2019

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

CHF thousand	Note	Share capital	Share premium	Retained earnings
Balance as of 1 January 2020		**15,000**	**269,306**	**231,891**
Employee participation schemes	12	—	—	555
Capital increase/(decrease)		—	—	—
Dividends and other distributions		—	—	—
Other allocations to/(transfers from) other comprehensive income[2]		—	—	25,069
Net profit		—	—	32,014
Balance as of 31 December 2020		**15,000**	**269,306**	**289,529**

[2] Changes in own credit risk recognised in other comprehensive income are subsequently transferred within equity to retained earnings. For further information, refer to Note 15.

The notes on pages 30 to 89 are an integral part of these financial statements.

OCI					Own shares	Total shareholders' equity
Defined benefit plan	Change in own credit	Unrealised income related to debt instruments at fair value through OCI	Changes in expected credit loss on debt instruments at fair value through OCI	Currency translation adjustments		
(3,750)	**—**	**—**	**—**	**—**	**—**	**455,700**
—	—	—	—	—	—	561
(3,750)	**—**	**—**	**—**	**—**	**—**	**456,261**
—	—	—	—	—	—	156
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(3,884)	—	5,216	847	(10,038)	—	(7,859)
—	—	—	—	—	—	56,030
(7,634)	**—**	**5,216**	**847**	**(10,038)**	**—**	**504,588**

OCI					Own shares	Total shareholders' equity
Defined benefit plan	Change in own credit[1]	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**	**(10,038)**	**—**	**504,588**
—	—	—	—	—	—	555
—	—	—	—	—	—	—
—	—	—	—	—	—	—
2,639	(35,046)	(4,078)	1,317	(29,946)	—	(40,045)
—	—	—	—	—	—	32,014
(4,995)	**(35,046)**	**1,138**	**2,164**	**(39,984)**	**—**	**497,112**

Leonteq Securities AG

Statement of cash flows for the years ended 31 December 2020 and 2019

CHF thousand	Note	2020	2019
Cash flow from operating activities			
Net profit		32,014	56,030
Reconciliation to net cash flows from operating activities			
Non-cash positions in net profit			
Depreciation	28	29,606	26,411
Deferred tax expenses/(benefits)	14	(4,523)	(184)
Change in expected credit loss provision	32	1,092	(1,834)
Change in general provision	33	(3,116)	3,073
Share-based benefit programmes	12	555	156
Other non-cash income and expenses		(41,512)	(9,756)
Net (increase)/decrease in assets related to operating activities			
Amounts due from banks	18	2,144	772,932
Amounts due from securities financing transactions	20	44,695	35,193
Amounts due from customers	19	(61,708)	(118,992)
Trading financial assets	21	(1,302,671)	(186,070)
Trading inventories	22	(128,556)	(10,440)
Positive replacement values of derivative financial instruments	23	(1,679,262)	(1,957,147)
Other financial assets designated at fair value through profit or loss	24	585,060	391,515
Net (investment)/disposal of financial investments measured at fair value through other comprehensive income	26	(640,994)	(1,122,302)
Accrued income and prepaid expenses	27	3,561	(7,555)
Other assets	29	8,809	17,386
Net increase/(decrease) in liabilities related to operating activities			
Amounts due to banks	18	129,509	(528,543)
Liabilities from securities financing transactions	20	887,329	(169,582)
Amounts due to customers	19	212,531	(782,519)
Trading financial liabilities	21	(233,363)	73,475
Negative replacement values of derivative financial instruments	23	1,531,858	(1,161,278)
Other financial liabilities designated at fair value through profit or loss	24	852,020	968,634
Accrued expenses and deferred income	27	(36,507)	37,025
Other liabilities	29	(68)	3,582
Utilisation of general provision	33	(5,179)	(1,751)
Dividends received		46,618	57,611
Interest received		9,553	9,548
Interest paid		(18,101)	(23,085)
Current taxes, non-cash adjustment	14	(1,000)	(868)
Current taxes paid	14	—	—
Cash flow from operating activities		**220,394**	**(3,629,335)**
Cash flow from investing activities			
Purchases of long-lived assets	28	(25,102)	(28,128)
Proceeds from long-lived assets	28	270	230
Cash flow from investing activities		**(24,832)**	**(27,898)**
Cash flow from financing activities			
Lease payments (excluding short-term/low-value leases)	28	(6,981)	(7,128)
Cash flow from financing activities		**(6,981)**	**(7,128)**
Exchange rate differences		58	(53)
Net (decrease)/increase in cash and cash equivalents		**188,639**	**(3,664,414)**

CHF thousand	Note	2020	2019
Cash and cash equivalents, beginning of the year		347,884	98,004
Cash and cash equivalents at the balance sheet date		**536,523**	**(3,566,410)**
Cash and cash equivalents			
Liquid assets		215,645	130,891
Due from banks on demand[3]		229,690	162,890
Due to banks on demand		(24,486)	(5,569)
Net cash balances with financial market infrastructure entities[4]		115,674	59,672
Net cash and cash equivalents at the balance sheet date		**536,523**	**347,884**

[3] The "Due from/to banks on demand" balances are included in balance sheet line items "Amounts due from/to banks".

[4] The "Cash balances with financial market infrastructure entities" are included in 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 30 to 89 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

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

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

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

Disclosures provided in the "Risk and Control" section of this report (pages 3 to 21) that are marked as audited form an integral part of the Financial Statements. These disclosures relate to requirements under IFRS 7, Financial Instruments: Disclosures and IAS 1, Presentation of Financial Statements, and are not included this section.

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.

These financial statements were approved for publication by the Board of Directors on 9 February 2021.

2 Basis of presentation

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

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

3 Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below and in the appropriate Notes.

Foreign currency translation

The company's presentation currency is the Swiss franc (CHF). The company uses the following main FX rates:

	Spot rate 31.12.2020	Spot rate 31.12.2019	Average rate 2020	Average rate 2019
EUR / CHF	1.0812	1.0854	1.0703	1.1125
USD / CHF	0.8848	0.9676	0.9390	0.9937
GBP / CHF	1.2096	1.2819	1.2043	1.2696
JPY / CHF	0.0086	0.0089	0.0088	0.0091
HKD / CHF	0.1141	0.1242	0.1211	0.1268
SGD / CHF	0.6694	0.7192	0.6813	0.7273

The company and its branches prepare their financial statements in their respective functional currencies. Transactions in a currency other than the functional currency are recognised at the spot rate on the transaction date. Exchange differences arising between the date of a transaction and its subsequent settlement are recognised in the income statement.

At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency using the closing exchange rate, and unrealised exchange differences are recognised in the income statement. Non-monetary assets and liabilities not measured at fair value are translated into the functional currency at the historical exchange rate. Non-monetary assets and liabilities measured at fair value are translated into the functional currency using the closing exchange rate.

Any unrealised gains or losses arising on the foreign currency translation are recognised in line with the recognition of gains or losses on the change in fair value of the item.

Assets and liabilities of branches that are denominated in a different functional currency to the company are translated into Swiss francs at the closing exchange rates. Average exchange rates for the business year are used for items in the income statement, statement of other comprehensive income and statement of cash flows. Exchange differences arising from the use of closing exchange rates and average exchange rates are recognised as currency translation adjustments in the statement of other comprehensive income.

Initial recognition and derecognition

The company uses trade date accounting to recognise financial transactions. The company recognised a financial asset or financial liability at the transaction date (i.e. trade date) at fair value of the consideration given or received, including directly attributable transaction costs. In the case of financial assets or financial liabilities measured at fair value through profit or loss, the transaction costs are immediately recognised in the income statement. At the date on which the company enters into a sales contract for financial assets and the conditions for derecognition are met, the relevant financial asset is derecognised from the statement of financial position. Recognition or derecognition is mainly associated with the transfer of the contractual rights to receive cash as well as the respective risks and rewards (market risk).

Financial assets and financial liabilities

Financial assets are allocated to the following categories based on the type of assets, the solely payments of principal and interest (SPPI) test and the business model test: Fair value through profit or loss, amortised cost or fair value through other comprehensive income. Financial liabilities are allocated to the following categories based on their type and designation: Fair value through profit or loss or amortised cost.

Financial assets or liabilities held for trading purposes are measured at fair value and are disclosed in the statement of financial position in the line items "trading financial assets" or "trading financial liabilities". Gains and losses on the sale and redemption of such instruments, interest and dividend income, as well as changes in fair value, are recognised in "result from trading activities and the fair value option".

The company's issued products contain hybrid financial instruments, certificates (including actively managed certificates) and mini-futures. Hybrid financial instruments are composed of debt components and embedded derivatives. Certificates may comprise an underlying instrument (or a basket of underlyings) combined with derivatives. Alternatively, the pay-off of a certificate could be achieved through the combination of a debt host and one or more embedded derivatives (similar to a hybrid financial instrument). As a result, the company designates all of its issued products as other financial liabilities designated at fair value through profit or loss.

In addition to issued products, the company applies the fair value option to selected receivables from customers and to interest rate instruments. The application of the fair value option to these instruments reduces an accounting mismatch that would otherwise arise from recognising these assets using a different measurement basis (e.g. amortised cost) to that used for offsetting liabilities, issued products as well as issued derivative instruments that are measured at fair value or designated at fair value through profit or loss.

Financial assets and financial liabilities designated at fair value are recognised in the statement of financial position in the line items "other financial assets designated at fair value through profit or loss" or "other financial liabilities designated at fair value through profit or loss".

4 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements requires the company's 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 company believes that the estimates and assumptions it has made are appropriate, and that the company's financial statements are therefore a fair representation of its financial position and results in all material respects.

The most relevant areas in which the company exercises judgment include the application of the company's estimations and assumptions with respect to: revenue recognition as well as the deferral period applied to fee income (Note 8); fair value of financial instruments and trading inventory (Note 15); the depreciation period and testing for impairments of long-lived assets (Note 28); determining the terms of leases (Note 28); provisions (Note 33) and retirement benefit obligations (Note 31).

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

5 Changes to critical accounting estimates

Revenue recognition of fee income

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

Own credit spread

The company determined its own credit spread based on a model using observable market inputs such as market capitalisation, debt and product type-specific adjustments. Based on periodic reassessments and given the current market developments, management decided to adjust the company's own credit spread in March 2020, August 2020 and December 2020. See Note 15 for further details.

6 Changes in accounting policies and presentation

New or revised standards and interpretations that have been adopted

The following new or revised standards and interpretations were applied by the company for the first time in the financial year 2020:

- Interest Rate Benchmark Reform – Phase 1 – Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments address uncertainty related to potential effects of IBOR reform (replacement of existing reference rates such as LIBOR and EURIBOR with alternative interest rates) on certain hedge accounting requirements that are based on forward-looking analysis. The corresponding requirements are to be applied as if the reference rate on which hedged cash flows and cash flows from the hedging instrument are based has not altered as a result of interest rate benchmark reform.

These changes had no impact on the Group's consolidated financial statements when applied for the first time.

Other new standards and interpretations that became effective for the first time on 1 January 2020 or have been early adopted in the financial year 2020 did not have any significant impacts on the company when applied for the first time or were not relevant to the company:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of Material – Amendments to IAS 1 and IAS 8
- Definition of a Business – Amendments to IFRS 3
- Covid-19 Related Rent Concessions – Amendments to IFRS 16 (early adopted)

New standards and interpretations not yet adopted

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

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – effective 1 January 2021
- Annual Improvements to IFRS Standards 2018 - 2020 – effective 1 January 2022
- IFRS 17 Insurance Contracts – effective 1 January 2023
- Amendments to IAS 1, Classification of Liabilities as Current or Non-current – effective 1 January 2023

The company has performed an initial assessment of the new standards and interpretations and does not expect any of them to have a significant impact on the company's net profit, comprehensive income and shareholders' equity or to be relevant to the company.

7 Segment reporting

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

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

Leonteq is an independent expert for 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 by Leonteq itself or for an issuance partner, which acts as the issuer or guarantor of the respective products. The services cover the entire lifecycle of a structured investment product. Clients are serviced by an experienced sales force and can choose from a variety of issuers available on the platform. The structured investment product offerings are grouped into three main categories: Capital protection, yield enhancement and participation with a variety of different payoffs, all 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 n-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 a of 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 the 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 2020
Net fee income	260,871	21,763	—	282,634
Net trading income/(loss)	(108,916)	11,283	—	(97,633)
Net interest income/(expense)	(12,616)	437	(97)	(12,276)
Other ordinary income	854	—	3,044	3,898
Total operating income	**140,193**	**33,483**	**2,947**	**176,623**
Personnel expenses	(66,625)	(9,427)	(9,952)	(86,004)
Other operating expenses	(28,407)	(1,672)	(7,407)	(37,486)
Depreciation of long-lived assets	(21,556)	(3,814)	(4,236)	(29,606)
Changes to provisions and other value adjustments, and losses	—	—	3,082	3,082
Total operating expenses	**(116,588)**	**(14,913)**	**(18,513)**	**(150,014)**
Result from operating activities	**23,605**	**18,570**	**(15,566)**	**26,609**

CHF thousand	Investment Solutions	Insurance & Wealth Planning Solutions	Corporate Centre	Total 2019
Net fee income	180,040	35,168	—	215,208
Net trading income/(loss)	(15,674)	12,525	—	(3,149)
Net interest income/(expense)	(15,459)	575	(110)	(14,994)
Other ordinary income	327	—	2,461	2,788
Total operating income	**149,234**	**48,268**	**2,351**	**199,853**
Personnel expenses	(60,751)	(9,623)	(9,612)	(79,986)
Other operating expenses	(25,079)	(2,098)	(6,111)	(33,288)
Depreciation of long-lived assets	(18,821)	(3,496)	(4,094)	(26,411)
Changes to provisions and other value adjustments, and losses	—	—	(3,068)	(3,068)
Total operating expenses	**(104,651)**	**(15,217)**	**(22,885)**	**(142,753)**
Result from operating activities	**44,583**	**33,051**	**(20,534)**	**57,100**

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

Information by geographic location

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total 2020
Net fee income	129,881	135,902	16,851	282,634
Net trading income/(loss)	(35,488)	(49,817)	(12,328)	(97,633)
Net interest income/(expense)	(5,710)	(5,780)	(787)	(12,276)
Other ordinary income	3,859	39	—	3,898
Total operating income	**92,543**	**80,344**	**3,736**	**176,623**

CHF thousand	Switzerland	Europe (excl. Switzerland)	Asia	Total 31.12.2020
Accrued income and prepaid expenses	6,530	12,612	—	19,142
Current tax assets	574	—	—	574
Deferred tax assets	7,244	11	—	7,255
Long-lived assets	104,065	557	—	104,622
Other assets	9,669	710	—	10,379

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

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

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

The company is a subsidiary wholly owned by Leonteq AG, which as a Group has offices in various international locations. The company distributes its own structured investment products and those of its issuance partners either through its own sales force located in Amsterdam, Geneva and Zurich, using the distribution network of related Group companies outside Switzerland, or through the distribution channels of its issuance partners. The geographical allocation of the company's revenues is undertaken based on the location of the distributor, servicing primarily banks, insurance companies and asset manager/financial intermediaries. Switzerland consists of the offices in Geneva and Zurich as well as its issuance partners distribution channels. Europe comprises the company's or issuance partners' operations in Amsterdam and Guernsey as well as the Group's offices in Frankfurt, London, Milan, Monaco and Paris. Asia represents the Group's offices Hong Kong, Singapore and Tokyo. In 2020 and 2019, around 28% and 24% of the Company's total operating income was generated by the Group's office in Monaco and around 14% and 15%, respectively, by the Group's office in London.

8 Net fee income

Fees earned are allocated to Leonteq's main service offerings (performance obligation). The services are provided either when a product is issued or over the lifetime of a product. Consequently, certain types of fees are deemed earned when a product is issued, while other types of fees are deemed earned over the effective lifetime of 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. 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. Since 1 January 2020, the average effective lifetime is estimated to be 9 months (31 December 2019: 12 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 which 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 as 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.

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

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. At the beginning of 2020, Leonteq decided to review the estimates inherent in the revenue recognition model for fee income in the Investment Solutions division to take account of the increasingly competitive market environment in recent years. The revision of estimates resulted in a reallocation of fees earned to Leonteq's main service offerings (performance obligation) and an adjustment of the deferral period. Leonteq prospectively applied the change in estimates as of 1 January 2020. 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 line item "fee income from securities trading and investment activities". The amount of deferred fee income is included in the statement of financial position in the line item "accrued expenses and deferred income". Fees are generally not discounted when recognised. The company presents fee income net of any costs that are directly attributable to the issuance of partner products and Leonteq products. Consequently, 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	2020	2019
Fee income of Investment Solutions	319,861	235,624
of which recognised at a point-in-time	259,848	170,072
of which recognised over time	60,013	65,552
Fee income of Insurance & Wealth Planning Solutions	21,763	35,168
of which recognised at a point-in-time	2,323	5,979
of which recognised over time	19,440	29,189
Total fee income from securities trading and investment activities	**341,624**	**270,792**
Fee income from other services	1,060	1,063
Total fee income from other services	**1,060**	**1,063**
Fee expenses	(60,050)	(56,647)
Total fee expenses	**(60,050)**	**(56,647)**
Net fee income	**282,634**	**215,208**

Net fee income increased by 24% compared to 2019. Large ticket transactions (defined as transactions where Leonteq earns a fee of CHF 0.5 million or more) amounted to CHF 19.3 million and accounted for 6% of net fee income in 2020, down from 7% (or CHF 17.5 million) in 2019.

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

CHF thousand	2020	2019
Balance of deferred fees as of 1 January	**106,899**	**75,745**
Recognition of deferred fees in the income statement	(79,453)	(94,741)
Deferral of fees collected	47,661	125,895
Balance of deferred fees as of 31 December	**75,107**	**106,899**
of which recognised within the next 12 months	17,362	42,911
of which recognised after 12 months	57,745	63,988

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

In the Investment Solutions divisions, service obligations that are not satisfied upon issuance of the product are deemed to be satisfied over the average effective lifetime of issued products which is estimated to be 9 months as of 31 December 2020. Consequently, an amount of CHF 17.4 million is expected to be recognised as fee income within the next 12 months. Due to the long-term nature of the pension business, service obligations in the Insurance & Wealth Planning Solutions division are satisfied over a period of up to 48 years. CHF 13.8 million are expected to be recognised as fee income between 2 and 5 years, CHF 29.9 million between 6 and 20 years and CHF 14.1 million after 20 years.

9 Result from trading activities and the fair value option

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

CHF thousand	2020	2019
Debt securities (including funds)	49,483	31,135
of which effective interest income from debt instruments at FVOCI	19,604	10,472
Equity securities (including funds)	(146,159)	(2,963)
Forex	28,134	16,283
Precious metals/commodities/cryptocurrencies	(7,626)	(22,998)
Trading related costs	(21,465)	(24,606)
Result from trading activities and the fair value option	**(97,633)**	**(3,149)**
of which result due to financial assets designated at fair value	10,404	46,831
of which result due to financial liabilities designated at fair value	646,209	(272,536)

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

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

Net trading result of CHF -107.1 million in the first half of 2020 was significantly impacted by hedging-related losses driven by the oil price shock in March 2020 (approx. CHF -20.0 million) as well as the widespread and unexpected cancellation of previously announced dividend payments, which affected cashflows from shareholdings owned by the Group for hedging purposes (approx. CHF -38.0 million). In addition, the Group recorded a significant increase in hedging-related costs as market risk exposures changed rapidly in an increasingly illiquid hedging market which were only partially offset by positive hedging contributions from the Group's structural long volatility position. In the second half of 2020, net trading result came in positive with CHF 9.5 million, compared to CHF -10.7 million in the second half of 2019, primarily driven by positive hedging contribution of CHF 11.3 million partially offset by treasury carry of CHF -2.6 million. On a full year basis, net trading income amounted to CHF -97.6 million in 2020, compared to CHF -3.1 million in 2019.

10 Net result from interest operations

CHF thousand	2020	2019
Interest and discount income	7,431	9,644
Total interest and discount income	**7,431**	**9,644**
Interest expenses	(18,615)	(26,472)
Total interest expenses	**(18,615)**	**(26,472)**
Gross result from interest operations	**(11,184)**	**(16,828)**
Changes in value adjustments for default risks and losses from interest operations	(1,092)	1,834
Net result from interest operations	**(12,276)**	**(14,994)**

The decrease in interest expense is due to the overall decline in interest rates, especially in connection to US dollar interest rates.

For further information on Changes in value adjustments for default risks and losses from interest operations, refer to Note 32.

11 Other ordinary income

CHF thousand	2020	2019
Rental income	2,324	2,298
Other fee income from platform partners	832	162
Other	742	328
Total other ordinary income	**3,898**	**2,788**

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

12 Personnel expenses

Variable compensation plans for employees

The company implemented variable compensation plans for its employees. A portion of variable compensation equal to or greater than CHF 50 thousand is deferred. Depending on the function of each employee and the individual variable compensation amount, the proportion of variable compensation deferred ranges from 20% to 80%.

Non-deferred variable compensation is paid in cash and recognised as personnel expenses in the income statement during the performance period.

Deferred variable compensation is paid in cash over a three-year period, in three equal instalments for deferred variable compensation of less than CHF 60 thousand. Deferred variable compensation of CHF 60 thousand or more is generally paid two third in cash over a three-year period, in three equal instalments, and one third in restricted stock units (RSUs) over a vesting period of three years (stage vesting).

Deferred variable compensation expenses incurred in cash are recognised as personnel expenses in the income statement with one third of the expense in each year using a straight-line attribution model. Deferred variable compensation expenses incurred in RSUs are recognised as personnel expenses in the income statement over the respective vesting period corresponding to the grant value of RSUs.

The awards are subject to the condition that the recipient remains in an employment relationship with the company at the payment or vesting date, respectively.

The Board of Directors launched an employee long-term incentive plan ('ELTIP') in the period under review. The plan shall align objectives of key employees of the company with the interests of shareholders. Additionally, it shall serve as retention tool to bond and commit such key employees to the company. Combined with talent developments, it shall enable the base for the next generation of Leonteq's leaders. The plan comprises RSUs only, is fully deferred and is cliff-vesting after a period of three and a half years to five years. Should employees voluntarily leave before the granted shares are fully vested, the respective share awards will be forfeited. Compensation expenses incurred in RSUs are recognised over the respective vesting period based on the grant value of the RSUs.

Short- and long-term incentive plans for members of the Executive Committee

For the members of the Executive Committee the Group operates a short- and long-term incentive plan.

Variable compensation for the short-term incentive plan (STIP) is cash-settled and deferred with a rate of 50%. The non-deferred variable compensation of the STIP plan is recognised in the income statement in the year for which the variable compensation is committed (performance period). The deferred variable compensation element is paid in cash over a three-year period in three equal instalments (stage vesting). Variable compensation expenses incurred from deferred cash incentive plans are recognised as personnel expenses in the income statement with one third of the expense in each year straight-line.

Variable compensation for the long-term incentive plan (LTIP) is granted in performance share units (PSUs). The number of PSUs is calculated as a multiple of the annual base salary for each member of the Executive Committee applying as grant reference price the volume-weighted average share price from the last quarter prior to the start of the three-year performance period. PSUs allocated will vest after a period of three years (cliff vesting) and convert into Leonteq AG shares. The number of shares to vest will depend on the level of achievement of the performance target and will become freely tradeable after an additional blocking period of one year if contractual minimum shareholding conditions are fulfilled. Two thirds of the performance target is measured against Leonteq AG's return on shareholder's equity (RoE) target whereas one third is measured against Leonteq AG's total shareholder return (TSR) compared with the performance of a basket of equity indices.

Compensation expense arising from the LTIP performance condition RoE is recognised over the service period based on the estimated number of shares expected to vest. The number of shares and the related expense recognition are adjusted over the three-year performance period to reflect the anticipated actual outcome. Compensation expense arising from the LTIP performance condition TSR is determined based on its fair value at grant date and recognised over the vesting period, even if vesting awards may change or forfeit. Share-based compensation arising from the performance condition TSR is therefore not re-measured unless the conditions' terms would be modified such that the fair value after modification exceeds the fair value prior to modification.

CHF thousand	2020	2019
Salaries and bonuses	72,701	73,399
of which share-based compensation	4,411	4,542
Social security contributions	5,361	5,290
Pension plan expenses	7,040	134
Other personnel expenses	902	1,163
Total personnel expenses	**86,004**	**79,986**

Personnel expenses for 2020 of CHF 86 million increased by 8% in 2020 compared to CHF 80 million in 2019. Pension plan expenses increased by CHF 6.9 million in 2020 mainly impacted by a benefit in 2019 due to the change of conversion rates and the replacement of parts of the current Swiss defined benefit plan through a newly introduced 1e plan.

Personnel expenses include deferred benefits granted in prior years under the employee variable compensation plans. Future commitments arising from deferred compensation awards amounted to CHF 19.9 million for the year ending 31 December 2020 (2019: CHF 21.3 million).

The company employed 397 (incl. 20 contractors, sourced through a service provider during build-up phase of a nearshoring location) and 384 employees as of 31 December 2020 and 2019, respectively. It had 386 (incl. 20 contractors, sourced through a service provider during build-up phase of a nearshoring location) and 374 full-time equivalents as of 31 December 2020 and 2019, respectively.

Personnel expenses include the impact of the two types of equity-settled, compensation plans operated by the company.

Restricted stock unit (RSU) plans

The company operates RSU plans for certain Leonteq employees. Part of the deferred compensation of participating employees is paid in the form of RSUs that are converted into Leonteq AG shares after the vesting period, whereby one RSU entitles the recipient to equivalent to one Leonteq AG share. RSU plans align the deferred variable compensation of such employees with the long-term performance of Leonteq Group. The number of RSUs granted is determined by the amount of deferred variable compensation awarded to the employee, as well as the fair value of Leonteq AG shares at the grant date. Allocations made under this plan are based on deferred compensation for services rendered in the financial year ending 31 December prior to the grant date. Eligible employees will earn the RSUs over the pre-defined vesting period (stage vesting), provided they fulfil the vesting conditions in March of each of the following years. Up until the financial year 2018, the members of the Executive Committee participated in separate RSU plans in which parts of the remuneration of the long-term incentive plan were only earned at the end of a three-year vesting period (cliff vesting), if vesting conditions are fulfilled.

Number of RSUs	Employees	Executive Committee	Total 2020
Unvested committed RSUs at the beginning of the year	133,419	85,041	218,460
Allotted RSUs in the year under review	53,887	—	53,887
Reclassification between categories[5]	12,847	(12,847)	—
Forfeited RSUs in the year under review	(147)	—	(147)
Settlement of RSUs by Leonteq AG shares	(57,950)	(36,235)	(94,185)
Unvested committed RSUs at the balance sheet date	**142,056**	**35,959**	**178,015**

[5] David Schmid stepped down as member of the Executive Committee on 11 November 2020.

CHF	
Average grant price of unvested committed RSUs (programmes 2016 to 2023)	44.58

CHF thousand	Employees	Executive Committee	Total 2020
Personnel expenses recognised over the vesting period for RSUs	18,009	5,349	23,358
Market value of RSUs on the allocation date	18,009	5,349	23,358
Reclassification between categories[6]	1,064	(1,064)	—
Charged as personnel expenses in the year under review	2,434	1,107	3,541
Cumulative charges recognised as personnel expenses up to the balance sheet date	15,518	3,869	19,387
Estimated personnel expenses for the remaining vesting periods excluding future terminations	1,744	416	2,160

[6] David Schmid stepped down as member of the Executive Committee on 11 November 2020.

Number of RSUs	Employees	Executive Committee	Total 2019
Unvested committed RSUs at the beginning of the year	114,219	54,453	168,672
Allotted RSUs in the year under review	80,092	53,812	133,904
Reclassification between categories	—	—	—
Forfeited RSUs in the year under review	(15,764)	—	(15,764)
Settlement of RSUs by Leonteq AG shares	(45,128)	(23,224)	(68,352)
Unvested committed RSUs at the balance sheet date	**133,419**	**85,041**	**218,460**

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

CHF thousand	Employees	Executive Committee	Total 2019
Personnel expenses recognised over the vesting period for RSUs	15,723	5,349	21,072
Market value of RSUs on the allocation date	15,723	5,349	21,072
Reclassification between categories	—	—	—
Charged as personnel expenses in the year under review	2,402	1,543	3,945
Cumulative charges recognised as personnel expenses up to the balance sheet date	12,020	3,826	15,846
Estimated personnel expenses for the remaining vesting periods excluding future terminations	2,081	1,523	3,604

Deferred performance share units granted to the Executive Committee

The members of the Executive Committee participate in a long-term incentive plan (LTIP), which comprises forward-looking incentives for a three-year performance period. The LTIP is allocated in the form of performance share units (PSUs) and settled in Leonteq AG shares.

As of 31 December 2020, estimated LTIP financial impacts amounted to CHF 2,006 thousand for the newly established plan in the year under review for the three-year performance period. An amount of CHF 669 thousand was recognised for the financial year 2020. The grant reference price of each share award granted reflects the volume-weighted average share price from the last quarter prior to the start of the three-year performance period.

	2020	2019
Maximum number of share awards granted for the compensation year	108,107	90,119
Fair value of each share award at the grant date (in CHF)	38.72	45.82
Anticipated expense recognition arising from share awards granted over vesting period (in CHF thousand)	2,006	1,743
Estimated fair value of share awards granted over vesting period (in CHF thousand)	1,666	1,559

The anticipated expense recognition arising from the LTIP performance condition RoE reflects the estimated number of shares to vest over the three-year performance period applying the fair value at grant date. For the LTIP performance condition TSR, the expense recognition is determined based on the fair value at grant date. The fair value for the performance criteria TSR has been determined using a Monte Carlo pricing model and was estimated to be 42.13%, corresponding CHF 588 thousand at the measurement date. Leonteq chose to value the market condition TSR internally given its valuation capabilities. Share-based compensation arising from the performance condition TSR is not re-measured.

The basis for the estimated fair value of the share awards granted are the anticipated achievement rates as per year-end for the RoE and the TSR performance conditions as well as the fair value of the underlying Leonteq AG shares at the end of the financial year (CHF 35.05 for 2020).

For further information on the LTIP refer to the compensation report in the Leonteq AG Annual Report 2020 (page 117).

13 Other operating expenses

CHF thousand	2020	2019
Occupancy costs	1,197	1,183
Information and communication technology	20,532	19,602
Office equipment expenses	53	35
Audit fees	826	568
of which for financial and regulatory audit	557	204
of which for other services	269	364
Other administrative expenses	14,878	11,900
of which for professional services other than audits	5,671	5,919
Total other operating expenses	**37,486**	**33,288**

The increase of other operating expenses is mainly driven by higher banking fees, legal costs as well as increased consulting fees.

14 Taxes

Current income taxes are calculated based on the applicable tax laws in the relevant jurisdictions and recognised as an expense in the period in which the related profits are generated. Assets or liabilities related to current income taxes are reported in the statement of financial position as applicable. Income taxes are stated net of the participation relief which the Company may avail on dividend income from qualifying equity holdings.

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

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

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

Income Taxes

CHF thousand	2020	2019
Income tax expenses		
Current income tax expense/(benefit)	(668)	388
Deferred income tax expense/(benefit)	(4,737)	682
Total income tax expense/(income)	**(5,405)**	**1,070**
Profit before tax	**25,824**	**57,100**
Income tax expense calculated at the Swiss statutory tax rate	5,462	12,076
Explanations for higher/(lower) tax expenses		
Participation income tax relief	—	(5,721)
Tax rate differential	(17,650)	(11,380)
Impact due to IFRS 16 lease accounting	(55)	(71)
Intercompany interest adjustment	601	776
Addition/(utilisation) of unrecognised tax loss carry-forwards	6,095	5,461
Adjustments related to prior years	(666)	—
Revaluation pension fund	491	—
Other impacts	317	(71)
Total income tax expense/(income)	**(5,405)**	**1,070**
Capital tax expenses	287	324
Corporate tax expenses	**(5,118)**	**1,394**

The company applied the participation relief ("Beteiligungsabzug") in line with the applicable Swiss legislation. The resulting impact that is – among other factors – directly linked to the taxable profit of the Company was CHF 0 thousand for fiscal year 2020 (2019: CHF 5,721). The company's position remains unchanged regarding the tax assessments of the company issued by the Zurich Cantonal Tax Office for fiscal years 2013, 2014 and 2015 (additional potential tax liability of CHF 12 million) where the tax authority applied a different method of calculating the participation relief. The company filed an appeal against the aforesaid tax assessments. A decision by the first instance court is outstanding to date. If contrary to management's expectations, the courts were ultimately to decide in favour of the tax authority, such outcome would have a significant negative impact on the overall profitability of the company.

The company's statutory tax rate for fiscal year 2020 was 21.15% (2019: 21.15%). The tax rate differential was caused by the company's foreign operations that were taxed at varying rates. For fiscal year 2020, the company continued to apply its transfer pricing method based on an OECD recognised standard to account for the income of its foreign operations.

The intercompany interest adjustments mainly related to the Contingent Convertible Loan issued by Leonteq Securities AG and currently fully held by its parent company, Leonteq AG.

In 2020, CHF 6.1 million (2019: CHF 5.4 million) of the impact of unrecognised tax losses was incurred by entities abroad. Current tax assets and current tax liabilities reported as of the date of the statement of financial position, and the resulting current tax expenses for the periods presented, were partly based on estimates and assumptions and may differ from the amounts determined by tax authorities in the future.

Unrecognised tax loss carry-forwards

CHF thousand	2020	2019
Unrecognised tax loss carry-forwards expire as follows:		
Within 1 year	—	—
From 1 to 5 years	—	—
From 5 to 10 years	46,225	21,845
After 10 years	—	—
No expiry	—	—
Total unrecognised tax loss carry-forwards	**46,225**	**21,845**

As per 31 December 2020, unrecognised tax loss carry-forwards of CHF 44.0 million (31 December 2019: CHF 21.8 million) were subject to a tax rate of 25%. If recognised in full, the deferred tax assets for tax loss carry-forwards eligible for offsetting as per 31 December 2020 would total CHF 11.5 million (31 December 2019: CHF 5.4 million).

Deferred taxes

CHF thousand	Assets 31.12.2020	Assets 31.12.2019	Liabilities 31.12.2020	Liabilities 31.12.2019
Composition of deferred taxes				
Pension liability	2,633	2,790	—	—
Long-lived assets	(115)	(58)	—	—
Tax loss carry-forwards	4,737	—	—	—
Total deferred taxes	**7,255**	**2,732**	**–**	**–**

CHF thousand	Assets 2020	Assets 2019	Liabilities 2020	Liabilities 2019
Changes in deferred taxes				
Balance at the beginning of the year	2,732	2,690	—	—
Changes affecting the income statement	4,737	(684)	—	—
Changes recognised through equity related to first time adoption of new accounting standards	—	(141)		—
Changes affecting the statement of other comprehensive income from pension liability	(214)	866	—	—
Translation adjustment	—	1	—	—
Balance at the end of the year	**7,255**	**2,732**	**–**	**–**

The increase of deferred tax assets in 2020 was mainly caused by the loss of the current year eligible for offsetting in future periods and resulting in a deferred tax asset of CHF 4.7 million (2019: CHF 0.0 million).

On 1 September 2019, the Swiss public accepted the proposed tax reform in the Canton of Zurich including a change in the income tax rate at the Cantonal level. The combined statutory tax rate (for federal and cantonal purposes) will decrease from 21.15% to 19.70% as of 2021. The effects of change in tax rates were adjusted in the closing balances of deferred taxes accordingly.

15 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 company 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-1 result is deferred over the duration of the product.

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

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

All models are validated before they are used as a basis for financial reporting, and they are periodically reviewed thereafter by qualified specialists who operate independently from model developers and users. Whenever possible, the valuations derived from models are compared with the prices of similar financial instruments and with actual values once realised in order to further validate and calibrate the models. Valuation models are generally applied consistently across products from one period to the next, ensuring the comparability and continuity of valuations over time.

There were no significant changes in the valuation models used for the period ending 31 December 2020.

Fair value hierarchy

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

Level 2 instruments

The fair value of level 2 instruments is based on quoted prices in markets that are not active or on a valuation method using significant input parameters that are directly or indirectly observable. Level 2 instruments comprise positive or negative replacement values of derivative instruments, issued structured products, debt securities with reduced market liquidity and investment funds that are not quoted. The company uses valuation methods to determine the fair value of positive and negative replacement value of derivative instruments and issued structured products if there is no active market pursuant to the definition of IFRS 13 or if market liquidity varies significantly over time. For the valuation of derivative instruments, including 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 quoted prices are not available, then the fair value 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 company's own credit risk, as well as third-party credit risk in the case of assets, is not included in the valuation of collateralised derivative instruments.

Level 3 instruments

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

Valuation adjustments

The fair value of level 2 and level 3 instruments is 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 determine the fair value of these instruments correctly.

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 reserves in the same period as the sales fee income is deemed earned. Any fair value impact not related to changes in own credit risk is recognised in the income statement.

Leonteq determines its own credit spread regularly based on a model using observable market inputs such as market capitalisation, debt and product type-specific adjustments. Management compared the determined credit spread with observable and paid credit spreads for public distributed products of Leonteq and, given current market developments, decided to adjust the Group's own credit spread in March 2020, August 2020 and December 2020. No own credit spread adjustment was required in the prior year.

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 31.12.2020
Financial assets				
Trading financial assets				
Debt securities (listed)[7]	98,036	82,290	—	180,326
Equity securities[7]	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	3,018,107	392,986	—	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	**8,632,430**	**2,149,899**	**—**	**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	—	194,815
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 (including 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**

7 Preferred shares in the amount of CHF 68,452,542 as of 31 December 2020 (31 December 2019: CHF 90,337,932) have been reclassified from equity securities into debt securities. The figures for the previous year were adjusted accordingly.

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

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

[8] Preferred shares in the amount of CHF 68,452,542 as of 31 December 2020 (31 December 2019: CHF 90,337,932) have been reclassified from equity securities into debt securities. The figures for the previous year were adjusted accordingly.

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

Level 3 financial instruments

CHF thousand	31.12.2020	31.12.2019
Statement of financial position		
Balance at the beginning of the year	21,105	18,383
Additions	2,618	3,750
Disposals	(2,199)	(6,177)
Result recognised in the income statement	2,648	8,583
Result recognised in the statement of other comprehensive income	—	—
Reclassifications to level 3	—	—
Reclassifications from level 3	(3,087)	(3,434)
Translation differences	—	—
Total balance at the end of the year	**21,085**	**21,105**
Income in the period on holdings at balance sheet date		
Unrealised income/(loss) recognised in the trading income	(448)	(6,334)
Unrealised income/(loss) recognised in other income	—	—
Unrealised income/(loss) recognised in other comprehensive income	—	—

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

Based on the change in the observability of significant input parameters, CHF 3.1 million of level 3 financial instruments were reclassified to level 2 (2019: CHF 3.4 million). No level 2 financial instruments were reclassified to level 3 in 2020 and 2019, respectively.

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

No day-1 gains or losses were recognised as a result of transactions involving level 3 instruments during the year. In 2020, an unrealised loss of CHF 0.4 million (2019: CHF 6.3 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 31 December 2020 totalled CHF 21.1 million (31 December 2019: CHF 21.1 million).

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

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

Significant unobservable inputs in level 3 positions

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

CHF thousand	31.12.2020	31.12.2019	Valuation method	Significant unobservable input	Range of unobservable inputs 31.12.2020 low	Range of unobservable inputs 31.12.2020 high	Range of unobservable inputs 31.12.2019 low	Range of unobservable inputs 31.12.2019 high	Unit
Negative replacement values of derivative financial instruments	**21,084**	21,105	Generic Replication Model[9]	Volatility of interest rates	**50**	**53**	51	61	basis points

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

Volatility of interest rates

Volatility measures the variability of interest rates and is generally expressed as an absolute number in basis points (bps). The minimum level of volatility is 0 bps and there is no theoretical maximum. Volatility is a key input in option models, where it is used to derive a probability-based distribution of forward rates. The effect of volatility on individual positions within the portfolio is determined primarily based on whether the option contract is a long or short position. In most cases, the fair value of an option increases as a result of a rise in volatility and is reduced following a decrease in volatility. 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 company's management believes, based on the valuation approach used for the calculation of fair values and the related controls, that the level 3 fair values are appropriate.

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

CHF thousand	31.12.2020	31.12.2019
Impact of shifts in unobservable input parameters on fair values		
Increase of volatility of interest rates (+5 bps)	198	31
Decrease of volatility of interest rates (-5 bps)	(198)	(31)

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.

16 Hedge accounting

In accordance with the risk management framework, the company hedges its exposure to the benchmark (market) interest rate risk related to its investment activities. Benchmark interest levels may have a positive impact (declining interest rates) or a negative impact (increasing interest rates) on the market price of bonds. Payer interest rate swaps or other derivative financial instruments are used to offset the interest rate risk arising from the investment portfolio. For bonds measured at fair value through profit or loss, the changes in fair value of the hedging instruments as well as the hedged item are recognised in the income statement. By introducing the "fair value through other comprehensive income (FVOCI)" business model, the changes in fair value of the respective bonds is first recognised in the statement of other comprehensive income and only recycled to the income statement if the bonds are disposed of. To avoid this accounting mismatch, fair value hedge accounting was introduced simultaneously with the FVOCI business model. To apply hedge accounting, various criteria set out in IFRS 9 must be met:

- The hedging relationship must consist only of eligible hedging instruments and eligible hedged items.
- At inception of the hedging relationship, there is a formal designation and documentation of the hedging relationship, risk management objective and strategy for undertaking the hedge.
- Hedges must be expected to be effective, so that there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes that result from the economic relationship, and the hedge ratio is adequately weighted.

If the criteria for fair value hedge accounting are met, the company reports the change in fair value on the financial investments measured at FVOCI attributable to the benchmark interest rate risk (hedged item) as the "result from trading activities and the fair value option" in the income statement instead of in the statement of other comprehensive income. The ineffectiveness of the fair value hedge is also recognised in the income statement in the line item "result from trading activities and the fair value option". Elements other than the benchmark interest rate risk are not part of the hedge. The portfolios are managed dynamically, and the hedging relationship is designated on a daily basis. Hedge effectiveness is tested prospectively by applying different scenarios on a daily basis. Similarly, retrospective hedge effectiveness is measured on a daily basis by comparing the change in fair value of hedging instruments and the change in fair value of bonds that is attributable to the benchmark interest rate risk. Ineffectiveness is mainly expected to arise due to the different maturities of the bonds that fall within the scope of the hedging relationship and the hedging instruments, as well as differences in overall sensitivities to movements in benchmark interest rate curves. Credit risk is limited by entering into derivatives transactions (related to hedging instruments) only with central clearing counterparties or on a collateralised basis. In the event of an early termination of the hedge, the cumulative adjustment of the carrying amount of the bonds that fall within the scope of the respective hedging relationship is recognised over their remaining term in the income statement in the line item "result from trading activities and the fair value option".

For further information on risk management activities, refer to the separate Risk section.

The following table provides an overview of the effect of fair value hedge accounting on financial investments measured at FVOCI:

CHF thousand	31.12.2020	31.12.2019
Hedging instruments		
Positive replacement values of hedging instruments	11,655	4,014
Notional amount of derivative financial instruments used as hedging instruments	877,749	525,615
Negative replacement value of hedging instruments	50,240	9,696
Notional amount of derivative financial instruments used as hedging instruments	1,945,917	797,639

CHF thousand	31.12.2020	31.12.2019
Hedged item		
Carrying amount of financial investments measured at FVOCI	1,763,296	1,122,302
of which accumulated amount of fair value hedge gain/(loss) included in the carrying amount	44,573	620

CHF thousand	2020	2019
Hedge effectiveness		
Change in the fair value of the hedging instruments used as the basis for recognising hedge ineffectiveness	(38,748)	14
Change in the fair value of the hedged item used as the basis for recognising hedge ineffectiveness	44,573	620
Amount of hedge ineffectiveness recognised in the income statement	**5,825**	**634**

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses is zero as of 31 December 2020 (31 December 2019: zero). The carrying amount of the hedging instruments is presented as the positive and/or negative replacement values of derivative financial instruments. All assets presented as "financial investments measured at fair value through other comprehensive income" are considered hedged items.

17 Liquid assets

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

18 Amounts due from/to banks

Amounts due from banks include receivables from banks on demand, term deposits and settlement receivables. Amounts due from banks are recognised initially at fair value and subsequently at amortised cost.

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

CHF thousand	31.12.2020	31.12.2019
Amounts due from banks		
Due from banks on demand (cash and cash equivalents)	229,690	165,258
Due from banks on demand (precious metals)	1,283	8,269
Cash collateral paid to banks or regulated financial institutions	255,386	275,280
Settlement receivables from banks or regulated financial institutions	56,323	19,672
Settlement receivables with platform partners – banks or regulated financial institutions	8,553	9,552
Total amounts due from banks	**551,235**	**478,031**
Amounts due to banks		
Cash overdrafts (cash and cash equivalents)	24,485	5,569
Cash collateral received from banks or regulated financial institutions	333,620	191,110
Settlement liabilities with banks or regulated financial institutions	20,033	34,181
Settlement liabilities with platform partners – banks or regulated financial institutions	2,498	1,350
Total amounts due to banks	**380,636**	**232,210**

Amounts due from banks increased due to higher cash balances and higher settlement receivables. Following increased trading activities and substantially higher positive replacement values led to the increase of amounts due to banks. Amounts with related parties are reflected in Note 36.

19 Amounts due from/to customers

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

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

CHF thousand	31.12.2020	31.12.2019
Amounts due from customers		
Cash balances with financial market infrastructure entities (cash and cash equivalents)	116,350	59,727
Cash collateral paid to non-banks	37,179	9,821
Settlement receivables with financial market infrastructure entities	302,386	232,093
Settlement receivables with platform partners – non-banks	29,848	83,532
Other amounts due from platform partners – non-banks	7,752	7,463
Other amounts due from customers	18,264	812
Total amounts due from customers	**511,779**	**393,448**
Amounts due to customers		
Cash balances with financial market infrastructure entities (cash and cash equivalents)	676	55
Cash collateral received from non-banks	403,760	210,643
Settlement payables to financial market infrastructure entities	377,298	336,365
Settlement and other payables to platform partners – non-banks	30,269	43,820
Subordinated loans	—	25,500
Other loans	13,100	—
Fees payable to other Leonteq companies	9,747	5,386
Other fees payable	492	421
Total amounts due to customers	**835,342**	**622,190**

Amounts with related parties are reflected in Note 36. Amounts due to customers increased due to higher collateral requirements on the back of higher volatility levels at the end of 2020 resulting in higher positive replacement values.

20 Securities financing transactions (assets and liabilities)

The company generally enters into securities lending and securities borrowing transactions on a collateralised basis. In the case of such transactions, the company typically lends or borrows securities in exchange for securities or cash collateral. Additionally, the company's lending and borrowing activities are performed in exchange for a fee. The majority of securities lending and borrowing agreements involve shares, funds and bonds. The transactions are conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to the company's normal credit risk control processes. The company monitors the market value of the securities received or delivered on a daily basis and requests or provides additional collateral or returns, or recalls surplus collateral in accordance with the underlying agreements. Securities that have been transferred, whether in a lending/borrowing transaction or as collateral, are not recognised or derecognised in the statement of financial position unless the risks and rewards of ownership are also transferred. In such transactions where the company transfers owned securities and where the borrower is granted the right to sell or repledge them, the securities are presented as "trading financial assets" or "other financial assets designated at fair value through profit or loss" of which pledged as collateral**.** Cash collateral received is recognised with a corresponding obligation to return it. Cash collateral received is disclosed in the line item "liabilities from securities financing transactions" Cash collateral delivered is derecognised with a corresponding receivable, reflecting the right to receive it back. The cash collateral delivered is disclosed in the line item "amounts due from securities refinancing transactions". Additionally, the sale of securities received in a lending or borrowing transaction triggers the recognition of a trading financial liability (short sale).

Consideration exchanged in such transactions (i.e. interest received or paid) is accrued in the period in which it incurred.

Repurchase and reverse repurchase agreements

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

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

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

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

CHF thousand	Book value of assets as reported on balance sheet	Cash collateral received	Securities lent or used for collateralisation[10]	Total Net amount
Amounts due from securities financing transactions	4,188	—	—	4,188
Trading portfolio	3,411,093	1,146,648	(1,915,612)	2,642,129
Other financial instruments at fair value	936,932	—	(593,513)	343,419
Total as of 31 December 2020	**4,352,213**	**1,146,648**	**(2,509,125)**	**2,989,736**
With unrestricted right to resell or repledge	—	—	(798,994)	(798,994)

CHF thousand	Book value of liabilities as reported on balance sheet	Cash collateral paid	Securities borrowed or received for collateralisation	Total Net amount
Amounts due in respect of securities financing transactions	1,146,648	—	—	1,146,648
Trading portfolio	200,544	4,188	(174,749)	29,983
Liabilities from other financial instruments at fair value	4,944,510	—	—	4,944,510
Total as of 31 December 2020	**6,291,702**	**4,188**	**(174,749)**	**6,121,141**
of which repledged	—	—	(30,479)	(30,479)
of which resold	—	—	(144,270)	(144,270)

CHF thousand	Book value of assets as reported on balance sheet	Cash collateral received	Securities lent or used for collateralisation[10]	Total Net amount
Amounts due from securities financing transactions	48,883	—	—	48,883
Trading portfolio	2,155,040	259,319	(1,306,959)	1,107,400
Other financial instruments at fair value	1,521,992	—	(992,860)	529,132
Total as of 31 December 2019	**3,725,915**	**259,319**	**(2,299,819)**	**1,685,415**
With unrestricted right to resell or repledge	—	—	(28,269)	(28,269)

CHF thousand	Book value of liabilities as reported on balance sheet	Cash collateral paid	Securities borrowed or received for collateralisation	Total Net amount
Amounts due in respect of securities financing transactions	259,319	—	—	259,319
Trading portfolio	433,907	48,883	(338,379)	144,411
Liabilities from other financial instruments at fair value	4,092,490	—	—	4,092,490
Total as of 31 December 2019	**4,785,716**	**48,883**	**(338,379)**	**4,496,220**
of which repledged	—	—	—	—
of which resold	—	—	—	—

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

21 Trading financial assets and liabilities

CHF thousand	31.12.2020	31.12.2019
Trading financial assets		
Debt securities (listed)[11]	180,326	100,289
of which pledged as collateral	75,247	25,380
Equity securities[11]	2,650,987	1,599,903
of which pledged as collateral	730,271	951,969
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	796,935	26,169
Funds	572,963	429,433
of which pledged as collateral	287,907	301,341
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	2,059	2,100
Other securities	6,817	25,415
of which hybrid financial instruments	6,817	25,415
Total trading financial assets	**3,411,093**	**2,155,040**
of which based on valuation-model (see Note 15)	392,986	328,907
of which repo-eligible securities	—	—
Trading financial liabilities	—	
Debt securities (listed)	1,296	1,300
Equity securities	194,815	417,256
Funds	4,433	15,350
Other securities	—	1
Total trading financial liabilities	**200,544**	**433,907**
of which based on valuation-model (see Note 15)	3,529	4

[11] Preferred shares in the amount of CHF 68,452,542 as of 31 December 2020 (31.12.2019: CHF 90,337,932) have been reclassified from equity securities into debt securities. The figures for the previous year were adjusted accordingly.

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

22 Trading inventories

Leonteq issues certificates that replicate the performance of cryptocurrencies. The Group issued products with Bitcoin, Bitcoin Cash, Ether, Litecoin and Ripple as underlyings. To hedge the exposure resulting from the issuance of these certificates, Leonteq purchases or sells the respective underlying.

The Group classifies cryptocurrencies held as an economic hedge for issued structured products as "trading inventories" and applies the commodity broker-trader exemption (IAS 2.3) and therefore measure cryptocurrencies at fair value less costs to sell. The fair market values for cryptocurrencies held as assets are determined based on generally accepted prices. The changes in fair value are recognised in the line item "result from trading activities and the fair value option".

23 Replacement values of derivative instruments

The replacement values of all derivative instruments are recognised at fair value in the statement of financial position and are reported as positive replacement values or negative replacement values. As the company enters into derivative contracts for trading purposes, realised and unrealised gains and losses are recognised in "result from trading activities and the fair value option".

A derivative may be embedded in a "host contract". Such combinations are known as hybrid instruments and arise predominantly from the issuance of structured debt instruments. The values of embedded derivatives are presented with the host debt as other financial liabilities designated at fair value. Gains and losses from financial liabilities are reported in the income statement as "result from trading activities and the fair value option".

For derivative financial instruments used for hedge accounting in accordance with IFRS 9, refer to Note 16.

CHF thousand	Trading instruments			Hedging instruments		
	Positive RV	Negative RV	Contract volume	Positive RV	Negative RV	Contract volume
Interest rate instruments						
Forward contracts including FRAs	—	—	—	—	—	—
Swaps	226,599	188,802	19,455,856	11,655	50,240	2,823,666
Futures	—	—	2,977,652	—	—	—
Options (OTC)	83,233	192,548	11,572,687	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Foreign currencies/precious metals						
Forward contracts	28,733	36,351	2,240,835	—	—	—
Swaps	5,026	620	88,670	—	—	—
Futures	—	—	13,316	—	—	—
Options (OTC)	33,140	32,721	1,382,797	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Precious metals						
Forward contracts	—	—	—	—	—	—
Swaps	—	—	—	—	—	—
Futures	—	—	35,611	—	—	—
Options (OTC)	2,040	1,248	36,738	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Equities/indices						
Forward contracts	—	—	—	—	—	—
Swaps	836,731	185,127	9,084,740	—	—	—
Futures	—	—	887,518	—	—	—
Options (OTC)	170,663	466,820	7,101,095	—	—	—
Options (exchange traded)	3,203,170	2,862,621	37,906,655	—	—	—
Credit instruments						
Credit default swap	57,146	36,678	3,044,013	—	—	—
Total return swap	—	—	—	—	—	—
First to default swaps	—	—	—	—	—	—
Other credit derivatives	—	—	—	—	—	—
Other						
Forward contracts	—	—	—	—	—	—
Swaps	12,285	1,853	163,995	—	—	—
Futures	—	—	239,275	—	—	—
Options (OTC)	587	3,304	38,593	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Total before deduction of netting agreements (including cash collaterals) as of 31 December 2020	**4,659,353**	**4,008,693**	**96,270,045**	**11,655**	**50,240**	**2,823,666**
of which based on valuation-model (see Note 15)	1,500,445	1,347,449	—	—	—	—
Total after deduction of netting agreements (including cash collaterals) as of 31 December 2020[12]	**497,256**	**348,375**				
of which balances against central clearing institutions	490,601	164,941	—	—	—	—
of which balances against banks or securities dealers	5,304	35,316	—	—	—	—
of which balances against other customers	1,351	148,118	—	—	—	—

[12] Replacement value of derivative instruments includes both Trading and Hedging instruments

CHF thousand	Trading instruments			Hedging instruments		
	Positive RV	Negative RV	Contract volume	Positive RV	Negative RV	Contract volume
Interest rate instruments						
Forward contracts including FRAs	—	—	—	—	—	—
Swaps	173,204	132,696	14,596,357	4,014	9,696	1,323,254
Futures	—	—	6,432,984	—	—	—
Options (OTC)	58,687	157,560	18,331,534	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Foreign currencies/precious metals						
Forward contracts	37,039	16,774	2,696,188	—	—	—
Swaps	8,849	6,663	1,178,260	—	—	—
Futures	—	—	—	—	—	—
Options (OTC)	27,302	25,810	2,293,988	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Precious metals						
Forward contracts	—	—	—	—	—	—
Swaps	102	296	10,447	—	—	—
Futures	—	—	91,829	—	—	—
Options (OTC)	3,142	2,921	51,148	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Equities/indices						
Forward contracts	—	—	—	—	—	—
Swaps	474,615	122,359	8,997,247	—	—	—
Futures	—	—	1,138,343	—	—	—
Options (OTC)	134,381	467,354	8,605,688	—	—	—
Options (exchange traded)	1,972,436	1,493,528	33,771,210	—	—	—
Credit instruments						
Credit default swap	96,290	84,125	3,943,159	—	—	—
Total return swap	—	—	—	—	—	—
First to default swaps	—	—	—	—	—	—
Other credit derivatives	—	—	—	—	—	—
Other						
Forward contracts	—	—	—	—	—	—
Swaps	797	1,213	179,749	—	—	—
Futures	—	—	111,746	—	—	—
Options (OTC)	888	6,080	76,988	—	—	—
Options (exchange traded)	—	—	—	—	—	—
Total before deduction of netting agreements (including cash collaterals) as of 31 December 2019	**2,987,732**	**2,517,379**	**102,506,865**	**4,014**	**9,696**	**1,323,254**
of which based on valuation-model (see Note 15)	1,042,015	1,133,163		—	—	
Total after deduction of netting agreements (including cash collaterals) as of 31 December 2019	**566,359**	**195,643**				
of which balances against central clearing institutions	552,741	55,379		—	—	
of which balances against banks or securities dealers	6,467	10,647		—	—	
of which balances against other customers	7,151	129,617		—	—	

24 Other financial assets and liabilities designated at fair value through profit or loss

CHF thousand	31.12.2020	31.12.2019
Other financial assets designated at fair value through profit or loss		
Debt securities (listed)	681,007	1,220,704
of which pledged as collateral	549,938	987,949
of which lent as collateral in securities lending and borrowing transactions with the right to resell or repledge	43,575	4,911
Other securities	72,936	117,219
of which hybrid financial instruments	72,936	117,219
Receivables from Insurance & Wealth Planning Solutions counterparties	182,990	184,069
Total other financial assets designated at fair value through profit or loss	**936,933**	**1,521,992**
of which based on valuation-model (see Note 15)	256,468	301,288
of which repo-eligible securities	486,465	798,851
Other financial liabilities designated at fair value through profit or loss		
Interest rate instruments	351,897	429,662
with own debt component	351,897	429,662
without own debt component	—	—
Equities	4,418,303	3,529,714
with own debt component	4,396,743	3,510,068
without own debt component	21,560	19,646
Foreign currency	7,332	8,793
with own debt component	7,332	8,793
without own debt component	—	—
Commodities (incl. precious metals)	166,978	124,321
with own debt component	46,182	97,166
without own debt component	120,795	27,155
Total other financial liabilities designated at fair value through profit or loss	**4,944,510**	**4,092,490**
of which based on valuation-model (see Note 15)	4,944,510	4,092,490

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

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

The maturity of financial assets designated at fair value through profit or loss range from 1 month to 15 years.

CHF thousand	31.12.2020	31.12.2019
Classification in accordance with SVSP Swiss Derivative Map		
Capital protection	210,103	222,113
Yield enhancement	3,075,685	2,674,073
Participation	1,633,559	1,139,196
Leverage	25,163	57,108
Total other financial liabilities designated at fair value through profit or loss[13]	**4,944,510**	**4,092,490**

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

25 Bond issued and central mortgage institution loans

CHF thousand	Type of debt	Coupon rate	Year of issue	Early redemption date	Maturity	31.12.2020	31.12.2019
Leonteq Securities AG							
Tier 1 Contingent Convertible Loan Notes - Tranche 1	Subordinated with PONV[14] clause	6.75% + 6-month CHF LIBOR	2015	26.08.2020	perpetual	50,000	50,000
Tier 1 Contingent Convertible Loan Notes - Tranche 4	Subordinated with PON[V]1 clause	6.75% + 6-month CHF LIBOR	2015	26.08.2020	perpetual	50,000	50,000
Total outstanding						**100,000**	**100,000**

[14] PONV = Point of non-viability

Maturities of issued loans

CHF thousand	Up to 1 year	1-2 years	2-3 years	3-4 years	4.5 years	Over 5 years	31.12.2020	31.12.2019
Leonteq Securities AG								
Tier 1 Contingent Convertible Loan Notes - Tranche 1						50,000	50,000	50,000
Tier 1 Contingent Convertible Loan Notes - Tranche 4						50,000	50,000	50,000
Total outstanding						**100,000**	**100,000**	**100,000**

26 Financial investments measured at fair value through other comprehensive income

The company holds debt instruments within a business model whose objective is achieved by both collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding and selling financial assets. The financial investments are recognised at fair value.

Bonds measured at FVOCI are presented as “financial investments measured at fair value through other comprehensive income”. Effective interest, impairments and foreign exchange gains and losses are recognised in the income statement in the line item “result from trading activities and the fair value option”. Other changes in fair value that are mainly attributable to changes in the benchmark interest rate or issuer credit risk are recognised in the statement of other comprehensive income.

Since issuer credit risk is initially recognised in other comprehensive income, the expected credit loss is accounted for in the portfolio of debt instruments measured at FVOCI. The change in the expected credit loss is recognised in the income statement in the line item “changes in value adjustments for default risks and losses from interest operations”, while the reverse entry is recognised in the statement of other comprehensive income.

If a bond measured at FVOCI is disposed of, the amount recognised in the statement of other comprehensive income is reclassified to the income statement. The cumulative changes in fair value are transferred to “results from trading activities and the fair value option” and the corresponding expected credit loss amount is credited to “changes in value adjustments for default risks and losses from interest operations”.

For information on the application of hedge accounting refer to Note 16.

The following table provides an overview of financial investments measured at FVOCI:

CHF thousand	31.12.2020	31.12.2019
Government bonds	24,742	3,865
Supranational agency bonds	132,503	17,005
Corporate bonds	1,064,138	741,833
Financial institution bonds	541,913	359,599
Total debt financial instruments measured at FVOCI	**1,763,296**	**1,122,302**
of which listed	1,763,296	1,110,881
of which unlisted	—	11,421

27 Accrued income and prepaid expenses/ Accrued expenses and deferred income

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

CHF thousand	31.12.2020	31.12.2019
Accrued income and prepaid expenses		
Prepaid operating expenses	4,325	4,519
Accrued interest	14,761	17,856
Other	56	328
Total accrued income and prepaid expenses	**19,142**	**22,703**
Accrued expenses and deferred income		
Accrued operating expenses	36,649	42,638
Deferred fee income	75,107	106,899
Accrued interest	4,848	3,826
Other	13,002	12,750
Total accrued expenses and deferred income	**129,606**	**166,113**

Prepaid operating expenses relate to sublease, staff and other operating expense items. Accrued interest consists mainly of accrued interest from debt instruments held as an asset.

Accrued operating expenses include staff, audit fees and other operating expense items. For more details on deferred fee income, refer to Note 8. Other accrued expenses consist of accrued capital tax, outstanding social security expenses as well as accrued distribution fees.

28 Long-lived assets

Long-lived assets (furniture, equipment, leasehold improvements, internally developed and purchased software, as well as IT equipment) are recognised at cost less accumulated depreciation and impairment losses. A partial disposal of fixed assets occurred in connection with the refurbishment of certain offices. Right-of-use assets are reported at the amount equivalent to the capitalised lease payments less accumulated depreciation. Long-lived assets are reviewed periodically for impairment, with any impairment charge being recognised in the income statement.

Certain personnel costs directly attributable to the internal development of software are capitalised as long-lived assets. Capitalised costs include salaries and bonuses, social security contributions and pension costs.

Capitalised software acquisition costs are based on the costs of acquiring the software and the costs incurred in bringing it into its intended state of intended. Direct costs attributable to the internal development of software are capitalised when such items meet the definition of capitalisation. These costs relate to the design and implementation phases for internally developed software.

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

- Furniture and equipment: 5 to 10 years
- Leasehold improvements: 5 to 10 years
- Right-of-use assets: 2 to 15 years
- Internally developed software: 3 to 5 years
- Purchased IT software: 3 to 5 years
- IT equipment: 3 to 5 years

The useful lives and residual values of long-lived assets are estimated by the management on the basis of the anticipated period over which economic benefits will accrue to the company from the use of those assets. Useful economic lives are reviewed annually on the basis of historical and forecast expectations concerning future technological developments, economic and legal changes as well as further external factors.

Impairment of non-financial assets

For all non-financial assets not measured at fair value, the company assesses at the end of each reporting period whether there is objective evidence that a non-financial asset or a group of nonfinancial assets is impaired. A non-financial asset or a group of non-financial assets is considered to be impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a loss event), and that loss event (or events) has an impact on estimated future cash flows of the non-financial asset or group of non-financial assets that can be reliably estimated.

CHF thousand	Property and equipment			Total 31.12.2020
	Furniture / equipment	Leasehold improvement	Right-of-use asset	
Historical cost				
Balance as of 1 January 2020	2,810	9,856	86,136	98,802
Additions	21	—	96	117
Disposals	(347)	—	(271)	(618)
Reclassifications	—	—	—	—
Other value adjustments/impairments	—	—	5	5
Translation adjustments	—	—	(26)	(26)
Balance as of 31 December 2020	**2,484**	**9,856**	**85,940**	**98,280**
Accumulated depreciation cost				
Balance as of 1 January 2020	1,851	4,011	37,559	43,421
Depreciation	435	1,303	6,824	8,562
Disposals	(347)	—	—	(347)
Reclassifications	—	—	—	—
Other value adjustments/impairments	—	—	(143)	(143)
Translation adjustments	—	—	(5)	(5)
Balance as of 31 December 2020	**1,939**	**5,314**	**44,235**	**51,488**
Net book value as of 31 December 2020	**545**	**4,542**	**41,705**	**46,792**

CHF thousand	Property and equipment			Total 31.12.2019
	Furniture / equipment	Leasehold improvement	Right-of-use asset	
Historical cost				
Balance as of 1 January 2019	2,629	9,881	85,367	97,877
Additions	261	—	1,786	2,047
Disposals	(80)	(25)	(982)	(1,087)
Reclassifications	—	—	—	—
Other value adjustments/impairments	—	—	(9)	(9)
Translation adjustments	—	—	(26)	(26)
Balance as of 31 December 2019	**2,810**	**9,856**	**86,136**	**98,802**
Accumulated depreciation cost				
Balance as of 1 January 2019	1,498	2,734	31,245	35,477
Depreciation	430	1,302	6,582	8,314
Disposals	(80)	(25)	(246)	(351)
Reclassifications	—	—	—	—
Other value adjustments/impairments	3	—	(8)	(5)
Translation adjustments	—	—	(14)	(14)
Balance as of 31 December 2019	**1,851**	**4,011**	**37,559**	**43,421**
Net book value as of 31 December 2019	**959**	**5,845**	**48,577**	**55,381**

Leonteq's IT platform consists of different components: Leonteq developed proprietary front-end tools for product construction, product set-up and product documentation. The position and risk management system is based on off-the-shelf software. Leonteq enhanced the software through the addition of specific functionalities such as in-built model libraries developed by Leonteq. The back-office tools used by Leonteq comprise standard software.

Information technology and systems			Total	Total
Internally developed software	Purchased software	IT equipment	31.12.2020	31.12.2020
92,616	37,014	18,138	147,768	246,570
15,428	7,489	2,164	25,081	25,198
—	(558)	(2,447)	(3,005)	(3,623)
—	—	—	—	—
—	—	—	—	5
—	—	—	—	(26)
108,044	**43,945**	**17,855**	**169,844**	**268,124**
60,747	24,966	8,263	93,976	137,397
13,224	4,534	3,286	21,044	29,606
—	(558)	(2,448)	(3,006)	(3,353)
—	—	—	—	—
—	—	—	—	(143)
—	—	—	—	(5)
73,971	**28,942**	**9,101**	**112,014**	**163,502**
34,073	**15,003**	**8,754**	**57,830**	**104,622**

Information technology and systems			Total	Total
Internally developed software	Purchased software	IT equipment	31.12.2019	31.12.2019
77,416	31,185	12,110	120,711	218,588
15,200	6,516	6,151	27,867	29,914
—	(687)	(123)	(810)	(1,897)
—	—	—	—	—
—	—	—	—	(9)
—	—	—	—	(26)
92,616	**37,014**	**18,138**	**147,768**	**246,570**
48,562	22,064	5,836	76,462	111,939
12,185	3,589	2,323	18,097	26,411
—	(687)	(123)	(810)	(1,161)
—	—	—	—	—
—	—	227	227	222
—	—	—	—	(14)
60,747	**24,966**	**8,263**	**93,976**	**137,397**
31,869	**12,048**	**9,875**	**53,792**	**109,173**

Leases

The Group's leasing activities mainly relate to office, data centre and equipment. The lease liability reflects the present value of future lease payments, excluding any reinstatement cost provision, which is accounted for in accordance with IAS 37 and presented as a provision (Note 33). In contrast, expected reinstatement costs are included in the right-of-use asset. The right-of-use asset is presented in the line item "long-lived assets" and the lease liability in "other liabilities". The right-of-use asset is amortised on a straight-line basis over the lease term, unless it is determined to be subject to impairment according to IAS 36. Lease payments are deducted from the lease liability. The lease liability is measured at the present value of remaining lease payments, discounted at the interest rate determined at the commencement date or at the transition of the lease.

At the time the Group enters into new lease agreements, the Group exercises judgement regarding the effective lease term in cases where the lease agreements include one or more early termination or extension options. Extension options (or periods after termination options) are only included if the lease is reasonably certain to be extended or not terminated, respectively. In most cases, the extension options are included, given that the Group currently has no intention to vacate its various office locations in the near future. In cases where the original lease will only mature several years in the future (e.g. after more than 5 years), the respective extension options are not yet considered given the inherent uncertainty about office space required at that point in time. The applicability of the lease terms and termination or extension options is reassessed in the event of a material occurrence or change in circumstances that may affect the previous assessment, where this is within the Group's control. As of 31 December 2020, the effect of revising lease terms to reflect the effect of exercising extension and termination options would result in an increase in right-of-use assets and lease liabilities of approximately CHF 26.0 million (31 December 2019: CHF 26.0 million).

Lease payments associated with short-term leases and leases of low-value are recognised over the lease term as expenses in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value leases comprise IT and other small items of office equipment.

The carrying amounts of right-of-use assets and lease liabilities and changes in these values, are shown in the following table:

CHF thousand	2020	2019
Right-of-use asset		
Balance as of 1 January	48,577	54,122
Additions	96	1,786
Disposals	(271)	(737)
Effect of contract modifications	148	—
Amortisation	(6,824)	(6,582)
Currency translation adjustment	(21)	(12)
Balance as of 31 December	**41,705**	**48,577**
Lease liability		
Balance as of 1 January 2020	48,261	54,055
Additions	20	1,049
Disposals	—	—
Effect of contract modifications	8	80
Interest expense	514	580
Payments	(6,981)	(7,478)
Currency translation adjustment	(8)	(25)
Balance as of 31 December	**41,814**	**48,261**
Contractual liability (excluding short-term or low-value assets) as of 31 December	44,114	51,062
of which due within 1 year	6,586	7,079
of which due within 2 and 5 years	23,941	24,574
of which due within 6 and 10 years	13,586	19,409
of which due after 10 years	—	—

The carrying amount of right-of-use asset as of 31 December 2020 comprise of CHF 41.2 million for office space, CHF 0.4 million for data centre and CHF 0.1 million for equipment (2019: CHF 47.4 million for office space, CHF 1.2 million for data centre and CHF 0 for equipment).

In 2020, the amount of CHF 16 thousand (2019: CHF 75 thousand) relating to short-term and low value leases were accounted for as other operating expenses.

Commitments arising from operational leases

CHF thousand	31.12.2020	31.12.2019
Due within one year	15	25
Due between two and five years	6	57
Due later than five years	—	3
Commitments for minimum payments under operational leases	**21**	**85**

Commitments arising from operational sublease rental income

CHF thousand	31.12.2020	31.12.2019
Due within one year	2,428	2,381
Due between two and five years	1,445	3,121
Due later than five years	—	—
Future rental income arising from sublet office space	**3,873**	**5,502**

In 2019 and 2020, the Group sublet office space that it does not expect to use in the coming years. For detailed information on rental income generated through the sub-leasing of office space, refer to Note 11.

29 Other assets and other liabilities

CHF thousand	31.12.2020	31.12.2019
Other assets		
Withholding and other tax receivables	10,265	19,182
Other assets	114	6
Total other assets	**10,379**	**19,188**
Other liabilities		
Other tax liabilities	5,374	3,162
Pension liability	13,362	14,155
Lease liability	41,814	48,261
Other liabilities	1,136	3,061
Total other liabilities	**61,686**	**68,639**

The derivative component of structured products with Swiss underlyings, are generally hedged with Swiss shares. Withholding taxes on dividends from such Swiss shares are included in withholding tax receivables.

For further information on the change in net pension liability, refer to Note 31.

The reduction of lease liability by CHF 6.4 million consists of office lease payments and interest recognised in the income statement.

Other liabilities mainly represent unpaid supplier invoices which are due for payment in 2021.

30 Offsetting financial assets and financial liabilities

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

CHF thousand	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the balance sheet	Net amount of financial assets as reported in IFRS balance sheet	Effect of master netting agreements	Effect of collateral received	Net amount
Liquid assets	215,645	—	215,645	—	—	215,645
Amounts due from banks	551,235	—	551,235	—	(415,390)	135,845
Amounts due from securities borrowing transactions	4,188	—	4,188	—	(4,188)	—
Amounts due from customers	511,779	—	511,779	(30,558)	(4)	481,217
Positive replacement values of derivative instruments	4,671,008	—	4,671,008	(3,553,181)	(737,380)	380,447
Other financial assets designated at fair value through profit or loss	936,932	—	936,932	(182,990)	—	753,942
Total as of 31 December 2020	**6,890,787**	**—**	**6,890,787**	**(3,766,729)**	**(1,156,962)**	**1,967,096**

CHF thousand	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the balance sheet	Net amount of financial assets as reported in IFRS balance sheet	Effect of master netting agreements	Effect of collateral received	Net amount
Liquid assets	130,891	—	130,891	—	—	130,891
Amounts due from banks	478,031	—	478,031	—	(228,505)	249,526
Amounts due from securities borrowing transactions	48,883	—	48,883	—	(48,883)	—
Amounts due from customers	393,448	—	393,448	(81,701)	(3,207)	308,540
Positive replacement values of derivative instruments	2,991,746	—	2,991,746	(2,113,826)	(401,752)	476,168
Other financial assets designated at fair value through profit or loss	1,521,992	—	1,521,992	(184,069)	—	1,337,923
Total as of 31 December 2019	**5,564,991**	**—**	**5,564,991**	**(2,379,596)**	**(682,347)**	**2,503,048**

In addition to the above amounts, the exposure to credit risk from trading financial assets is reduced via credit protection through structured products issued. The effect of this credit protection is a reduction in trading assets presented in the statement of financial position of CHF 89.9 million for the year ended 31 December 2020 (2019: CHF 89.8 million).

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

CHF thousand	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amount of financial liabilities as reported in IFRS balance sheet	Effect of master netting agreements	Effect of collateral paid	Net amount
Amounts due to banks	380,636	—	380,636	—	(279,988)	100,648
Liabilities from securities financing transactions	1,146,648	—	1,146,648	—	(1,137,694)	8,954
Amounts due to customers	835,342	—	835,342	(30,558)	(431,189)	373,595
Negative replacement values of derivative instruments	4,058,933	—	4,058,933	(3,617,266)	(255,386)	186,281
Other financial liabilities designated at fair value through profit or loss	4,944,510	—	4,944,510	—	(960,711)	3,983,799
Total as of 31 December 2020	**11,366,069**	**—**	**11,366,069**	**(3,647,824)**	**(3,064,968)**	**4,653,277**

CHF thousand	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amount of financial liabilities as reported in IFRS balance sheet	Effect of master netting agreements	Effect of collateral paid	Net amount
Amounts due to banks	232,210	—	232,210	—	(232,210)	—
Liabilities from securities financing transactions	259,319	—	259,319	—	(252,219)	7,100
Amounts due from customers	622,190	—	622,190	(81,701)	(350,125)	190,364
Negative replacement values of derivative instruments	2,527,075	—	2,527,075	(2,185,083)	(275,280)	66,712
Other financial liabilities designated at fair value through profit or loss	4,092,490	—	4,092,490	(112,812)	(853,050)	3,126,628
Total as of 31 December 2019	**7,733,284**	**—**	**7,733,284**	**(2,379,596)**	**(1,962,884)**	**3,390,804**

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

31 Retirement benefit obligations

The company operates a defined benefit plan and defined contribution plans. On behalf of employees domiciled outside Switzerland, the company contributes to pension schemes that qualify as defined contribution plans. The company pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions totalling CHF 1.5 million and CHF 0.4 million for the years ended 31 December 2020 and 31 December 2019, respectively, related to contribution plans, were recognised in personnel expenses.

In Switzerland, the company operates a defined benefit plan in accordance with Swiss law and provides cover against retirement, death and disability for all staff employed in Switzerland. The pension plan is maintained by a collective foundation, managed by AXA Leben AG. The foundation is governed by a Board of Trustees and is supervised by the BVG und Stiftungsaufsicht (BVS) of the Canton of Zurich. In addition, the pension scheme includes the Leonteq Pension Committee, which has three employee and three employer representatives.

The foundation covers all actuarial and investment risks and has elected to fully insure death and disability insurance risks within the Swiss pension plan with a third-party insurance company. The insurance contract is renewable on an annual basis.

In addition to the aforementioned risks, the pension plan is exposed to other risks such as asset volatility, changes in bond yields and changes in life expectancy. These risks have a significant impact on the pension plan: Asset volatility could increase or reduce the plan assets. Bond yields are the basis for the discount rate. Low yields (or discount rates) and a higher life expectancy lead to a higher plan obligation. The managers of the pension plan address these risks as part of their efforts to ensure the consistency and sustainability of the pension plan's assets and liabilities based on a diversified investment strategy that is aligned with the volatility and maturity of the pension obligation.

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

In the case of defined benefit plans, the pension obligations and expenses are determined annually by actuarial appraisals prepared by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation. The net amount recognised in the statement of financial position corresponds to the funding surplus or funding deficit of the defined benefit pension plans, taking account of any possible restrictions on the amount of a surplus that can be recognised as an asset (asset ceiling). The net interest based on the net liability or net asset of the defined benefit pension plans, the current and past service costs (due to plan amendments or plan curtailments), the administration costs (excluding asset management costs) and the gains and losses arising from plan settlements are recorded in personnel expenses. Actuarial gains and losses on pension liabilities as well as the return on plan assets and changes due to the asset ceiling are recognised in the statement of other comprehensive income.

As of 31 December 2020, the characteristics of the defined benefit plan were as follows:

- Employees were insured up to a salary of CHF 150 thousand (prior year: CHF 250 thousand)
- The benefits of the pension scheme are funded by the employer and employee as a fixed percentage of the insured salaries
- Conversion rate = 5.0% – 6.8% (increasing with retirement age)
- Total number of members: 346 (active members: 346 / pensioners: 0)

In addition, the company operates a 1e plan which covers salary and bonus from CHF 150 thousand to CHF 400 thousand. The 1e plan is treated as a defined contribution plan.

The below table outlines where the company's post-employment amounts related to the Swiss defined benefit plans are included in the financial statements.

CHF thousand	31.12.2020	31.12.2019
Reconciliation of the amount recognised in the statement of financial position		
Defined benefit obligation (DBO)	67,191	58,073
Fair value of plan assets	(53,829)	(43,918)
Adjustment of asset ceiling	—	—
Net defined benefit liability/(asset)	**13,362**	**14,155**
of which recognised as separate (asset)	—	—
of which recognised as separate liability	13,362	14,155

CHF thousand	2020	2019
Components of defined benefit cost in profit or loss		
Current service cost (employer)	5,841	4,609
Past service cost	—	(4,497)
Interest expenses on defined benefit obligation	60	531
Interest (income) on plan assets	(47)	(422)
Administration cost (excluding cost for managing plan assets)	68	76
Net expenses recognised in the income statement	**5,922**	**297**
of which service and administration cost	5,909	188
of which net interest on the net defined benefit liability/(asset)	13	109

Past service costs of CHF 4.5 million in the previous year relate to the impacts of a decrease in future conversion rates and the mark-up on the capital outflow due to implementation of the 1e solution.

CHF thousand	2020	2019
Components of defined benefit cost in OCI		
Actuarial (gain)/loss on defined benefit obligation	221	8,279
(Gain)/loss on plan assets (excluding interest income)	(3,507)	(3,529)
Defined benefit cost/(income) recognised in OCI	**(3,286)**	**4,750**

CHF thousand	2020	2019
Reconciliation in net defined benefit liability/(asset)		
Net defined benefit liability/(asset) as of 1 January	14,155	12,715
Defined benefit cost recognised in profit or loss	5,922	297
Defined benefit cost/(income) recognised in OCI	(3,286)	4,750
Contributions by the employer	(3,429)	(3,607)
Net defined benefit liability/(asset) as of 31 December	**13,362**	**14,155**

In prior year, defined benefit costs recognised in profit or loss include effects from the change in conversion rates and the introduction of the 1e plan.

CHF thousand	31.12.2020	31.12.2019
Reconciliation of defined benefit obligation		
Defined benefit obligation as of 1 January	58,073	54,106
Interest expense on defined benefit obligation	60	531
Current service cost employer	5,909	4,685
Contributions by plan participants	2,443	2,760
Benefits (paid)/deposited	485	(4,813)
Past service cost and plan settlement	—	(7,475)
Actuarial (gain)/loss on defined benefit obligation	221	8,279
Defined benefit obligation as of 31 December	**67,191**	**58,073**

There were no plan settlements and plan curtailments in the year under review. Past service cost and plan settlement in the previous year include the effects of the transfer to the 1e plan.

CHF thousand	2020	2019
Components of actuarial (gain)/loss on defined benefit obligation		
Actuarial (gain)/loss arising from changes in financial assumptions	(372)	5,985
Actuarial (gain)/loss arising from changes in demographical assumptions	—	—
Actuarial (gain)/loss arising from experience adjustments	593	2,294
Actuarial (gain)/loss on defined benefit obligation	**221**	**8,279**

CHF thousand	31.12.2020	31.12.2019
Reconciliation of fair value of plan assets		
Fair value of plan assets as of 1 January	43,918	41,391
Interest income on plan assets	47	422
Contributions by employer	3,429	3,607
Contributions by plan participants	2,443	2,760
Benefits (paid)/deposited	485	(4,813)
Plan settlements	—	(2,978)
Gain/(loss) on plan assets (excluding interest income)	3,507	3,529
Fair value of plan assets as of 31 December	**53,829**	**43,918**

In prior year, defined benefit costs recognised in profit or loss include effects from the change in conversion rates and the introduction of the 1e plan.

CHF thousand	31.12.2020	31.12.2019
Maturity profile of defined benefit obligation		
Weighted average duration of defined benefit obligation in years	18.5	18.6

The significant actuarial assumptions were as follows:

	31.12.2020	31.12.2019
Significant actuarial assumptions		
Discount rate	0.15%	0.10%
Salary growth rate	1.00%	1.00%
Pension growth rate	0.00%	0.00%

Demographic assumptions (e.g. probability of death, disability or termination) are based on the Swiss BVG / LLP 2015 actuarial tables, which draw on observations of large insurance portfolios in Switzerland over a period of several years. The discount rate is used to determine the present value of pension obligations and is based on the yields on high-quality corporate bonds in Swiss francs.

	Change in assumption	DBO after increase in assumption (CHF thousand)	DBO after decrease in assumption (CHF thousand)
Sensitivity analysis			
Discount rate	0.25%	64,201	70,422
Salary growth rate	0.25%	67,534	66,803
Life expectancy	1 year	68,374	66,177

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

CHF thousand	Quoted	Unquoted	Total
Composition of plan assets			
Cash and cash equivalents	915	—	915
Equity instruments	15,417	—	15,417
Debt instruments	20,708	2,465	23,173
Real estate	—	12,526	12,526
Other	345	1,453	1,798
Total plan assets as of 31 December 2020	**37,385**	**16,444**	**53,829**

On 1 January 2020, the company's pension plan was transferred to the new service provider, Axa. The plan assets under the old pension plan amounted to CHF 43,915 thousand as of 31 December 2019 and represent a receivable from the previous service provider, Zürich Lebensversicherungs-Gesellschaft AG.

CHF thousand	31.12.2020	31.12.2019
Estimated contributions in the following year		
Contributions by employer	3,500	3,450
Contributions by plan participants	2,450	2,400

32 Expected credit loss

In accordance with IFRS 9, the company applies the expected credit loss methodology to calculate and recognise an impairment provision for financial assets measured at amortised cost or at fair value measured through other comprehensive income. These assets comprise the balance sheet items, "cash in hand", "amounts due/from banks", "amounts due/from securities transactions", "amounts due/from customers" and "financial investments measured at fair value through other comprehensive income".

Impairment of financial assets

For all debt financial assets measured at amortised cost and/or measured at fair value through other comprehensive income, the company applies the expected credit loss methodology:

- Stage 1, performing assets: At initial recognition, the 12-month expected credit loss is recognised for all assets.
- Stage 2, under-performing assets: If credit risk has increased significantly since initial recognition, the 12-month expected credit loss is increased to the life-time expected credit loss. In the case of a significant decrease in credit risk, the life-time expected credit loss is reduced to a 12-month expected credit loss and the assets are reclassified to stage 1.
- Stage 3, non-performing assets: If there is objective evidence of a loss event, an additional impairment adjustment is recognised.

The increase or decrease in the expected credit loss is recognised in the income statement in "changes in value adjustments for default risks and losses from interest operations". The allowance for 12-month expected credit loss as well as life-time expected credit loss is recognised in "expected credit loss provision or other comprehensive income". The company calculates the expected loss allowance on a portfolio-basis.

Credit risk management

Assets measured at amortised costs mainly consist of cash balances or cash collateral in connection with the company's business operations. The company holds cash collateral in connection with its trading activities relating to derivatives instruments and/or securities financing transactions. Assets measured at fair value through consists of bonds.

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

The company's assets usually have a short duration. Consequently, all credit exposure is of a short-term nature or could be reduced with risk-mitigating actions such as the unwinding of trades and removal of excess cash.

Expected credit loss calculation

The expected credit loss takes into account the exposure at default, probability of default, and loss given default. The starting point for the expected credit loss calculation is the determination of the input factors that are based on market observable inputs whenever possible. Exposure at default is based on exposures to different counterparties, taking into account the time value of money and risk-mitigating measures. The probability of default and loss given default are based on industry standard values, observable market inputs such as credit default swaps, and the extrapolation of observable market inputs. The calculation of the expected credit loss provision is performed at portfolio level.

Development of expected credit loss allowance

CHF thousand	31.12.2020	31.12.2019
Balance at the beginning of the period	1,116	2,950
Change in 12-month expected credit loss	1,092	(1,834)
Change in lifetime expected credit loss	—	—
for non-credit impaired financial assets with significantly increased credit risk	—	—
for credit impaired financial assets	—	—
for trade receivables, contract assets or lease receivables	—	—
Purchased or originated credit impaired assets	—	—
Currency translation adjustment	7	—
Balance at the end of the period	**2,215**	**1,116**
of which presented as a liability	51	269
of which presented in the other comprehensive income	2,164	847

Due to the short duration of financial assets measured at amortised cost or at fair value through other comprehensive income, no discounting of the ECL provision is needed.

The ECL allowance in connection with financial assets measured at fair value through other comprehensive income is recognised in the other comprehensive income (equity).

33 Provisions

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

CHF thousand	Reinstatement cost provisions	Other provisions	2020 Total provisions	2019 Total provisions
Balance at the beginning of the period	2,880	12,584	15,464	11,360
Adjustment due to first time adoption of IFRS 16	—	—	—	2,849
Utilisation in compliance with designated purpose	—	(5,179)	(5,179)	(1,751)
Increase in provisions recognised in the income statement	34	2,870	2,904	3,632
Release of provisions recognised in the income statement	—	(5,986)	(5,986)	(564)
Translation differences	(4)	(2)	(6)	(62)
Balance at the end of the period	**2,910**	**4,287**	**7,197**	**15,464**
of which short-term provisions	—	3,600	3,600	3,448
of which long-term provisions	2,910	687	3,597	12,016

Other provisions

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

Leonteq built a provision for legal cost in the amount of CHF 0.6 million regarding a disputed transaction with a client and claimed the incurred losses from the counterparty in the financial year 2020. The claimed amount of USD 13.4 million is recognised as a receivable in "Amounts due from customers" as of 31 December 2020.

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

Reinstatement cost provisions

The reinstatement cost provisions are calculated based on estimates of future anticipated costs to restore the lease asset to the condition required according to the terms and conditions of the lease. The liability associated with reinstatement costs is recognised and measured in accordance with IAS 37. Such provisions include a high level of judgement with regard to the point in time as well as the amounts that are expected to be incurred. While the point in time when these costs are expected to be incurred is aligned with the estimated duration of the underlying lease contract, the amount is determined based on inputs received from experts (e.g. architects) or derived from costs incurred when moving office locations in the past.

34 Shareholders' equity

Share capital

	Total par value (CHF) 31.12.2020	Number of shares 31.12.2020	Capital eligible for dividends 31.12.2020	Total par value (CHF) 31.12.2019	Number of shares 31.12.2019	Capital eligible for dividends 31.12.2019
Share capital	15,000,000	15,000	15,000,000	15,000,000	15,000	15,000,000
of which fully paid in	15,000,000	15,000	—	15,000,000	15,000	—
Total share capital	**15,000,000**	**15,000**	**15,000,000**	**15,000,000**	**15,000**	**15,000,000**
Authorised capital	—	—	—	—	—	—
of which capital increase completed	—	—	—	—	—	—
Conditional share capital	—	—	—	—	—	—
of which capital increase completed	—	—	—	—	—	—

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

Capital distribution

The Board of Directors proposes to the Annual General Meeting of Leonteq Securities AG on 31 March 2021 that no dividend be paid out of retained earnings and that there be no distribution out of reserves from capital contributions for the financial year 2020.

No dividend out of retained earnings and no distribution from reserves form capital contributions were paid for the financial year 2019.

35 Significant shareholders

Leonteq Securities AG is wholly owned by Leonteq AG. The significant shareholders of Leonteq AG are as follows:

	Number of shares held 31.12.2020	Voting rights in % 31.12.2020	Number of shares held 31.12.2019	Voting rights in % 31.12.2019
Raiffeisen Switzerland Cooperative	5,494,996	29.02%	5,495,157	29.02%
Lukas T. Ruflin[15,16]	1,546,168	8.17%	1,543,756	8.15%
Sandro Dorigo	528,533	2.79%	463,317	2.45%
Subtotal shareholders' agreement	**7,569,697**	**39.98%**	**7,502,230**	**39.62%**
Rainer-Marc Frey[17]	1,920,929	10.15%	2,784,000	14.70%
Credit Suisse Funds AG[18]	936,167	4.94%	N/A	N/A
Swisscanto Fondsleitung AG[19]	573,783	3.03%	N/A	N/A
Directors and executives[20]	164,355	0.87%	178,322	0.94%
Total significant shareholders	**11,164,931**	**58.97%**	**10,464,552**	**55.26%**

[15] 31.12.2020: Lukas T. Ruflin is the direct shareholder; 31.12.2019: Includes all the holdings of Lukas Ruflin (founding partner), Clairmont Trust Company Limited and Thabatseka LP; Clairmont Trust Company Limited acts as trustee of a trust that holds shares in Leonteq AG through Thabatseka LP (which, in turn, is indirectly wholly owned by Clairmont Trust Company Limited); the trust was settled by Lukas Ruflin.

[16] 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.

[17] H21 Macro Limited, Cayman Islands, is the direct shareholder.

[18] Creation of obligation to notify: 19 August 2020.

[19] Creation of obligation to notify: 3 June 2020.

[20] Excluding shareholdings of Lukas T. Ruflin.

36 Related-party transactions

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

CHF thousand	Amounts due from 31.12.2020	Amounts due from 31.12.2019	Amounts due to 31.12.2020	Amounts due to 31.12.2019	Income from 2020	Income from 2019	Expense to 2020	Expense to 2019
Significant shareholders								
Raiffeisen Switzerland Cooperative								
Amounts due from banks	27,960	19,018	—	—	—	—	—	—
Positive replacement values of derivative instruments	107,599	65,427	—	—	—	—	—	—
Amounts due to banks	—	—	66,083	3,950	—	—	—	—
of which credit facility	—	—	—	—	—	—	—	—
Negative replacement values of derivative instruments	—	—	59,257	63,593	—	—	—	—
Accrued expenses and deferred income	136	—	—	276	—	—	—	—
Platform partner service fee income	—	—	—	—	6,370	7,443	—	—
Other fee expenses	—	—	—	—	—	—	779	1,141
Interest income	—	—	—	—	1,165	482	—	—
Interest expenses	—	—	—	—	—	—	2,488	2,642
Leonteq AG								
Amounts due from customers	208	55	—	—	—	—	—	—
Amounts due to customers	—	—	13,100	26,285	—	—	—	—
Bond issues and central mortgage institution loans	—	—	100,000	100,000	—	—	—	—
Accrued expenses and deferred income	—	—	2,139	2,206	—	—	—	—
Fee income	—	—	—	—	1,045	1,049	—	—
Interest expenses	—	—	—	—	—	1	6,082	7,055
Affiliated companies								
Raiffeisen Switzerland B.V. Amsterdam								
Amounts due from customers	37,805	13,903	—	—	—	—	—	—
Positive replacement values of derivative instruments	148,127	110,609	—	—	—	—	—	—
Accrued income and prepaid expenses	—	302	54	—	—	—	—	—
Amounts due to customers	—	—	93,860	84,360	—	—	—	—
Negative replacement values of derivative instruments	—	—	108,952	74,157	—	—	—	—
Platform partner service fee income	—	—	—	—	31,001	21,777	—	—
Other fee expenses	—	—	—	—	—	—	—	3
Interest income	—	—	—	—	1,042	639	—	—
Interest expenses	—	—	—	—	—	—	88	1,093
Leonteq Securities (Europe) GmbH								
Amounts due from customers	3,678	47	—	—	—	—	—	—

CHF thousand	Amounts due from 31.12.2020	Amounts due from 31.12.2019	Amounts due to 31.12.2020	Amounts due to 31.12.2019	Income from 2020	Income from 2019	Expense to 2020	Expense to 2019
Amounts due to customers	—	—	8,570	2,826	—	—	—	—
Fee expenses	—	—	—	—	—	—	84,672	24,699
Leonteq Securities (Hong Kong) Ltd.								
Amounts due from customers	—	—	—	—	—	—	—	—
Amounts due to customers	—	—	136	384	—	—	—	—
Fee expenses	—	—	—	—	—	—	3,591	4,243
Leonteq Securities (Japan) Ltd.								
Amounts due from customers	—	54	—	—	—	—	—	—
Amounts due to customers	—	—	155	281	—	—	—	—
Fee expenses	—	—	—	—	—	—	2,449	2,921
Leonteq Securities (Monaco) SAM								
Amounts due from customers	18	8	—	—	—	—	—	—
Amounts due to customers	—	—	272	337	—	—	—	—
Fee income from other services	—	—	—	—	14	14	—	—
Fee expenses	—	—	—	—	—	—	5,830	7,150
Leonteq Securities (Singapore) PTE Ltd.								
Amounts due from customers	1,669	5	—	—	—	—	—	—
Amounts due to customers	—	—	1,399	773	—	—	—	—
Fee expenses	—	—	—		—	—	10,332	13,385
Leonteq (Middle East) Ltd.								
Amounts due from customers	171	—	—	—	—	—	—	—
Significant shareholders								
Transactions with members of governing bodies	—	—	—	—	—	—	—	—

On 6 April 2018, Leonteq entered into a cooperation agreement with Raiffeisen ("the Raiffeisen Agreement"). Under the terms of the Raiffeisen Agreement, Leonteq and Raiffeisen agreed to cooperate in the structuring, issuance, hedging, distribution, market making and lifecycle management of structured products and the provision of related services. The Raiffeisen Agreement ends on 31 March 2026, unless the parties 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. The Raiffeisen Facility has a maximum limit of CHF 350.0 million (unsecured) with the right for Leonteq Securities to reduce the facility to CHF 300.0 million at any time at the end of a calendar quarter. As of 31 December 2020, the facility amounts to CHF 300.0 million. Business activities with related parties are subject to standard market rates.

Key management personnel compensation

The company's key management personnel comprises the members of the Board of Directors and the Executive Committee. As of 31 December 2020, the Board consisted of eight members, all of whom are non-executive directors, and the Executive Committee consisted of seven members.

Compensation awarded to the Board of Directors and the Executive Committee is determined by the company's Nomination & Remuneration Committee and is reviewed annually. The Nomination & Remuneration Committee provides the Board with recommendations on the remuneration of Board members and the Executive Committee and defines the basic principles for the establishment, amendment and implementation of incentive plans. The Board reaches its decision regarding remuneration taking into account the maximum amounts approved prospectively by the Annual General Meeting (AGM) for members of the Board of Directors (maximum total compensation) and the members of the Executive Committee (fixed compensation and variable compensation for the long-term incentive plan). The total amount of variable compensation for the short-term incentive plan of members of the Executive Committee is approved by the AGM following the financial year with retrospective vote.

Total compensation for the Board of Directors and the Executive Committee of the company (collectively defined as key management personnel) for the year ending 31 December 2020 is listed in the tables below.

Compensation of members of the Board of Directors

CHF thousand	Salaries and other short-term employee benefits	Share-based payments [21]	Total compensation 2020	Total compensation 2019
Christopher M. Chambers (Chairman since EGM 2017)	168	219	387	394
Philippe Weber (Vice-Chairman since AGM 2020)	100	60	160	N/A
Hans Isler (Vice-Chairman until AGM 2020)	14	48	62	252
Jörg Behrens (Chairman ARC since 2012)	106	95	201	202
Patrick de Figueiredo (Member since 2010)	81	75	156	157
Susana Gomez Smith (Member since AGM 2019)	110	66	176	121
Richard A. Laxer (Chairman NRC since AGM 2019)	84	127	211	191
Thomas R. Meier (Member since EGM 2017)	83	75	158	160
Dominik Schärer (Member since EGM 2019)	77	81	158	45
Paulo Brügger (Member until 2 February 2019)	—	—	—	13
Vince Chandler (Member until AGM 2019)	—	—	—	54
Total	**823**	**846**	**1,669**	**1,589**

[21] These share-based payment amounts reflect the fair value of the shares at time of grant.

Compensation of members of the Executive Committee

CHF thousand	2020	2019
Short-term employee benefits	5,472	5,768
Post-employment benefits	468	424
Other long-term employee benefits	396	666
Share-based payments	1,792	1,668
Total key management personnel compensation	**8,128**	**8,526**

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

37 Off-balance

CHF thousand	31.12.2020	31.12.2019
Off-balance sheet transactions		
Contingent liabilities	19,937	21,302
Irrevocable commitments	26	28

Contingent liabilities arise from deferred payments in relation to employee variable compensation plans. For further information refer to Note 12.

Irrevocable commitments relate to Swiss Deposit Insurance.

38 Post-balance sheet events

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

39 Statutory banking regulations

The company's financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). FINMA stipulates that banks or security dealers domiciled in Switzerland that report their financial statements according to US GAAP or IFRS must explain any material differences between Swiss accounting regulations for banks (Banking Ordinance, FINMA Accounting Ordinance and FINMA Circular 2020/1) and the reporting standard used. The most significant differences between IFRS and Swiss accounting regulations for banks that are of relevance to the company are as follows:

Extraordinary profit

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

Pensions and post-retirement benefits

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

Share based payments

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

Lease accounting

IFRS 16 requires the company to recognise a lease liability reflecting the present value of future lease payments and a corresponding right of use asset on the balance sheet. The right of use asset is reflected in the "long-lived assets" and the lease liability in "other liabilities". The right of use asset is amortised over the period of the lease on a straight-line-basis. Lease payments are deducted from the lease liability after applying the interest charge for the period. The Swiss accounting regulations for banks do not accept IFRS 16. Instead, lease payments made during the period are recognised as operating expense.

Cryptocurrencies

Since cryptocurrencies do not meet the criteria to qualify as financial instrument under IFRS, the respective balance is presented as trading inventories. Under the Swiss accounting regulations cryptocurrencies held must be presented as trading financial assets.

Fair value through other comprehensive income

The Swiss accounting regulations for banks do not allow financial instruments to be accounted for at fair value through other comprehensive income. Instruments held under this IFRS category are classified as other financial instruments at fair value under the Swiss accounting regulations for banks. The full mark-to-market effect is reflected in the income statement, instead. The corresponding adjustments to the expected credit loss provision are also eliminated.

Expected credit loss

IFRS 9 requires entities to recognise credit losses on financial assets measured at amortised cost or at fair value through other comprehensive income using an expected credit loss (ECL) approach. Expected credit losses are measured through a loss allowance at an amount equal to 12-month expected credit losses or lifetime expected credit losses if the credit risk has increased significantly since initial recognition. The Swiss accounting regulations for banks allow to apply the IFRS 9 impairment model but the requirements regarding the provisioning for counterparty default risks. depend on the FINMA category of the banks.

Hedge Accounting

Under IFRS, the fair value movements of hedging instruments of cash flow hedges are recognised in comprehensive income. Swiss accounting regulations for banks do not allow for the recognition of expenses or income in comprehensive income. The fair value movements of hedging instruments of cash flow hedges are recognised in the compensation account instead. The effect was CHF 0 thousand for 2020 and CHF 0 for 2019, respectively.

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

The company offsets refinancing costs for trading financial assets and liabilities as well as other financial assets and liabilities designated at fair value through profit or loss with the "result from trading activities and the fair value option". The net position is disclosed as "interest and discount income". Interest and discount income includes the net refinancing result of trading activities of CHF 4.2 million and CHF 6.8 million in 2020 and 2019, respectively.

Deferred taxes

The Swiss accounting regulations for banks generally do not recognise deferred tax assets. Deferred tax liabilities are recognised as provisions. Leonteq Securities AG does not recognise any for its stand-alone financial statement in accordance with the Swiss accounting regulations for banks.

Current taxes

The Swiss accounting regulations for banks recognise current tax assets (liabilities) for income taxes under accrued income and prepaid expenses (accrued expenses and deferred income).

Changes in own credit

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

Under Swiss accounting regulations for banks, the changes in own credit risk are recognised through the compensation account and amortised through the income statement over the same period as the sales fee income is deemed earned. Any fair value impact not related to changes in own credit risk is also recognised in the income statement.

Assets under management

CHF thousand	31.12.2020	31.12.2019
Type of managed assets		
Assets in collective investment schemes managed by the bank	—	—
Assets under discretionary asset management agreements	34,932	31,685
Other managed assets	—	—
Total managed assets (including double-counting)		
Total assets under management (including double counted) at beginning of the period	31,685	11,507
of which double-counted items	—	—
+/- Net new money inflow/(outflow)	(1,434)	20,562
+/- effect of fair value changes, currency translation, interest	4,681	(384)
+/- other	—	—
Total assets under management at the end of the period	**34,932**	**31,685**

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

Report of the independent auditor

to the Board of Directors of Leonteq Securities AG, Zurich

Report on the audit of the financial statements

Opinion

On your instructions, we have audited the financial statements of Leonteq Securities AG (the Company), which comprise the income statement and statement of other comprehensive income for the year ended 31 December 2020, the statement of financial position as at 31 December 2020, the statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of principal accounting policies.

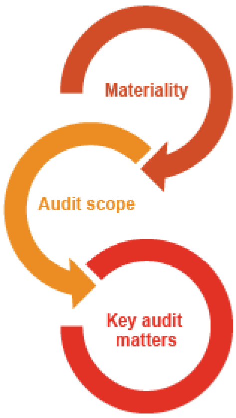
In our opinion, the financial statements (pages 22 to 89 and the audited sections of the risk and control report on pages 2 to 21) give a true and fair view of the financial position of the Company as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession as well as the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Overview



Overall materiality: CHF 2.8 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matters the following areas of focus have been identified:

- Valuation of level 2 and level 3 financial instruments
- Recognition of fee income
- Portfolio and risk management system

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 2.8 million
How we determined it	5% of the three-year average of profit before tax
Rationale for the materiality benchmark applied	We chose the three-year average of profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured and it is a generally accepted benchmark.

We agreed with the Audit & Risk Committee that we would report to them misstatements above CHF 140,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

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

Valuation of level 2 and level 3 financial instruments

Key audit matter	How our audit addressed the key audit matter
The Company exercises considerable judgement in valuing certain assets and liabilities at fair value where valuation models are used. These assets and liabilities are valued using a model where significant model input parameters can be observed directly or indirectly in the market (level 2) or significant input parameters cannot be observed in the market (level 3). For the Company, these financial instruments consist of issued structured products and derivative instruments. Judgement is required in estimating the fair value of these financial instruments when determining appropriate valuation models, inputs such as the Company's own credit risk, implied volatility or correlations between different risk factors and valuation adjustments. As of 31 December 2020, the Company reports total financial assets at fair value of CHF 10.8 billion of which CHF 2.1 billion are level 2 financial instruments and financial liabilities at fair value of CHF 9.2 billion of which CHF 6.3 billion are level 2 or level 3 financial instruments.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to level 2 or level 3 financial instruments, including controls over the: • approval of new instruments, • approval and validation of models adopted, • daily analysis of profit and loss, and • accuracy of data feeds, inputs to models and the Company's independent price verification. In testing the fair value of issued structured products and derivatives we involved PwC valuation specialists and assessed a sample of valuations by considering the modelling approaches, inputs and valuation adjustments. In addition, we assessed the appropriateness of the Company's disclosure in the financial report.

Given the extent of judgement involved in valuing these financial instruments, we considered this to be a key audit matter. See Note 15 to the financial statements on pages 47 to 53.	Based on our audit procedures, we deem management's approach regarding the valuation of level 2 and level 3 financial instruments as appropriate.

Recognition of fee income

Key audit matter	How our audit addressed the key audit matter
The Company exercises considerable judgement in recognising revenue from fee income for services rendered. Fees from these services include amongst others the initial margin earned upon the issuance of structured investment products (Investment Solutions business) as well as the service, management and hedge fees earned in connection with the issuance of unit-linked life insurance policies (Insurance & Wealth Planning Solutions business). Judgement is required in recognising fee income in relation to the issuance of these financial instruments when determining the performance obligations, allocating the transaction price to performance obligations and estimating the fulfilment of these performance obligations at a point in time or over time. For the year 2020 the Company reports net fee income from Investment Solutions of CHF 261 million and net fee income from Insurance & Wealth Planning Solutions of CHF 22 million. Given the extent of judgement involved in recognising fee income for such services, we considered this to be a key audit matter. See Note 8 to the financial statements on pages 37 to 38.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the complete and accurate recognition of fee income, including the accuracy of data and inputs for fee calculations. For issued structured products and unit-linked life insurance policies we reconciled the amounts of fee income according to the Company's front office system with the amounts according to the accounting system. We further tested the assumptions related to the accounting estimates in connection with the fee deferral and re-performed on a sample basis the deferred revenue calculation. Further, we reconciled on a sample basis the fee income received with the cash receipts. In addition, we assessed the appropriateness of the Company's disclosure in the financial report. Based on our audit procedures, we deem management's approach regarding the recognition of fee income as appropriate.

Portfolio and risk management system

Key audit matter	How our audit addressed the key audit matter
We focussed on this area because the Company's financial accounting and reporting system is highly dependent on the portfolio and risk management system and there is a risk that the IT system architecture, the interface controls and business continuity measures used are not designed and operating effectively.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the Company's IT portfolio and risk management system as well as testing the interfaces to the financial accounting and reporting systems. We tested the design and operating effectiveness of the controls and processes in place by performing inquiries with management and users, considering the Company's IT strategy and its implementation status and inspecting control documentation. We further tested logical and physical access restrictions and controls in place related to program changes and computer operations. Based on our audit procedures, we deem management's approach regarding the design and implementation of the portfolio and risk management system as appropriate.

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Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report but does not include the financial statements and statutory financial statements as of 31 December 2020 and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

PricewaterhouseCoopers AG

Andrin Bernet	Dominik Töngi
Audit expert Auditor in charge	Audit expert

Zurich, 10 February 2021

STATUTORY FINANCIAL STATEMENTS

CONTENT

Statutory financial statements

Notes to the statutory financial statements

Leonteq Securities AG

Income statement in accordance with ARB for the years ended 31 December 2020 and 2019

CHF thousands	2020	2019
Result from interest operations		
Interest and discount income	13,104	16,441
Interest expenses	(18,101)	(25,892)
Gross result from interest operations	**(4,997)**	**(9,451)**
Changes in value adjustments for default risks and losses from interest operations	(1,092)	1,833
Net result from interest operations	**(6,089)**	**(7,618)**
Fee income		
Fee income from securities trading and investment activities	341,624	270,792
Fee income from other services	1,060	1,063
Fee expenses	(60,050)	(56,647)
Net fee income	**282,634**	**215,208**
Result from trading activities and the fair value option	**(112,246)**	**(14,681)**
Result from other ordinary activities		
Other ordinary income	3,921	2,838
Result from other ordinary activities	**3,921**	**2,838**
Operating expenses		
Personnel expenses	(83,485)	(83,295)
Other operating expenses	(44,508)	(40,373)
Operating expenses	**(127,993)**	**(123,668)**
Depreciation of long-lived assets	(22,781)	(20,059)
Changes to provisions and other value adjustments, and losses	3,115	(3,131)
Result from operating activities	**20,561**	**48,889**
Extraordinary income	5	230
Taxes	381	(709)
Net profit	**20,947**	**48,410**

Interest and discount income includes the net refinancing result of the trading activities of CHF 4.2 million as of 31 December 2020 and CHF 6.8 million as of 31 December 2019.

Appropriation of retained earnings

CHF thousands	31.12.2020	31.12.2019
Net profit	**20,947**	**48,410**
Profit carried forward from prior years	221,579	173,169
Accumulated profit carried forward	**242,526**	**221,579**
Appropriation of profit		
Allocation to the statutory retained earnings reserves	—	—
Dividend	—	—
Accumulated profit to be carried forward	**242,526**	**221,579**

Leonteq Securities AG

Balance sheet in accordance with ARB as of 31 December 2020 and 2019

CHF thousands	31.12.2020	31.12.2019
Assets		
Liquid assets	215,645	130,891
Amounts due from banks	551,235	478,031
Amounts due from securities financing transactions	4,188	48,883
Amounts due from customers	511,779	393,448
Trading financial assets	3,411,093	2,181,701
Trading inventories	155,217	—
Positive replacement values of derivative financial instruments	4,671,008	2,991,746
Other financial assets designated at fair value through profit or loss	2,700,228	2,644,294
Accrued income and prepaid expenses	19,723	23,276
Long-lived assets	62,917	60,597
Other assets	45,860	19,190
Total assets	**12,348,893**	**8,972,057**
Total subordinated claims	46,271	11,612
of which subject to mandatory conversion and/or debt waiver	—	—
Liabilities		
Amounts due to banks	380,636	232,210
Liabilities from securities financing transactions	1,146,648	259,319
Amounts due to customers	835,342	622,190
Trading financial liabilities	200,544	433,907
Negative replacement values of derivative financial instruments	4,058,933	2,527,075
Other financial liabilities designated at fair value through profit or loss	4,944,510	4,092,490
Bond issued and central mortgage institution loan	100,000	100,000
Accrued expenses and deferred income	140,722	177,340
Other liabilities	6,511	6,223
Expected credit loss provision	2,210	1,114
Provisions	4,285	12,584
Total liabilities	**11,820,341**	**8,464,452**
Equity		
Share capital	15,000	15,000
Statutory capital reserve	270,307	270,307
of which tax exempt capital contribution reserve	163,525	163,525
Statutory retained earnings reserve	719	719
Profit carried forward	221,579	173,169
Net profit	20,947	48,410
Total shareholders' equity	**528,552**	**507,605**
Total liabilities and shareholders' equity	**12,348,893**	**8,972,057**
Total subordinated liabilities	101,931	127,706
of which subject to mandatory conversion and/or debt waiver	100,000	100,000

Off-balance in accordance with ARB

Please refer to Note 37.

Leonteq Securities AG

Statement of changes in equity for the years ended 31 December 2020 and 2019

CHF thousands	Share capital	Statutory capital reserve[1]	Statutory retained earnings reserve	Profit/(-loss) carried forward	Net profit/ (-loss)	Total
Balance as of 31 December 2018	**15,000**	**270,307**	**719**	**108,226**	**64,943**	**459,195**
Reallocation of retained earnings	—	—	—	64,943	(64,943)	—
Employee participation schemes	—	—	—	—	—	—
Capital increase/(decrease)	—	—	—	—	—	—
Acquisition and disposal of own shares	—	—	—	—	—	—
Dividends and other distributions	—	—	—	—	—	—
Other allocations to/(transfers from) the other reserves	—	—	—	—	—	—
Net profit	—	—	—	—	48,410	48,410
Balance as of 31 December 2019	**15,000**	**270,307**	**719**	**173,169**	**48,410**	**507,605**

[1] CHF 263,525 thousand relate to tax exempt capital contribution reserve of which CHF 151,950 thousand have been confirmed by the Swiss Federal Tax Administration (ESTV) on 4 May 2018. The proceeds from the 2018 capital increase have been reported to the tax authorities. Leonteq Securities AG is awaiting formal confirmation.

CHF thousands	Share capital	Statutory capital reserve[2]	Statutory retained earnings reserve	Profit/(-loss) carried forward	Net profit/ (-loss)	Total
Balance as of 31 December 2019	**15,000**	**270,307**	**719**	**173,169**	**48,410**	**507,605**
Reallocation of retained earnings	—	—	—	48,410	(48,410)	—
Employee participation schemes	—	—	—	—	—	—
Capital increase/(decrease)	—	—	—	—	—	—
Acquisition and disposal of own shares	—	—	—	—	—	—
Dividends and other distributions	—	—	—	—	—	—
Other allocations to/(transfers from) the other reserves	—	—	—	—	—	—
Net profit	—	—	—	—	20,947	20,947
Balance as of 31 December 2020	**15,000**	**270,307**	**719**	**221,579**	**20,947**	**528,552**

[2] CHF 263,525 thousand relate to tax exempt capital contribution reserve of which CHF 151,950 thousand have been confirmed by the Swiss Federal Tax Administration (ESTV) on 4 May 2018. The proceeds from the 2018 capital increase have been reported to the tax authorities. Leonteq Securities AG is awaiting formal confirmation.

Concordance table regarding disclosure requirements

The following concordance table provides a reconciliation of the disclosure requirements under the Swiss accounting regulations for banks (Banking Ordinance (BO), FINMA Accounting Ordinance (RelV-FINMA) and FINMA Circular 2020/1) and the disclosures in the single entity financial statements of Leonteq Securities AG. The company is a fully owned subsidiary of the listed company Leonteq AG, which publishes consolidated financial statements in accordance with IFRS. Therefore, Leonteq Securities AG can apply the consolidation relief to selected disclosure requirements. In accordance with the Banking Ordinance Article 36, Leonteq Securities AG is not required to publish a management report.

Swiss accounting regulations	Disclosure requirement	Disclosure in single financial statements of Leonteq Securities AG
BankO Annex 1 A	Balance sheet	Note 39: Statement of financial position for the year ended 31 December 2020 and 2019
BankO Annex 1 B	Income statement	Note 39: Income statement for the year ended 31 December 2020 and 2019
RelV-FINMA	Appropriation of profit/coverage of losses/ other distributions	Note 39: Proposed appropriation of retained earnings as well as proposed distribution from reserves from capital contribution
BankO Annex 1 C	Cash flow statement	In accordance with BankO art. 36, Leonteq Securities AG does not need to disclose a cash flow statement.
BankO Annex 1 D	Statement of change in equity	Note 39: Statement of changes in equity from the years ended 31 December 2020 and 2019
BankO Annex 1 E let. a	Business name and its legal form and domicile	Note 1: General information
BankO Annex 1 E let. b	Accounting and valuation policies	Note 4: Critical accounting estimates and judgements in applying accounting policies; Note 5: Changes to critical accounting estimates and changes to presentation; Note 3: Principal accounting policies; Note 39: Statutory banking regulations (differences between IFRS and ARB)
BankO Annex 1 E let. c	Risk Management	Risk and Control (pages 3 to 21)
BankO Annex 1 E let. d	Explanation of the methods used for identifying default risks and determining the need for value adjustments	Note 39: Statutory banking regulations – Expected credit loss Note 23: Expected credit loss
BankO Annex 1 E let. e	Explanations of the valuation of collateral, in particular key criteria for the calculation of the current market value and the lending value	Leonteq Securities does not have credit business.
BankO Annex 1 E let. f	Explanations of the bank's business policy regarding the use of derivative financial instruments, including explanations relating to the use of hedge accounting	Note 16: Hedge accounting Note 23: Replacement values of derivative instruments Note 39: Statutory banking regulations
BankO Annex 1 E let. g	Material events after balance sheet date	Note 38: Post-balance sheet events
BankO Annex 1 E let. i	Information on the balance sheet	Notes to the (consolidated) financial statements
BankO Annex 1 E let. i cypher 1	Breakdown of securities financing transactions (assets and liabilities)	Note 20: Securities financing transactions (assets and liabilities)
BankO Annex 1 E let. i cypher 2	Presentation of collateral for loans/receivables and off-balance-sheet transactions and impaired loans/ receivables	Note 39: Collateralised loans/receivables and off-balance-sheet transactions and impaired loans/receivables
BankO Annex 1 E let. i cypher 3	Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)	Note 21: Trading financial assets and liabilities Note 22: Trading inventories Note 24: Other financial assets and liabilities designated at fair value through profit or loss
BankO Annex 1 E let. i cypher 4	Presentation of derivative financial instruments (assets and liabilities)	Note 23: Replacement values of derivative instruments
BankO Annex 1 E let. i cypher 5	Breakdown of financial investments	Leonteq Securities AG does not have any financial investments
BankO Annex 1 E let. i cypher 6	Presentation of participations	In accordance with margin number 328, Leonteq Securities AG does not need to disclose the participations
BankO Annex 1 E let. i cypher 7	Disclosure of companies in which the banks holds a permanent direct or indirect significant participation	In accordance with margin number 329, Leonteq Securities AG does not need to disclose the permanent direct or indirect significant participations
BankO Annex 1 E let. i cypher 8	Presentation of long-lived assets	Note 28: Long-lived assets

Margin number of FINMA Circ. 15/1	Disclosure requirement	Disclosure in single financial statements of Leonteq Securities AG
BankO Annex 1 E let. i cypher 9	Presentation of intangible assets	Leonteq Securities does not have any intangible assets
BankO Annex 1 E let. i cypher 10	Breakdown of other assets and other liabilities	Note 29: Other assets and liabilities
BankO Annex 1 E let. i cypher 11	Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership	Leonteq Securities AG does not have any assets pledged or assigned to secure own commitments and of assets under reservation of ownership
BankO Annex 1 E let. i cypher 12	Disclosure of liabilities relating to own pension schemes and number and nature of equity instruments of the bank held by own pension schemes	Note 39: Statutory banking regulations – Pension and post-retirement benefits
BankO Annex 1 E let. i cypher 13	Disclosure of the economic position of own pension schemes	Note 39: Information on Economic Benefit/Liability and the pension expenses
BankO Annex 1 E let. i cypher 14	Presentation of issued structure products	Note 24: Other financial assets and liabilities designated at fair value through profit or loss
BankO Annex 1 E let. i cypher 15	Presentation of bonds outstanding and mandatory convertible bonds	Note 25: Bond issued and central mortgage institution loans
BankO Annex 1 E let. i cypher 16	Presentation of value adjustments and provisions, reserves for general banking risks and changes therein during the current year	Note 33: Provisions
BankO Annex 1 E let. i cypher 17	Presentation of the bank's capital	Note 34: Shareholder's equity
BankO Annex 1 E let. i cypher 18	Number and value of equity securities or options on equity securities held by all executives and directors and by employees and disclosure of any employee participation schemes	Note 12: Personnel expenses
BankO Annex 1 E let. i cypher 19	Disclosures of amounts due from / to related parties	Note 36: Related-party transactions
BankO Annex 1 E let. i cypher 20	Disclosure of holders of significant participations	Note 35: Significant shareholders
BankO Annex 1 E let. i cypher 21	Disclosure of own shares and composition of equity capital	Note 34: Shareholder's equity
BankO Annex 1 E let. i cypher 22	Disclosures in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations and Article 663c para. 3 CO for banks whose equity securities are listed	The equity securities of Leonteq Securities AG are not listed
BankO Annex 1 E let. i cypher 23	Presentation of the maturity structure of financial instruments	In accordance with margin number 333, Leonteq Securities AG does not need to disclose the maturity structure of financial instruments
BankO Annex 1 E let. i cypher 24	Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle	In accordance with margin number 334, Leonteq Securities AG does not need to disclose the presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle maturity structure of financial instruments
BankO Annex 1 E let. i cypher 25	Breakdown of total assets by country or group of countries (domicile principle)	In accordance with margin number 335, Leonteq Securities AG does not need to disclose the breakdown of total assets by country or group of countries (domicile principle)
BankO Annex 1 E let. i cypher 26	Breakdown of total assets by credit rating of country groups (risk domicile view)	Note 39: Statutory banking regulations – Breakdown of total assets by credit rating of country groups
BankO Annex 1 E let. i cypher 27	Breakdown of assets and liabilities broken down by the most significant currencies for the bank or financial group	In accordance with margin number 336, Leonteq Securities AG does not need to disclose the breakdown of assets and liabilities broken down by the most significant currencies for the bank or financial group
BankO Annex 1 E let. j cypher 28	Off-balance-sheet transactions	Note 37: Off-balance
BankO Annex 1 E let. j cypher 29	Commitments	Note 37: Off-balance
BankO Annex 1 E let. j cypher 30	Fiduciary transactions	Leonteq Securities does not perform any fiduciary transactions.
BankO Annex 1 E let. j cypher 31	Assets under management	Note 39: Statutory banking regulations – assets under management

Margin number of FINMA Circ. 15/1	Disclosure requirement	Disclosure in single financial statements of Leonteq Securities AG
BankO Annex 1 E let. k cypher 32	Breakdown of the result from trading activities and the fair value option	Note 9: Results from trading activities and the fair value option
BankO Annex 1 E let. k cypher 33	Disclosure of material refinancing income	Note 39: Statutory banking regulations – Refinancing costs for trading financial assets and liabilities as well as other financial assets and liabilities designated at fair value through profit or loss
BankO Annex 1 E let. k cypher 34	Breakdown of personnel expenses	Note 12: Personnel expenses
BankO Annex 1 E let. k cypher 35	Breakdown of general and administrative expenses	Note 13: Other operating expenses
BankO Annex 1 E let. k cypher 36	Explanations regarding material losses, extraordinary income and expenses as well as material releases of hidden reserves, reserves for general banking risks and value adjustments and provisions no longer required	Note 39: Statutory banking regulations – Extraordinary profit
BankO Annex 1 E let. k cypher 37	Disclosure of and reasons for revaluation of participations and long-lived assets up to acquisition cost at maximum	Leonteq Securities AG does not have any participation and long-lived assets with hidden reserves
BankO Annex 1 E let. k cypher 38	Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment	In accordance with margin number 339, Leonteq Securities AG does not need to disclose the presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment
BankO Annex 1 E let. k cypher 39	Presentation of current and deferred taxes and disclosure of tax rate	Note 14: Taxes
BankO Annex 1 E let. k cypher 40	Disclosures and explanations of the earning per equity securities	The equity securities of Leonteq Securities AG are not listed

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

CHF thousands	Type of collateral			Total
	Secured by mortgage	Other collateral	Unsecured	31.12.2020
Loans (before netting with value adjustments)				
Amounts due from customers	—	30,562	481,217	511,779
Other financial assets designated at fair value through profit and loss	—	182,990	2,517,238	2,700,228
Mortgage loans				
Residential property	—	—	—	—
Office and business premises	—	—	—	—
Commercial and industrial premises	—	—	—	—
Other	—	—	—	—
Total loans (before netting with value adjustments)				
Balance as of 31 December 2020	**–**	**213,552**	**2,998,455**	**3,212,007**
Balance as of 31 December 2019	**–**	**268,977**	**2,768,765**	**3,037,742**
Total loans (after netting with value adjustments)				
Balance as of 31 December 2020	**–**	**213,552**	**2,998,455**	**3,212,007**
Balance as of 31 December 2019	**–**	**268,977**	**2,768,765**	**3,037,742**
Off-balance sheet				
Contingent liabilities	—	—	19,937	19,937
Irrevocable commitments	—	—	26	26
Obligations to pay up shares and make further contributions	—	—	—	—
Credit commitments	—	—	—	—
Total off-balance-sheet as of 31 December 2020	**–**	**–**	**19,963**	**19,963**
Total off-balance-sheet as of 31 December 2019	**–**	**–**	**21,330**	**21,330**

CHF thousands	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Net debt amount
Impaired loans / receivables				
Balance as of 31 December 2020	**–**	**–**	**–**	**–**
Balance as of 31 December 2019	**–**	**–**	**–**	**–**

Information on economic benefit/liability and the pension expenses

CHF thousands	31.12.2020 Surplus	31.12.2020 Economic benefit or liability	31.12.2019 Economic benefit or liability	Change versus previous year	Contributions accrued for the period	31.12.2020 Pension costs included in Personnel Expenses	31.12.2019 Pension costs included in Personnel Expenses
Patronage funds and pension plans	—	—	—	—	—	—	—
Pension plans without a surplus/shortfall	—	—	—	—	—	—	—
Pension plans with a surplus	4,938	—	—	—	3,429	3,429	3,607
Pension plans with a shortfall	—	—	—	—	—	—	—
Pension schemes without their own assets	—	—	—	—	—	—	—
Total	**4,938**	**—**	**—**	**—**	**3,429**	**3,429**	**3,607**

Pension fund Leonteq Securities AG

	31.12.2020	31.12.2019
Coverage ratio excluding employer's contribution reserve	110.10%	104.30%
Coverage ratio including employer's contribution reserve	110.10%	104.30%

Ownership of shares and options by members of the Board of Directors and Executive Committee

The below table shows the number of shares held by the individual members of the Board of Directors and members of the Executive Committee as of 31 December 2020 and 31 December 2019, respectively. Members of the Board of Directors and members of the Executive Committee did not hold any options to acquire shares as of 31 December 2020 and as of 31 December 2019, respectively. RSUs issued to members of the Executive Committee convert into shares upon vesting.

Board of Directors	31.12.2020	31.12.2019
Christopher M. Chambers	29,313	25,019
Philippe Weber[3]	1,886	NA
Hans Isler[4]	NA	21,172
Jörg Behrens	16,303	14,361
Patrick de Figueiredo	12,399	10,866
Susana Gomez Smith	3,006	1,616
Richard A. Laxer	8,027	5,502
Thomas R. Meier	5,689	4,156
Dominik Schärer	3,105	1,572
Number of shares	**79,728**	**84,264**
Whereof locked shares	46,717	50,295
Market value of shares	**2,794,466**	**2,767,230**

[3] Philippe Weber was elected to the Board of Directors at the Annual General Meeting on 31 March 2020.
[4] Hans Isler did not stand for re-election at the Annual General Meeting on 31 March 2020.

Executive Committee	31.12.2020			31.12.2019		
	Shares	Restricted Stock Units[5]	Performance Share Units[6]	Shares	Restricted Share Units[5]	Performance Share Units[6]
Lukas T. Ruflin[7,8,9]	1,546,168	6,939	63,995	1,543,756	9,351	26,188
Marco Amato	46,000	12,552	32,378	30,432	18,120	11,490
Jochen Kühn	18,612	6,042	27,198	29,038	25,090	11,130
Manish Patnaik	6,997	4,811	24,712	5,122	6,686	8,380
Reto Quadroni	8,379	2,856	14,398	5,488	4,087	5,892
David Schmid[10]	N/A	N/A	N/A	22,870	17,813	21,147
Markus Schmid[11]	2,396	—	—	N/A	N/A	N/A
Ingrid Silveri	2,243	2,759	14,398	1,108	3,894	5,892
Number of shares and share units	**1,630,795**	**35,959**	**177,079**	**1,637,814**	**85,041**	**90,119**
Market value of shares and share units	**57,159,365**	**1,260,363**	**6,206,619**	**53,785,812**	**2,792,746**	**2,959,508**

5 Balance of unvested restricted stock units granted for prior year variable compensation or contractually agreed with vesting periods 2018 - 2022. Balances as at 31 December 2019 were adjusted to reflect the inclusion of an additional 53’852 RSUs which were granted in March 2019 arising from the performance year 2018.

6 Balance of unvested performance share units at maximum opportunity level granted variable compensation with performance periods 2019 - 2022.

7 31.12.2019: To increase comparability, this includes 1,531,376 shares held by Thabatseka LP, which is indirectly wholly owned by Clairmont Trust Company Limited; Clairmont Trust Company Limited acts as trustee of a trust which held shares in Leonteq AG through Thabatseka LP; the trust was settled by Lukas Ruflin.

8 31.12.2020: Excluding 462,325 call options held by Lukas Ruflin; call options are subject to the following conditions: original strike price CHF 210 (adjusted for cumulative dividends per share and the effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

9 31.12.2019: Excluding 462,325 call options held by Thabatseka LP; call options are subject to the following conditions: original strike price CHF 210 (adjusted for cumulative dividends per share and the effects of corporate actions from 2015 to 2025); subscription ratio 1:1; maturity 19 October 2025; European style. These call options are written by Raiffeisen.

10 David Schmid left the Executive Committee on 11 November 2020. He is succeeded by Alessandro Ricci, who was appointed as of 1 January 2021.

11 Markus Schmid joined the Executive Committee on 1 October 2020.

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

Total assets by credit rating of country groups

Risk domicile view

Moody's rating categories	Net foreign exposure in CHF thousands	2020 Shares as %	Net foreign exposure in CHF thousands	2019 Shares as %
Aaa - Aa3	8,253,213	96%	5,415,029	96%
A1 - A3	5,241	0%	730	0%
Baa1 - Baa3	179,269	2%	133,584	2%
Ba1 - Ba2	89,083	1%	39,914	1%
Ba3	20,974	0%	18,944	0%
B1 - B3	75,137	1%	55,600	1%
Caa1 - C	3,259	0%	4,415	0%
unrated	8,261	0%	11,760	0%
Total assets	**8,634,439**	**100%**	**5,679,976**	**100%**

Capital management

he 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 31 December 2020.

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.

Report of the statutory auditor

to the General Meeting of Leonteq Securities AG, Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Leonteq Securities AG (the Company), which comprise the income statement for the year ended 31 December 2020, the balance sheet as at 31 December 2020, the statement of changes in equity for the year then ended and notes (pages 94 to 105), including a summary of principal accounting policies.

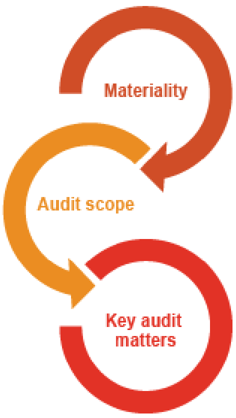
In our opinion, the financial statements as at 31 December 2020 give a true and fair view of the financial position and the results of operations in accordance with accounting rules for banks and comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Overview



Overall materiality: CHF 2.6 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matters the following areas of focus have been identified:

- Valuation of level 2 and level 3 financial instruments
- Recognition of fee income
- Portfolio and risk management system

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 2.6 million
How we determined it	5% of the three-year average of profit before tax
Rationale for the materiality benchmark applied	We chose the three-year average of profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit & Risk Committee that we would report to them misstatements above CHF 130,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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

Valuation of level 2 and level 3 financial instruments

Key audit matter	How our audit addressed the key audit matter
The Company exercises considerable judgement in valuing certain assets and liabilities at fair value where valuation models are used. These assets and liabilities are valued using a model where significant model input parameters can be observed directly or indirectly in the market (level 2) or significant input parameters cannot be observed in the market (level 3). For the Company, these financial instruments consist of issued structured products and derivative instruments. Judgement is required in estimating the fair value of these financial instruments when determining appropriate valuation models, inputs such as the Company's own credit risk, implied volatility or correlations between different risk factors and valuation adjustments. As of 31 December 2020, the Company reports total financial assets at fair value of CHF 10.8 billion of which CHF 2.1 billion are level 2 financial instruments and financial liabilities at fair value of CHF 9.2 billion of which CHF 6.3 billion are level 2 or level 3 financial instruments.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to level 2 or level 3 financial instruments, including controls over the: • approval of new instruments, • approval and validation of models adopted, • daily analysis of profit and loss, and • accuracy of data feeds, inputs to models and the Company's independent price verification. In testing the fair value of issued structured products and derivatives we involved PwC valuation specialists and assessed a sample of valuations by considering the modelling approaches, inputs and valuation adjustments. In addition, we assessed the appropriateness of the Company's disclosure in the financial report.

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Given the extent of judgement involved in valuing these financial instruments, we considered this to be a key audit matter. See Note 15 to the financial statements on pages 47 to 53.	Based on our audit procedures, we deem management's approach regarding the valuation of level 2 and level 3 financial instruments as appropriate.

Recognition of fee income

Key audit matter	How our audit addressed the key audit matter
The Company exercises considerable judgement in recognising revenue from fee income for services rendered. Fees from these services include amongst others the initial margin earned upon the issuance of structured investment products (Investment Solutions business) as well as the service, management and hedge fees earned in connection with the issuance of unit-linked life insurance policies (Insurance & Wealth Planning Solutions business). Judgement is required in recognising fee income in relation to the issuance of these financial instruments when determining the performance obligations, allocating the transaction price to performance obligations and estimating the fulfilment of these performance obligations at a point in time or over time. For the year 2020 the Company reports net fee income from Investment Solutions of CHF 261 million and net fee income from Insurance & Wealth Planning Solutions of CHF 22 million. Given the extent of judgement involved in recognising fee income for such services, we considered this to be a key audit matter. See Note 8 to the financial statements on pages 37 to 38.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the complete and accurate recognition of fee income, including the accuracy of data and inputs for fee calculations. For issued structured products and unit-linked life insurance policies we reconciled the amounts of fee income according to the Company's front office system with the amounts according to the accounting system. We further tested the assumptions related to the accounting estimates in connection with the fee deferral and re-performed on a sample basis the deferred revenue calculation. Further, we reconciled on a sample basis the fee income received with the cash receipts. In addition, we assessed the appropriateness of the Company's disclosure in the financial report. Based on our audit procedures, we deem management's approach regarding the recognition of fee income as appropriate.

Portfolio and risk management system

Key audit matter	How our audit addressed the key audit matter
We focussed on this area because the Company's financial accounting and reporting system is highly dependent on the portfolio and risk management system and there is a risk that the IT system architecture, the interface controls and business continuity measures used are not designed and operating effectively.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to the Company's IT portfolio and risk management system as well as testing the interfaces to the financial accounting and reporting systems. We tested the design and operating effectiveness of the controls and processes in place by performing inquiries with management and users, considering the Company's IT strategy and its implementation status and inspecting control documentation. We further tested logical and physical access restrictions and controls in place related to program changes and computer operations. Based on our audit procedures, we deem management's approach regarding the design and implementation of the portfolio and risk management system as appropriate.

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Responsibilities of the Board of Directors for the financial statements

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Andrin Bernet	Dominik Töngi
Audit expert Auditor in charge	Audit expert

Zurich, 10 February 2021

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

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