DUKASCOPY
Swiss Forex Bank & Marketplace

DUKASCOPY BANK SA

ANNUAL REPORT 2016

DUKASCOPY
Swiss Forex Bank & Marketplace

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INTRODUCING DUKASCOPY GROUP

Dukascopy's history started in 1998 as a project of physicists headed by Dr. Andrey Duka in Geneva, aiming at serving the financial community with innovative solutions based on novel mathematical and econophysical techniques.

The founders' vision materialised in an international financial and media group headed by an innovative online Swiss bank and securities dealer "Dukascopy Bank", counting 197.1 employees (in full time equivalent) as at 31.12.2016 (164.8 on 31.12.2015). At same date, Dukascopy Group counted 339.8 employees of which 293.4 for the consolidated companies (in full time equivalent, respectively 298.4 and 266.9 as at 31.12.2015).

The bank and brokers of our Group regulated in Switzerland, Latvia and Japan offer multiproduct (FX, bullion, CFD, binary options) online and mobile trading platforms together with an increasing range of other financial services including classical banking payments, alternative cheap and instant payments via smartphones, payment cards, current accounts, bank guarantees to individuals and institutions from around the world.

Dukascopy Bank is a Swiss FinTech precursor in digital financial services offering paperless and user-friendly financial services which are affordable for everyone. Since 2016, an account with Dukascopy can be opened within a day, fully online.

The Group development strategy is to expand geographically so as to reach key markets and to always enrich its range of easy-to-use financial services based on unique in-house developed technological solutions.

Dukascopy has a media arm "Dukascopy TV" which is a Swiss financial online television regulated by OFCOM.

In addition to modern financial services, our Group creates online communities, social networks, online games and contests where people entertain themselves and interact via Dukascopy Connect, a secure communicator (chat and video) developed and powered by Dukascopy Bank, which can be used to freely exchange trading strategies, market views, private messages, etc.

Dukascopy brand is known internationally and is synonym of innovation and seriousness in digital financial services.

MESSAGE FROM THE BOARD OF DIRECTORS

2016 was another very good year for Dukascopy, despite many tumultuous political and economic events which contributed to maintain the high level of uncertainty on the financial markets inherited from 2015. If central banks did not create significant shocks as was the case in 2015 with the abandon, by the Swiss National Bank, of the policy of capping the Swiss franc's exchange rate, the big surprises came from the political side with the increasing trend of nationalism and protectionism which resulted in the Brexit vote and the election of a new U.S. president, whose administration may generate significant changes in the economic and political landscape.

In Switzerland, the consolidation process continued in the financial sector and the emergence of FinTech companies confirmed not only the need for traditional players to further automate their processes to reduce their costs and remain compliant with tightening regulations, but also the arrival of new entrants offering a disruptive approach to financial services and benefiting from an almost unregulated environment.

Consistent with its strategy, Dukascopy was very active in 2016 in the development of its existing and future products and services as well as on the organisational side, with the exploration of international opportunities to ensure future presence and access to its key focus markets. Dukascopy Group's organic growth is sustained by the reinforcement of its capital position and its sound financial results in parallel with the continuous development of its cutting-edge technology and capacity to innovate.

As a long time established leading financial technology institution, Dukascopy also continued to actively support the development of an optimal framework for the financial sector, aiming at reasonable and productive regulations in order to guarantee the attractiveness and excellence of Switzerland in an extremely demanding competitive environment with major strategic challenges.

Political uncertainty and central banks will, again, be some of the biggest issues facing financial markets in 2017. In this continuously changing and challenging environment, Dukascopy maintains its strategy to proactively adapt and develop its operating model and client propositions in accordance with its reputation of quality and professionalism.

The Board of Directors

MESSAGE FROM THE co-CEOs

2016 - One of the best years

Let's have a look at what was achieved during the past year. Well, some projects took more time than expected but in general Dukascopy Group is on good tracks.

In its second year of activity, Dukascopy Payments reached financial equilibrium and confirmed, by the number of accounts opened each month, the strong demand for alternative and affordable payment solutions. As a lesson, those services will be integrated into Dukascopy Bank shortly.

As announced in its previous annual report, Dukascopy Group started to offer CFD on single stocks, though at small scale. Their range will considerably grow in 2017.

In a bit more than a year, starting from scratch, Dukascopy Japan acquired a clientele of respectable size. We are confident that our Japanese subsidiary will reach financial equilibrium in 2017. Due to current focus on Dukascopy Japan's successful integration within our Group and absence of attractive acquisition opportunities, geographical expansion projects were put on hold during 2016.

As testified by the high level of operating income, almost as good as for the record year 2015, financial results 2016 are strong, although we may regret that increased marketing budget did not pay off as expected during the year, which contributed to deteriorate the cost/income ratio, together with other development investments made in 2016.

Again, our risk management framework proved to be robust. The Group passed the Brexit and other turbulent market conditions without damage.

Looking forward, our financial forecasts based on pure organic growth and synergies between our various Group activities are reasonably optimistic.

We take this opportunity to thank all our employees, clients and other business partners for their continued trust.

Veronika and Andrey Duka
co-Chief Executive Officers

REVIEW OF OPERATIONS

Dukascopy Bank SA

Business has been strong in 2016 with trading volume marking a new record and income just behind the record year 2015.

Considering favourable business conditions, the Management dared to significantly increase investments in product expansion and promotion, which temporarily deteriorated the cost/income ratio.

Bottom line, the net profit for the year stands at CHF 2.5 million. As usual, profits will be fully carried forward to build up the capital base of our operations in Switzerland and abroad.

The main reasons of the balance sheet decrease are withdrawals from one Swiss bank and trading losses suffered by clients during challenging market conditions.

Dukascopy Group

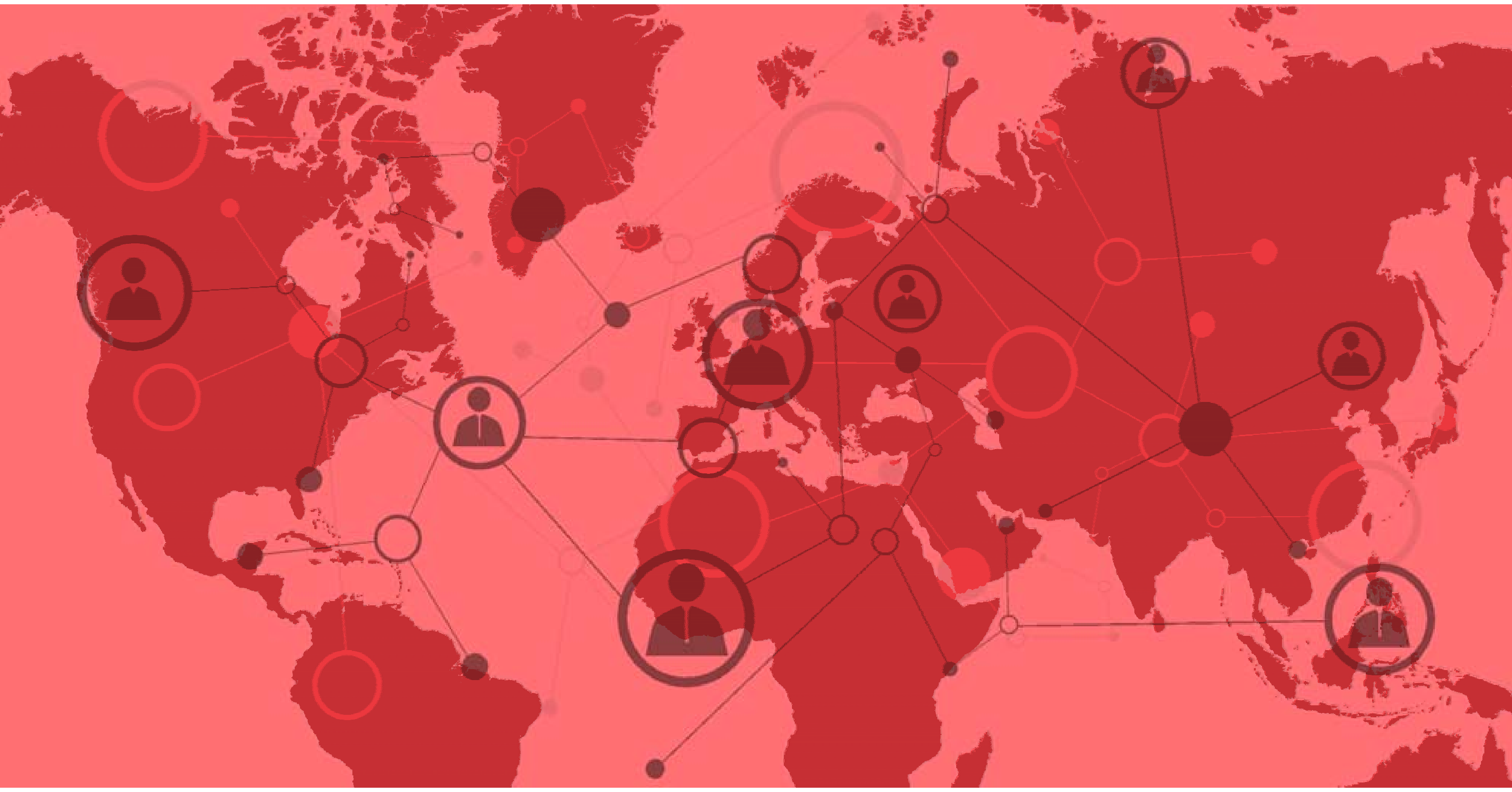
As can be seen in consolidated financial statements, Group figures do not significantly deviate from Dukascopy Bank's figures because our bank remains the prominent component and income generator of the Group.

For its first entire year, Dukascopy Japan shows a net loss in line with expectations but progressed nicely on the path of becoming financially balanced (still expected for 2017) thanks to strong business growth. Dukascopy Europe is very stable and remains financially balanced. Dukascopy Payments is still very young and too small to impact the Group figures but shows very promising metrics.

Key Figures of Dukascopy Bank

	Year 2016 (in CHF million or in %)	Year 2015 (in CHF million or in %)	Year 2014 (in CHF million or in %)
Total operating income	33.2	35.0	27.1
Total operating expenses	29.0	25.6	25.9
Gross profit	4.2	9.3	1.3
Net profit	2.5	3.4	1.0
Cost / income ratio	87.2%	73.3%	95.4%
Total assets	160.8	184.1	177.8
Total client deposits	118.1	144.5	143.3
Shareholders' equity	35.3	32.8	29.4
Regulatory capital	37.4	34.9	29.4

ORGANISATION OF THE BANK



Board of Directors

Chairman
Bogdan Prensilevich

Vice-Chairman
Pierre J-M. Bongard

Members
Gérard de Cerjat
Frank Guemara
Pierre-Alain Guillaume

Executive Committee

Chairpersons
Dr. Andrey Duka,
co-Chief Executive Officer & Chief Technology Officer
Veronika Duka,
co-Chief Executive Officer & Chief Administrative Officer

Members
Laurent Bellières, Chief Risk Officer
Dmitrijs Kukels, Chief Brokerage Officer
Irina Kupriyanova Vedeneeva, Chief Financial Officer

Internal Auditor

PKF Certifica SA

External Auditor

KPMG SA

DUKASCOPY
Swiss Forex Bank & Marketplace

FINANCIAL STATEMENTS

and proposed appropriation of retained earnings

BALANCE SHEET

as at 31 December 2016

ASSETS	31.12.2016 **CHF**	31.12.2015 **CHF**
Liquid assets	25 143 768	37 818 353
Amounts due from banks	87 023 363	97 342 305
Amounts due from customers	393 118	821 764
Positive replacement values of derivative financial instruments	1 540 749	645 264
Financial investments	39 314 705	40 052 872
Accrued income and prepaid expenses	2 404 563	3 118 388
Participations	3 920 294	3 371 169
Tangible fixed assets	990 590	917 185
Other assets	24 035	563
TOTAL ASSETS	**160 755 185**	**184 087 863**
LIABILITIES	**CHF**	**CHF**
Amounts due to banks	22 766 831	39 377 263
Amounts due in respect of customer deposits	95 342 404	105 129 317
Negative replacement values of derivative financial instruments	1 109 767	579 348
Accrued expenses and deferred income	2 580 717	2 300 088
Other liabilities	560 307	769 359
Provisions	248 412	300 000
Reserves for general banking risks	2 800 000	2 800 000
Bank's capital	22 000 000	22 000 000
Statutory retained earnings reserve	553 000	383 000
Profit carried forward	10 279 488	7 059 873
Profit of the year	2 514 259	3 389 615
TOTAL LIABILITIES	**160 755 185**	**184 087 863**

OFF–BALANCE SHEET

as at 31 December 2016

Off–balance sheet commitments	31.12.2016 **CHF**	31.12.2015 **CHF**
Contingent liabilities	123 733	116 992
Irrevocable commitments	856 000	878 000

STATEMENT OF INCOME

for the year ended 31 December 2016

Result from interest operations	31.12.2016 CHF	31.12.2015 CHF
Interest and discount income	(5 275)	(30 289)
Interest and dividend income from financial investments	1 058 834	1 047 607
Interest expense	(929 443)	(969 942)
Gross result from interest operations	**124 116**	**47 376**
Changes in value adjustments for default risks and losses from interest operations	–	–
Subtotal net result from interest operations	**124 116**	**47 376**

Result from commission business and services		
Commission income from other services	595 610	589 003
Commission expense	(219 806)	(256 111)
Subtotal result from commission business and services	**375 804**	**332 892**

Result from trading activities	**32 714 092**	**34 579 549**

Operating expenses		
Personnel expenses	(12 704 536)	(12 220 454)
General and administrative expenses	(16 265 113)	(13 395 215)
Subtotal operating expenses	**(28 969 649)**	**(25 615 669)**

Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(552 557)	(888 759)
Changes to provisions and other value adjustments, and losses	(117 800)	(900 494)
Operating result	**3 574 006**	**7 554 895**

Extraordinary income	–	1 675
Changes in reserves for general banking risks	–	(2 800 000)
Taxes	(1 059 747)	(1 366 955)
Profit of the year	**2 514 259**	**3 389 615**

THE BOARD OF DIRECTORS PROPOSES THE FOLLOWING APPROPRIATION OF AVAILABLE EARNINGS:

	2016 CHF
Profit of the year	2 514 259
Profit carried forward	10 279 488
Amount at the disposal of the Shareholders' general meeting	**12 793 747**
Proposed utilisation	**2016 CHF**
Contribution to the statutory retained earnings reserve	126 000
To be carried forward	12 667 747
Total	**12 793 747**

PRESENTATION OF THE STATEMENT OF CHANGES IN EQUITY

as at 31 December 2016

	Bank's capital CHF	Statutory retained earnings reserve CHF	Reserves for general banking risks* CHF	Profit carried forward CHF	Result of the year CHF	TOTAL CHF
Equity at start of current period	**22 000 000**	**383 000**	**2 800 000**	**7 059 874**	**3 389 615**	**35 632 489**
Allocation of previous year result	–	–	–	–	–	–
- Allocation to statutory retained earnings reserve	–	170 000	–	–	(170 000)	–
- Allocation to profit carried forward	–	–	–	3 219 615	(3 219 615)	–
Other allocations to (transfer from) the reserves for general banking risks	–	–	–	–	–	–
Profit (result of the year)	–	–	–	–	2 514 259	2 514 259
Equity at end of current period	**22 000 000**	**553 000**	**2 800 000**	**10 279 489**	**2 514 259**	**38 146 748**

*Only the portion of reserves for general banking risks which remains after deduction of deferred tax can be counted as regulatory capital.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

1. Name, legal status and domicile of the Bank
Dukascopy Bank SA (hereinafter the "Bank") is a limited company under Swiss law, authorized and regulated by FINMA as a bank and a securities dealer, which renders online brokerage and online banking services from its head office in Geneva (Switzerland). The Bank has representative offices in Riga, Kiev, Moscow, Hong Kong and Kuala Lumpur.

2. Accounting and valuation principles
2.1. General principles
The financial statements are established in accordance with the Swiss Code of Obligations, the Act on Banks and Saving institutions, its related Ordinance and the FINMA circular 15/1. The financial statements are prepared in accordance with the reliable assessment principle as defined by the FINMA circular 15/1 and are allowed to include silent reserves. In the notes, certain figures are rounded for publication but the calculations are based on the non-rounded figures, thus small rounding differences can arise.

General valuation principles
The financial statements are prepared on the assumption of an ongoing concern. The accounting is therefore based on going-concern values.
Items are entered in the balance sheet as liabilities if they have arisen due to past events, if a cash outflow is probable and their value can be reliably estimated. If a reliable estimate is not possible, then it is a contingent liability, which is commented on in the notes.
The disclosed balance sheet items are valued individually.
In principle, neither assets and liabilities nor expenses and income are offset. Accounts receivable and account payable are offset in the following cases:

- deduction of value adjustments from the corresponding asset item;
- offsetting of positive and negative replacement values of derivative financial instruments with the same counterparty, if there are recognized and legally enforceable netting agreements in place.

2.2. Changes to accounting principles and valuation method
As per paragraph A3-59 PCB-Finma, result from trading activities embodies components directly linked to trading activities and partly included in the market place. Accordingly, from 1 January 2016 when the Bank refunds a client in relation to his/her trading activity (commercial gesture and/or correction of incorrect order execution), the refund is recorded in "Result from trading activities" instead of being recorded separately as operational loss. Comparative figures 2015 haven't been adapted.

Financial instruments
a. Liquid assets
Liquid assets are recognized at their nominal value.

b. Amounts due from banks and amounts due from customers
They are recognized at their nominal value less any necessary value adjustments. Amounts due in respect of precious metal account deposits are valued at fair value.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

The Bank is not active in credit activities. However, loans and advances on salaries may be granted to employees of the Bank and amounts receivable from clients may appear in the normal course of the Bank's core activities.
Doubtful receivables, i.e. obligations entered with clients for which the debtor is unlikely to meet its future obligations, are valued individually and depreciated by means of individual value adjustments. Impaired receivables and any collateral obtained are valued at their liquidation value, and any adjustments in value are made in light of the debtors' creditworthiness. If the repayment of a loan depends exclusively on the proceeds of the collateral, a value adjustment is made for the entire unsecured portion of the receivable.
If a receivable is classified as entirely or partially irrecoverable or a receivable is waived, the receivable is derecognized by booking it against the corresponding value adjustment.
If recovered amounts from receivables written off in earlier periods cannot be used immediately for other value adjustments of the same type, they are recognized in "Change in value adjustments for default risk and losses from interest operations" in the statement of income.

c. Amounts due to banks and amounts due in respect of customer deposits
These items are recognized at their nominal value. Amounts due in respect of previous metal account deposits are valued at fair value.

d. Positive and negative replacement values of derivative financial instruments
Trading operations comprise execution of client orders and transactions of the Bank for its own account including hedging transactions.
The Trading assets and liabilities relating to trading operations of the Bank are exclusively recognized in the off-balance sheet due to the nature of such transactions (spot forex, spot precious metals and derivatives). Spot trading transactions executed by the Bank are accounted for according to the value date principle. This implies that between the trade date and the value date, spot transactions are disclosed as derivatives instruments. Explanations below concerning derivative financial instruments traded by the Bank also apply to such spot trading operations.
Trading assets and liabilities are valued and recognized at fair value. Fair value is the price based on a price-efficient and liquid market or the price calculated using a valuation model.
The price gain or loss resulting from the valuation is recorded via the item "Result from trading activities ".
Derivative financial instruments are used for trading and for hedging purposes.

Trading purposes
The valuation of derivative financial instruments for trading purposes is done according to the fair value and the positive or negative replacement value is recorded in the corresponding item. The fair value is based on market prices.
The realized result from trading operations and the unrealized result from valuations relating to trading operations are recorded via the item "Result from trading activities".

Hedging purposes
The Bank also uses derivative financial instruments as part of its assets and liabilities management (ALM) to hedge against market risks. Hedging operations are valued and disclosed as trading operations. Derivatives are used for economic hedging purpose and the Bank does not apply hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

Use of swaps
The Bank uses currency swaps to rollover spot foreign exchange, CFDs and precious metals transactions to the next spot settlement date until positions are closed.

Netting
The Bank offsets positive and negative replacement values with the same counterparty within the terms of the recognized and legally enforceable netting agreements.

e. Financial investments
Financial investments only count Swiss and US government bonds acquired with the intention to hold them until maturity. The valuation is based on the acquisition cost principle with the agio/disagio (premium/discount) accrued/deferred over the residual term to maturity (accrual method).
If held-to-maturity financial investments are sold or reimbursed early, the realized gains and losses, which correspond to the interest component, are accrued/deferred over the residual term to maturity of the transaction via the item "Other assets" or "Other liabilities".
Value adjustments for default risk are recorded immediately under "Changes in value adjustments for default risk and losses from interest operations".

Participations
Participations owned by the Bank include equity securities of companies that are held for long-term purposes, irrespective of any voting rights. They are valued at historical costs minus any value adjustments, if any.
Each participation is tested for impairment as of the balance sheet date. This test is based on indicators reflecting a possible impairment of individual assets. If any such indictors exist, the recoverable amount is calculated. The recoverable amount is calculated for each individual asset. The recoverable amount is the higher amount of the net selling price and the value in use. An asset is impaired if its carrying amount exceeds its recoverable amount. If the asset is impaired, the book value is reduced to match the recoverable amount and the impairment is charged via the item "Value adjustments on participations and amortisation of tangible fixed assets and intangible assets".
Realized gains from the sale of participations are recorded via the item "Extraordinary income" and realized losses are recorded via the item "Extraordinary expenses".

Tangible fixed assets
Investments in tangible fixed assets are capitalized as an asset if they exceed the minimal value for recognition of CHF 1'000.
Tangible fixed assets are recognized at acquisition cost minus the scheduled accumulated amortisation over the estimated operating life.
Tangible fixed assets are amortized at a consistent rate over an estimated operating life via the item "Value adjustments on participations and amortisation of tangible fixed assets and intangible assets". The estimated operating lives of the different categories of tangible fixed assets and the amortisation methods are as follows:

- Fixtures and fittings	4 years, on a straight-line basis	- Vehicles	5 years, on a degressive* basis
- Furnitures	4 years, on a straight-line basis	- Softwares	5 years, on a degressive* basis
- IT hardwares	3 years, on a degressive* basis		

* The amortisation rate is applied to the accounting value at the beginning of the year.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

Acquisition cost of tangible fixed assets acquired during the year are depreciated at the same rate on a prorata basis.
Objects used by the Bank as the lessee as part of a finance lease are recorded via the item "Tangible fixed assets" at cash purchase value. The leasing liabilities are disclosed, depending on the counterparty, in the items "Amount due to banks" or "Other liabilities".
In case an indication arise that the value of a tangible fixed assets is impaired, an additional amortisation is recorded in the item "Value adjustments on participations and amortisation of tangible fixed assets and intangible assets".
The recoverable amount is the higher amount of the net selling price and the value in use. An asset is impaired if its carrying amount exceeds its recoverable amount. If the asset is impaired, the book value is reduced to match the recoverable amount and the impairment is charged via the item "Value adjustments on participations and amortisation of tangible fixed assets and intangible assets".
Realized gains from the sale of tangible fixed assets are recorded via the item "Extraordinary income" and realized losses are recorded via the item "Extraordinary expenses".

Provisions
The Bank records provisions based on its assessment of the risks of loss and probable liabilities, based on past events, of which the amount and due date are uncertain but assessable. Legal and factual obligations are valued regularly. If an outflow of resources is likely and can be reliably estimated, a corresponding provision is created.
Existing provisions are reassessed at each balance sheet date. Based on this reassessment, the provisions are increased, left unchanged or released. Currently, provisions exclusively relate to legal risks. The variation of provisions is recorded in the statement of income via "Changes to provisions and other value adjustments and losses".
Provisions are released via the statement of income if they are no longer needed on business grounds and cannot be used for other similar purposes except if the Bank decides to maintain them as silent reserves.

Reserves for general banking risks
Reserves for general banking risks are prudently created reserves to hedge against the risks in the course of business of the Bank. The creation and release of Reserves for general banking risks are recognized via the item "Changes in reserves for general banking risks" in the statement of income. The Reserves for general banking risks are subject to tax when they exceed certain criteria.

Taxes
Current taxes are recurring, usually annual, taxes on profits, capital and total income (Geneva professional tax). Transaction-related taxes are not included in current taxes.
Liabilities from current tax are disclosed via the item "Accrued liabilities and deferred expenses".
Expense due to current tax is disclosed in the statement of income via the item "Taxes".

Off-balance sheet transactions
Off-balance sheet disclosures are at nominal value. Provisions are created in the liabilities in the balance sheet for foreseeable risks.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2016

Pension benefit obligations

The Bank's employees based in Switzerland are insured for retirement, death or disablement through a defined contribution pension scheme. The Bank bears the costs of the occupational benefit plan for employees and survivors as per the legal requirements. The employer contribution arising from the pension scheme are included in "Personnel expenses" on an accrual basis.

Employee benefit obligations mean all commitments resulting from the pension fund to which Bank's employees are insured. There is an economic benefit if the Bank has the ability to reduce its future employer's contributions. A contrario, there is a liability if, owing to a shortfall in the pension fund, the Bank wants or has to participate in the financing of the pension fund.

The Bank assesses whether there is an economic benefit or economic obligation arising from pension schemes as of the balance sheet date. The assessment is based on the contracts and financial statements of the pension funds (established under Swiss GAAP FER 26 in Switzerland).

The identified economic benefit (including the employer contribution reserves without a waiver of use) are recorded in "Other assets". If an economic obligation is identified for an individual pension fund, it is recorded in "Provisions". The difference with the corresponding value of the prior period are recorded in the statement of income in "Personnel expenses".

2.3. Recording of business transactions

All business transactions, except trading operations, concluded up to the balance sheet date are recorded as of their trade date (trade date principle) and valued according to the above-mentioned principles. Any trading operations including spot foreign exchange transactions, foreign exchange forwards, swaps or any other derivative financial instrument entered into but not yet fulfilled are recorded in accordance with the settlement date accounting method. Between the trade date and the settlement date, these transactions are disclosed at replacement value via the item "Positive replacement values of derivative financial instruments" or "Negative replacement values of derivative financial instruments".

2.4. Treatment of foreign currencies

Transactions in foreign currencies are converted at the exchange rates of the transaction date. Assets and liabilities carried in foreign currencies are converted at the exchange rates of the balance sheet date. Resulting conversion gains and losses are recorded via the item "Result from trading activities".

At the balance sheet date, the main exchange rates used to convert assets and liabilities in foreign currencies were as follows:

		2016 CHF	2015 CHF
USD	1.00	1.01870	1.00230
EUR	1.00	1.07190	1.08815
GBP	1.00	1.25645	1.47700
CAD	1.00	0.75765	0.72440
JPY	1.00	0.00870	0.00834
AUD	1.00	0.73385	0.73065
NZD	1.00	0.70510	0.68455
NOK	1.00	0.11785	0.11395
SEK	1.00	0.11192	0.11846
SGD	1.00	0.70363	0.70296

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3. Risk Management
As online bank mainly offering fully automated (Straight-Through-Processing) brokerage services via innovative in-house developed IT solutions, Dukascopy Bank is mostly subject to operational, market and legal risks. Since the Bank is not active in credit activities and only executes client orders based on collateral (client margin deposits and bank guarantees), its credit risk exposure is normally limited to possible default of institutional trading counterparties.
The identification, measurement, monitoring, management of risks and maintenance of the Bank's stability, is a priority for the Bank. The key elements of risk management are the following:

- a comprehensive risk policy and internal regulation defining among others the risk appetite and risk limits which are commensurate with the Bank's risk capacity;
- the permanent monitoring of risk limits and compliance with regulatory capital, risk diversification and liquidity requirements applicable to Swiss banks;
- a risk control function in charge of monitoring the Bank's risk profile and risk management capabilities;
- proper segregation of duties;
- wide application of the four-eyes principle and IT-based controls in business operations;
- three lines of defense: risk management by business units, risk control and compliance functions and internal audit;
- a comprehensive internal reporting on relevant risks.

The Board of Directors is the supreme governing body of the risk management organization. It has established an analysis of the main risks the Bank is exposed to. Based on its risk analysis, the Board of Directors has adopted a General Risk Policy aiming at limiting and managing the main risks affecting the Bank. The General Risk Policy defines the risk appetite, the main risk limits and features of the risk measurement and risk management. The Board of Directors monitors compliance with the limits as well as the implementation of the risk policy based on a comprehensive quarterly reporting on risks.
The executive management is responsible for the execution of the Board of Directors' policies. It ensures a suitable risk management organization is in place as well as the use of an adequate risk monitoring system. It monitors the use of limits and ensure that an adequate internal reporting is in place. The risk control function and the compliance function are independent of business operations. They monitor all risks as the second line of defense and establish most of the quarterly reporting about risks to the executive management and Board of Directors.

Operational risks
Operational risks are defined as the risk of losses due to inadequacy or failure of internal procedures, people and systems or due to external events. This definition includes risks related to client data confidentiality and legal risks, including fines by supervisory authorities and settlements. As bank offering highly automated services accessible through the Internet, Dukascopy Bank much relies on IT systems and Internet connections to operate. Automation brings high efficiency, eliminates human errors but at the same time means dependency on the availability and integrity of IT systems and Internet connections that the Bank protects through advanced security solutions and permanent monitoring of the system components.
The operational risks are measured by calculating the probability and extent of possible financial damages due to negative events such as an error in client order execution or the breach of a regulation (compliance risk). The Bank has documented operational risks and key controls aiming at mitigating such risks (e.g. four eyes principle, reconciliations, automated controls, internal regulation, etc.) in a systematic manner via an internal regulation which is approved annually by the Board of Directors and based on the FINMA circular 2008/21. The operational risk management framework also includes a Business Continuity Management documentation, which rules the maintenance or the resumption of business operations in case of occurrence of critical situations such as a natural disaster affecting the Bank. The effectiveness of the Business Continuity Management is tested annually.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2016

The Bank establishes risk indicators, mainly based on operational incidents and losses which allow the risk control function to report about operational risks in a systematic and objective way to the executive management and Board of Directors.
The management of operational risks is one of the priorities of the Bank since it has a direct effect on its stability and attractiveness as trusty service provider.

Market risks – trading operations
Due to the Bank's specialisation in forex trading, market risks are concentrated on currency risk. Market risks related to other financial instruments offered by the Bank (precious metals, stocks, commodities, equities, etc.) are minor in comparison to currency risks.
The management of market risks deriving from trading operations is a priority risk management activity and a cornerstone of the Bank's financial stability. In particular, the volatility on the forex market may trigger significant impact on the Bank's statement of income due to the Bank's currency risk exposure via the item "Result from trading activities". For various reasons including for benefiting from bid and ask spreads, the Bank permanently keeps a certain portion of market exposure deriving from client orders execution.
The Bank applies prudent market risks limits and sophisticated monitoring of market risk exposure via automated hedging logics and 24h human and automated surveillance.
The Bank automatically measures its market risk exposure on a permanent and real time basis. The IT system automatically caps such market risk exposure under the limits decided by the executive management and the Board of Directors. Those limits have been set sufficiently carefully to ensure that Swiss banking capital adequacy requirements are complied with at all time. If deemed necessary, the Bank's advanced technology allows it to fully exclude exposure deriving from trading on all or specific instruments, for instance in anticipation of exceptional market events such as the abandon of a currency peg by a Central Bank.

Market risks – other currency risks
The Bank has a limit applicable to currency risk exposure deriving from currency discrepancies between assets and liabilities. This limit is monitored on a daily basis by the Treasurer who maintains sufficient currency congruence between assets and liabilities through the assets and liabilities management (ALM).

Market risks – interest rate risks
The Bank is not active in credit or other interest generating activities. The Bank's exposure to interest rate risks mostly derives from government bonds it has bought and deposited with trading counterparties as trading collateral. Since the Bank intends to hold those bonds until maturity, the identified interest rate risks should not materialise in losses. The Bank calculates and reports about interest rate risks on a quarterly basis.

Credit risk
The Bank is not active in credit activities. However, in the frame of its core trading activities, a credit risk exists if clients are not able to honor payment obligations collected during their trading at the Bank (settlement of trading losses and payment of fees). For that reason, the Bank only accepts to trade on a covered basis. The trading platforms automatically monitor the credit risk relating to clients by way of margin call and margin cut functionalities which shall ensure that the Bank remains covered by sufficient collateral at any time. In some circumstances, the margin call and margin cut functionalities of the Bank may not suffice to fully prevent certain client accounts to become negative. In such cases, the Bank collects unsecured receivables. Also, the Bank may grant short term unsecured loans and advances to Bank's employees.

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Counterparty risk in interbank business
The Bank deposits its liquidity and trades (mainly to hedge client transactions) with more than 20 different banks and other institutional trading counterparties external to its ECN marketplace such as brokers and other marketplaces. Counterparty and default risks relating to banks and other trading counterparties are mitigated by the fixation of exposure limits within the competences set by the Board of Directors. The respect of the risk limits is controlled on a daily basis and limits are adapted as often as deemed necessary.
In principle, the Bank works only with first-class counterparties. Before entering into a business relationship with a counterparty in interbank business, the Bank performs an assessment of the counterparty risk and sets a risk exposure limit accordingly. The limit depends significantly on the rating, if any, and on the capital adequacy of the counterparty which are reassessed on an annual basis or more frequently if deemed necessary. The Bank is attentive to financial news and public information circulating about its counterparties. In case of negative information concerning the stability of a counterparty, its creditworthiness is verified by the Bank. If deemed necessary, risk limits and credit risk exposures are adjusted or suppressed by the executive management and the risk control function. The Treasurer monitors compliance with the limits on a daily basis.

Liquidity
Due to the nature of its business activities, the Bank has abundant liquidities and no long term monetary commitment. The Bank is exclusively financed by its own capital, client deposits and therefore does not need to raise funds on the money market. As a result, the liquidity risk of the Bank is low and requires limited monitoring. The liquidity risk management strategy of the Bank and an emergency liquidity plan have been approved by the Board of Directors. They identify reserves of liquidity, liquidity risk indicators and steps necessary to maintain sufficient liquidity, including in case of liquidity stress situation. The Treasurer ensures that the limits are complied with. The liquidity situation and concentration risks are monitored by the risk control function and reported quarterly to the executive management and to the Board of Directors.

4. Methods used for identifying default risks and determining the need for value adjustments

4.1. Amounts due from customers
With regard to receivables covered by bank guarantees, the credit risk mostly relates to banks having issued such guarantees and the default risk is determined as explained in section 4.2. below. If a bank guarantee issuer defaults, the receivable becomes unsecured and default risks are assessed like for unsecured loans or advances to Bank's employees.
The Bank considers that a risk of default exists on unsecured receivables if a payment of interests or a reimbursement of principal is not honored in due date or if the debtor disputes such payment obligation or indicates that he/she will not be able to honor them. In such cases, the Bank enquires about the debtor's intentions and financial situation and evaluates the chances of recovering the receivable. A value adjustment is recorded for the portion of receivable whose recovery is considered uncertain.

4.2. Amounts due from banks
In principle, the Bank only takes credit risk exposure towards counterparties having sound creditworthiness. The Bank considers that a counterparty is defaulting in case the latter refuses to honor a payment order in due time, or is declared bankrupted or placed under special administration due to insolvency/going concern issues. In such cases, the counterparty's situation is evaluated by the Bank. A value adjustment is recorded on the portion of receivable whose recovery is considered uncertain.

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4.3. Process for determining value adjustments and provisions

Value adjustments and provisions are reassessed at each balance sheet date. Changes in value adjustments and provisions are approved by the executive management unless they simply result from a use of provision in conformity with its purpose or the recovery of an impaired receivable.

5. Valuation of collateral

Collateral provided by clients is normally made of cash deposited with Dukascopy Bank, in any currency accepted in deposit by the Bank. Collateral also may comprise up to 80% of bank guarantees issued by Swiss or European banks having a Baa or superior Long-Term senior debt Moody's rating. With the joint approval of the risk control function and executive management, the Bank may accept bank guarantees derogating the above criteria. Bank guarantees must be denominated in same currency as the reference client account reference currency. Collateral is valued at nominal value of the cash or bank guarantees. The Bank applies no haircut to collateral and grants a leverage for the trading of certain instruments.

6. Business policy regarding the use of derivative financial instruments and hedge accounting

Trading of OTC financial instruments with clients, including trading of certain financial derivatives (CFD and binary options), is the core business of the Bank. As per Swiss legislation, the main instrument offered by the Bank, namely leveraged margin trading on currencies and precious metals without delivery, does not qualify as derivative financial instrument, while it is often regarded as a CFD instrument in other jurisdictions. Therefore, depending on the qualification of leveraged margin trading, the Bank may be seen as a pure provider of financial derivative instruments. The Bank does not trade credit derivatives.

The Bank executes all trading operations in full STP (Straight-through-Processing) mode and always acts as principal in trades, including on its ECN (Electronic Communication Network) trading environment.

The Bank also uses derivative financial instruments for risk management purposes, mainly to hedge against market risks (including currency risk) mostly deriving from clients trading operations. Hedging operations are executed by the Bank either with external institutional counterparties or with clients. The Bank does not use hedge accounting.

7. Material events after the balance sheet date

No material events occurred after the balance sheet date that could have a material impact on the financial position of the Bank as of 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

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Presentation of collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables

Loans (before netting with value adjustments)	**Secured by mortgages CHF**	**Other collateral CHF**	**Unsecured CHF**	**Total CHF**
Amounts due from customers	–	30 440	369 164	399 604
Total at 31 December 2016 (before netting with value adjustments)	**–**	**30 440**	**369 164**	**399 604**
Total at 31 December 2015 (before netting with value adjustments)	–	689 784	138 846	828 630
Total at 31 December 2016 (after netting with value adjustments)	**–**	**30 440**	**362 678**	**393 118**
Total at 31 December 2015 (after netting with value adjustments)	–	689 784	131 980	821 764

Off-balance sheet commitments	**Secured by mortgages CHF**	**Other collateral CHF**	**Unsecured CHF**	**Total CHF**
Contingent liabilities*	–	123 733	–	123 733
Irrevocable commitments	–	–	856 000	856 000
Total at 31 December 2016	**–**	**123 733**	**856 000**	**979 733**
Total at 31 December 2015	–	116 992	878 000	994 992

*Contingent liabilities are bank guarantees issued by the Bank on behalf of clients, fully secured by client cash deposits

Breakdown of impaired loans/receivables	**Gross debt amount CHF**	**Estimated liquidation proceeds of collateral CHF**	**Net debt amount CHF**	**Individual value adjustments CHF**
Total at 31 December 2016	**6 486**	**–**	**6 486**	**6 486**
Total at 31 December 2015	6 866	–	6 866	6 866

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Presentation of derivative financial instruments (assets and liabilities)

OTC transactions	Trading instruments		
	Positive replacement values CHF	**Negative replacement values CHF**	**Contract volumes CHF**
Currencies:			
– forward contracts*	2 631 638	2 578 692	1 446 130 727
– swaps	2 116 315	1 683 389	1 294 805 632
Total currencies	**4 747 953**	**4 262 081**	**2 740 936 359**
Precious metals:			
– forward contracts*	–	4 311	1 081 124
– swaps	3 235	74 256	27 161 174
Total precious metals	**3 235**	**78 567**	**28 242 298**
Indices:			
– CFD	20 998	1 613	11 399 390
Total indices	**20 998**	**1 613**	**11 399 390**
Others:			
– CFD	1 057	–	5 056 759
Total others	**1 057**	–	5 056 759
Total at 31 December 2016 before impact of netting contracts	**4 773 243**	**4 342 261**	**2 785 634 806**
of which determinated of using valuation models	–	–	–
Total at 31 December 2015 before impact of netting contracts	5 265 083	5 199 167	2 962 593 052
of which determinated of using valuation models	–	–	–
Total at 31 December 2016 after impact of netting contracts	**1 540 749**	**1 109 767**	
Total at 31 December 2015 after impact of netting contracts	645 264	579 348	

* Represent the spot trading transactions which are accounted for according to the value date principle.

Breakdown by counterparty

	Central clearing houses	Banks and securities dealers	Others customers	Total
Positive replacement values after impact of netting contacts Total at 31 December 2016	–	**1 441 348**	**99 401**	**1 540 749**
Positive replacement values after impact of netting contacts Total at 31 December 2015	–	538 417	106 847	645 264

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Breakdown of financial investments

Debt securities	Book value		Fair value	
	2016 CHF	2015 CHF	2016 CHF	2015 CHF
of which bonds held to maturity	*39 314 705*	*40 052 872*	*39 474 808*	*40 550 740*
Total	**39 314 705**	**40 052 872**	**39 474 808**	**40 550 740**
including securities eligible for repo transactions in accordance with liquidity regulations	*39 314 705*	*40 052 872*	*39 474 808*	*40 550 740*

Breakdown of countreparties by Fitch rating

2016	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Lower than B-	Without rating
Debt securities: Book value of bonds held to maturity	**39 314 705**	–	–	–	–	–
2015						
Debt securities: Book value of bonds held to maturity	40 052 872	–	–	–	–	–

Presentations of participations

Participations	2015			2016			
	Cost value CHF	Value adjustment CHF	Book value at end of year CHF	Additions CHF	Disposals Reimbursement CHF	Value adjustment CHF	Book value at end of year CHF
Without listed value	3 371 169	–	3 371 169	549 125*	–	–	3 920 294
Total participations	**3 371 169**	**–**	**3 371 169**	**549 125***	**–**	**–**	**3 920 294**

*This amount relates to the increase of Dukascopy Payments AS capital (CHF 219 650) and amount of incorporation of Dukascopy International Ltd (CHF 329 475).

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Disclosure of companies in which the Bank holds a permanent direct or indirect significant participations

Participations	2016					
	Activity	Share capital CHF	Head office	Share capital in %	Vote in %	Held directly
SWFX-Swiss FX Marketplace SA	dormant	100 000	Geneva	100	100	100
Dukascopy Europe IBS AS	brokerage	1 479 241	Riga	100	100	100
Dukascopy Community SA	social media	100 000	Geneva	100	100	100
Dukascopy Payments AS	e-money	827 735	Riga	100	100	100
Dukascopy Japan K.K.	brokerage	5 488 259	Tokyo	100	100	100
Dukascopy International Ltd	dormant	329 475	Limassol	100	100	100
	2015					
SWFX-Swiss FX Marketplace SA	dormant	100 000	Geneva	100	100	100
Dukascopy Europe IBS AS	brokerage	1 479 241	Riga	100	100	100
Dukascopy Community SA	social media	100 000	Geneva	100	100	100
Dukascopy Payments AS	e-money	608 085	Riga	100	100	100
Dukascopy Japan K.K.	brokerage	5 488 259	Tokyo	100	100	100

Presentations of tangible fixed assets

	2015			2016			
	Cost value CHF	Accumulated depreciation CHF	Book value at end of year CHF	Additions CHF	Disposals CHF	Depreciation CHF	Book value at end of year CHF
Softwares	22 751 979	(22 715 949)	36 030	2 901	–	(19 984)	18 947
Other tangible fixed assets	8 439 233	(7 558 078)	881 155	623 061	–	(532 573)	971 643
Total fixed assets	**31 191 212**	**(30 274 027)**	**917 185**	**625 962**	**–**	**(552 557)**	**990 590**

Leasing

	2017 CHF	2018 CHF	2019 CHF	2020 CHF	2021 CHF	2022 CHF
Future leasing installments arising from operating leases	**1 720 598**	**1 115 561**	**1 067 380**	**878 844**	**89 500**	**53 923**
of which, may be terminated within one year	*140 746*	–	–	–	–	–

Breakdown of other assets and liabilities

Other assets	2016 CHF	2015 CHF
Wire transfers	24 035	–
Others	–	563
Total other assets	**24 035**	**563**
Other liabilities		
Wire transfers	186 537	486 648
Indirect taxes to be paid	373 770	282 046
Others	–	665
Total other liabilities	**560 307**	**769 359**

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Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership

	2016		2015	
	Book value of pledged assets and assets assigned as collateral CHF	Effective commitments CHF	Book value of pledged assets and assets assigned as collateral CHF	Effective commitments CHF
Swiss and US government bonds	30 758 644	7 126 738	31 261 303	9 529 393
Margin accounts assigned as collateral*	15 816 443	11 277 276	17 143 339	11 252 681
Deposits made with banks to secure guarantees	223 577	223 577	235 969	235 969
Total	**46 798 664**	**18 627 591**	**48 640 611**	**21 018 043**

*Comparative figures 2015 have been adapted to be compatible with 2016

Indications relating to pension funds

A collective pension fund plan exists for the employees based in Switzerland (Caisse Inter-Entreprises-CIEPP). This fund is a defined contributions scheme. There is no employer contribution reserve and there is no identifiable economic benefit to be capitalised in the balance sheet (2015: nil). The overfunding in the pension fund is based on its unaudited accounts as of 31 December 2016 (coverage ratio is 114%). Based on the last audited financial statements of the Caisse Inter-Entreprises-CIEPP as at 31 December 2015, the coverage ratio was 111.9% (31 December 2014: 117.4%).

The employees based in Russia Federation were affilated to a defined contributions scheme pension fund of the Russian state which has been cancelled in 2015. Since 2015, employees based in Russia are no longer insured by any pension fund.

There is no pension fund for the other foreign representation offices of the Bank.

Presentation of economic benefit / obligation and the pension expenses

	Over/under-funding 31.12.16	Economic interest of the Bank		Change in economic interest versus prior year	Contributions paid for 2016	Pension expenses in personnel expenses	
		2016	2015			2016	2015
Pension plans with overfunding		–	–	–	326 353	326 353	342 249

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Presentations of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

	Balance at 31 December 2015 CHF	Use in conformity with designated purpose CHF	Reclassifi-cations CHF	Currency differences CHF	Recoveries, past due interest CHF	New creations charged to income CHF	Releases to income CHF	Balance at 31 December 2016 CHF
Provisions for other business risks	300 000	(169 730)	–	–	–	322 569	(204 427)	248 412
Total provisions	**300 000**	**(169 730)**	**–**	**–**	**–**	**322 569**	**(204 427)**	**248 412**
Reserves for general banking risks	2 800 000	–	–	–	–	–	–	2 800 000
Value adjustments for default risks and country risks – of which, value adjustments for default risks in respect of impaired loans/receivables	6 866	–	–	–	–	–	(380)	6 486

Provisions for other business risks include provisions for legal fees and litigations arising out of the normal conduct of Dukascopy Bank's activities.
Provisions are valued according to the best estimate principle. Reserves for general banking risks have not been taxed.

Presentation of the Bank's capital

	2016			2015		
	Total par value CHF	Number of shares CHF	Capital eligible for dividend CHF	Total par value CHF	Number of shares CHF	Capital eligible for dividend CHF
Share capital	22 000 000	21 712 000	22 000 000	22 000 000	21 712 000	22 000 000
Registred shares	22 000 000	21 712 000	22 000 000	22 000 000	21 712 000	22 000 000
of which, paid up	*22 000 000*	*21 712 000*	*22 000 000*	*22 000 000*	*21 712 000*	*22 000 000*
Total Bank's capital	**22 000 000**	**21 712 000**	**22 000 000**	**22 000 000**	**21 712 000**	**22 000 000**

NOTES TO THE FINANCIAL STATEMENTS
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Disclosure of amounts due from/to related parties

	2016		2015	
	Amounts due from CHF	**Amounts due to CHF**	**Amounts due from CHF**	**Amounts due to CHF**
Holders of qualified participations				
Group companies	33 943	6 408 800	20 469	5 575 089
Linked companies	–	–	–	–
Transactions with members of governing bodies	–	–	–	–
Other related parties	–	29	–	–

Dukascopy Bank SA engaged into transactions with related parties in the normal course of its business. These transactions mainly include rent, marketing services and software development support. Besides, all subsidiaries of the Bank hedge their trading operations with Dukascopy Bank.

Transactions with related parties are conducted at arm's length.

Disclosure of holders of significant participations

	2016			
With voting rights	**Nominal CHF**	**Number of shares CHF**	**% of equity in %**	**Capital eligible for dividend CHF**
Dr. Andrey Duka	10 890 000	10 746 000	49.5	10 890 000
Veronika Duka	10 890 000	10 746 000	49.5	10 890 000

With voting rights	2015			
Dr. Andrey Duka	10 890 000	10 746 000	49.5	10 890 000
Veronika Duka	10 890 000	10 746 000	49.5	10 890 000

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Presentation of the maturity structure of financial instruments

ASSETS	At sight CHF	Cancellable CHF	Due Within 3 months CHF	Within 3 to 12 months CHF	Within 1 to 5 years CHF	Over 5 years CHF	No maturity CHF	Total CHF
Liquid assets	25 143 768	–	–	–	–	–	–	25 143 768
Amounts due from banks	86 799 786	223 577	–	–	–	–	–	87 023 363
Amounts due from customers	328 586	64 532	–	–	–	–	–	393 118
Positive replacement values of derivative financial instruments	1 540 749	–	–	–	–	–	–	1 540 749
Financial investments	–	–	–	14 246 900	25 067 805	–	–	39 314 705
Total current assets at 31 December 2016	**113 812 889**	**288 109**	–	**14 246 900**	**25 067 805**	–	–	**153 415 703**
Total current assets at 31 December 2015	136 328 915	298 771	–	–	40 052 872	–	–	176 680 558
Third-party liabilities								
Amounts due to banks	22 766 831	–	–	–	–	–	–	22 766 831
Amounts due in respect of customer deposits	95 342 404	–	–	–	–	–	–	95 342 404
Negative replacement values of derivative financial instruments	1 109 767	–	–	–	–	–	–	1 109 767
Total third-party liabilities at 31 December 2016	**119 219 002**	–	–	–	–	–	–	**119 219 002**
Total third-party liabilities at 31 December 2015	145 085 928	–	–	–	–	–	–	145 085 928

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Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle

ASSETS	2016			2015		
in CHF ('000)	Domestic	Foreign	Total	Domestic	Foreign	Total
Liquid assets	9 010	16 134	25 144	8 385	29 433	37 818
Amounts due from banks	64 755	22 268	87 023	76 322	21 020	97 342
Amounts due from customers	220	173	393	722	100	822
Positive replacement values of derivative financial instruments	648	892	1 540	55	590	645
Financial investments	27 081	12 234	39 315	28 008	12 045	40 053
Accrued income and prepaid expenses	1 277	1 128	2 405	1 330	1 789	3 119
Participations	200	3 720	3 920	200	3 171	3 371
Tangible fixed assets	647	344	991	587	330	917
Other assets	24	–	24	1	–	1
Total assets	**103 862**	**56 893**	**160 755**	**115 610**	**68 478**	**184 088**
LIABILITIES						
Amounts due to banks	–	22 767	22 767	12 700	26 677	39 377
Amounts due in respect of customer deposits	7 610	87 733	95 343	7 676	97 453	105 129
Negative replacement values of derivative financial instruments	41	1 069	1 110	271	308	579
Accrued expenses and deferred income	2 057	524	2 581	2 037	263	2 300
Other liabilities	560	–	560	769	1	770
Provisions	248	–	248	300	–	300
Reserves for general banking risks	2 800	–	2 800	2 800	–	2 800
Bank's capital	22 000	–	22 000	22 000	–	22 000
Statutory retained earnings reserve	553	–	553	383	–	383
Profit carried forward	10 279	–	10 279	7 060	–	7 060
Profit of the year	2 514	–	2 514	3 390	–	3 390
Total liabilities	**48 662**	**112 093**	**160 755**	**59 386**	**124 702**	**184 088**

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Breakdown of total assets by country or group of countries (domicile principle)

ASSETS	2016		2015	
	Absolute CHF ('000)	Share %	Absolute CHF ('000)	Share %
Switzerland	103 862	64.6	115 610	62.8
Europe excluding Switzerland	40 515	25.2	52 449	28.5
USA and Canada	13 131	8.2	12 382	6.7
Others	3 247	2.0	3 647	2.0
Total	**160 755**	**100.0**	**184 088**	**100.0**

Breakdown of total assets by credit rating of country groups (risk domicile view)

SERV Rating	2016		2015	
	Absolute CHF ('000)	Share %	Absolute CHF ('000)	Share %
1	54 398	95.6	65 578	95.8
2	55	0.1	69	0.1
3	441	0.8	714	1.0
4	39	0.1	100	0.1
5	1 648	2.9	1 578	2.3
6	57	0.1	75	0.1
7	199	0.3	249	0.4
without rating	56	0.1	115	0.2
Total	**56 893**	**100.0**	**68 478**	**100.0**

The Bank does not use an internal rating system for country risk management. SERV is the rating issued by OECD.

NOTES TO THE FINANCIAL STATEMENTS
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Presentation of assets and liabilities broken by most significant currencies of the bank

ASSETS in CHF ('000)	CHF	EUR	USD	GBP	JPY	Others	Total
Liquid assets	9 010	16 134	–	–	–	–	25 144
Amounts due from banks	6 740	10 994	55 200	6 628	1 167	6 294	87 023
Amounts due from customers	195	106	56	5	–	31	393
Positive replacement values of derivative financial instruments	1 540	–	–	–	–	–	1 540
Financial investments	27 081	–	12 234	–	–	–	39 315
Accrued income and prepaid expenses	1 200	239	813	41	–	112	2 405
Participations	3 920	–	–	–	–	–	3 920
Tangible fixed assets	991	–	–	–	–	–	991
Other assets	4	1	14	–	–	5	24
Total assets	**50 681**	**27 474**	**68 317**	**6 674**	**1 167**	**6 442**	**160 755**
Claims arising from spot exchange and swap transactions	88 860	590 217	1 195 989	372 559	303 833	233 748	2 785 206
Total at 31 December 2016	**139 541**	**617 691**	**1 264 306**	**379 233**	**305 000**	**240 190**	**2 945 961**
LIABILITIES							
Amounts due to banks	149	8 649	11 603	440	1 319	607	22 767
Amounts due in respect of customer deposits	7 576	29 213	49 261	4 289	60	4 944	95 343
Negative replacement values of derivative financial instruments	1 110	–	–	–	–	–	1 110
Accrued expenses and deferred income	1 228	1 063	237	2	–	51	2 581
Other liabilities	380	65	102	3	–	10	560
Provisions	248	–	–	–	–	–	248
Reserves for general banking risks	2 800	–	–	–	–	–	2 800
Bank's capital	22 000	–	–	–	–	–	22 000
Statutory retained earnings reserve	553	–	–	–	–	–	553
Profit carried forward	10 279	–	–	–	–	–	10 279
Profit of the year	2 514	–	–	–	–	–	2 514
Total liabilities	**48 837**	**38 990**	**61 203**	**4 734**	**1 379**	**5 612**	160 755
Delivery obligations arising from spot exchange and swap transactions	80 311	581 701	1 220 489	364 151	306 393	232 161	2 785 206
Total at 31 December 2016	**129 148**	**620 691**	**1 281 692**	**368 885**	**307 772**	**237 773**	**2 945 961**
Net position by currency	**10 393**	**(3 000)**	**(17 386)**	**10 348**	**(2 772)**	**2 417**	–

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Breakdown of contingent assets and contingent liabilities

Contingent assets	2016 CHF	2015 CHF
Other contingent assets	–	–
Total contingent assets	**–**	**–**
Contingent liabilities		
Other contingent liabilities	123 733	116 992
Total contingent liabilities	**123 733**	**116 992**

Breakdown of the result from trading activities

Trading income	2016 CHF	2015 CHF
Leveraged margin trading	32 130 552*	33 992 878
Binary options	583 540	586 671
Total	**32 714 092***	**34 579 549**

*included CHF 836 122 of refunds to clients in relation to their trading activity

From 1 January 2016, when the Bank refunds clients in relation to their trading activity (commercial gesture and/or correction of order execution), the refund is recorded in "Result from trading activities" instead of being recorded separately as operational loss. Comparative figures 2015 have not been adapted.

NOTES TO THE FINANCIAL STATEMENTS

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Breakdown by underlying risk

Result from trading activities from:	2016 CHF	2015 CHF
Equity securities	1 864 703	1 279 443
Foreign currency	24 970 666	28 977 662
Commodities / precious metals	5 878 722	4 322 444
Total	**32 714 092**	**34 579 549**

Disclosure of material refinancing income in the item Interest and discount Income as well as material negative interest

Negative interest	2016 CHF	2015 CHF
Negative interest on credit operations	50 992	45 873
Negative interest on deposits	7 240	10 488

Negative Interest on credit operations are disclosed as a reduction in interest and discount income.
Negative Interest on deposits are disclosed as a reduction in interest expense.

Breakdown of personnel expenses

Personnel expenses	2016 CHF	2015 CHF
Salaries	10 515 798	10 084 353
of which, expenses relating to share-based compensation and alternative forms of variable compensation	–	–
Benefits	2 124 634	2 016 200
Other personnel expenses	64 104	119 901
Total personnel expenses	**12 704 536**	**12 220 454**

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Breakdown of general and administrative expenses

General and administrative expenses	2016 CHF	2015 CHF
Premises	2 226 100	2 158 874
IT related expenses	2 601 432	1 975 007
Legal and consulting	1 138 456	1 289 324
Post, telecommunications and data	602 233	579 343
Expenses for vehicles	51 318	45 108
Office supply	197 476	199 952
Audit fees	262 980	264 106
of which for financial and regulatory audits	*262 980*	*264 106*
of which for other services	–	–
Marketing and communication	7 767 097	5 724 561
Travels	999 900	848 872
Others	418 121	310 068
Total general and administrative expenses	**16 265 113**	**13 395 215**

Explanations regarding extraordinary income and expenses

Extraordinary income	2016 CHF	2015 CHF
Disposal of fully depreciated fixed assets	–	1 000
Others	–	675
Total extraordinary income	–	**1 675**

There was no extraordinary expense in 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

Presentation of operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment

	2016		2015	
	Domestic CHF	Foreign CHF	Domestic CHF	Foreign CHF
Subtotal net result for interest operations	124 116	–	47 376	–
Subtotal result from commission business and services	375 804	–	332 892	–
Result from trading activities	32 714 092	–	34 579 549	–
Personnel expenses	(7 676 240)	(5 028 296)	(8 002 222)	(4 218 232)
General and administrative expenses	(8 898 618)	(7 366 495)	(7 692 202)	(5 703 013)
Subtotal operating expenses	**(16 574 858)**	**(12 394 791)**	**(15 694 424)**	**(9 921 245)**
Value adjustment on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(342 260)	(210 297)	(519 147)	(369 612)
Change to provisions and other value adjustments, and losses	(117 800)	–	(900 494)	–
Operating result	**16 179 094**	**(12 605 088)**	**17 845 752**	**(10 290 857)**

Presentation of current taxes, deferred taxes and disclosure of tax rate

	2016 CHF	2015 CHF
Current tax expenses	(1 059 747)	(1 366 955)
Total taxes	**(1 059 747)**	**(1 366 955)**

	2016	2015
Average tax rate	**29.7%**	**18.1%**

The fluctuation observed in the tax rate is due to the Geneva professional tax because the latter is not proportionate to the profit but to the total gross income.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF SHAREHOLDERS of Dukascopy Bank SA, Geneva

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Dukascopy Bank SA, which comprise the balance sheet, statement of income, statement of changes in equity and notes (pages 10 to 36) for the year ended 31 December 2016.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2016 comply with Swiss law and the Company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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 Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG SA

Nicolas Moser
Licensed Audit Expert
Auditor in Charge

Romain Tranchant
Licensed Audit Expert

Geneva, 28 April 2017

Enclosure:
- Financial statements (balance sheet, statement of income, statement of changes in equity and notes);
- Proposed appropriation of available earnings.

MANDATORY PUBLICATION

as at 31 December 2016

Presentation of the capital adequacy

	2016 CHF ('000)	2015 CHF ('000)
Share capital	22 000	22 000
Change reserve	553	383
Reserves for general banking risks	2 100	–
Profit carried forward	10 279	7 060
./. Participations	(3 920)	(3 371)
Total eligible capital (CET1)	**31 012**	**26 072**

2016	Used approach*	Required capital CHF ('000)	
Credit risks	Swiss standardised		2 157
Risks without counterparty	Swiss standardised		496
Market risks	standardised		6 283
of which on currencies	*standardised*	*3 367*	
of which on equity instruments	*standardised*	*1 064*	
of which on gold and commodities	*standardised*	*1 852*	
Operational risks	basic indicator		4 766
Total required capital			**13 702**
Total required capital included buffer 10.5%			**17 983**
Surplus of eligible capital			**13 029**
RWA			**171 269**

2015	Used approach*	Required capital CHF ('000)	
Credit risks	Swiss standardised		2 442
Risks without counterparty	Swiss standardised		459
Market risks	standardised		5 770
of which on currencies	*standardised*	*4 482*	
of which on equity instruments	*standardised*	*163*	
of which on gold and commodities	*standardised*	*1 125*	
Operational risks	basic indicator		4 611
Total required capital			**13 282**
Surplus of eligible capital			12 790

* The Bank uses the transitory rules allowed by the capital adequacy ordinance and is therefore not fully applying the Basel III regulation yet.

MANDATORY PUBLICATION

as at 31 December 2016

Capital adequacy disclosures: capital ratios

	2016	2015
CET 1 Capital Ratio	18.1%	15.7%
T1 ratio	18.1%	15.7%
Ratio regarding the regulatory capital	18.1%	15.7%
CET1 requirements according to CAO	5.1%	4.5%
Of which capital buffers according to CAO	*0.6%*	*0.0%*
Of which countercyclical buffers	*0.0%*	*0.0%*
Available CET1 to cover the minimum and buffer requirements, after deducting AT1 and T2requirements which are fulfilled with CET1	11.1%	8.7%
Capital target ratios for CET1 as per the FINMA circ. 11/2 plus the countercyclical buffer	7.0%	7.0%
Available CET1	11.1%	8.7%
Capital target ratios for T1 as per the FINMA circ. 11/2 plus the countercyclical buffer	8.5%	8.5%
Available T1	9.6%	7.2%
Regulatory capital target ratios according to the FINMA circ. 11/2 plus the countercyclical buffer	10.5%	10.5%
Available regulatory capital	7.6%	5.2%

Capital adequacy disclosures: leverage ratio

	2016	2015
Tier 1 capital	31 012	26 072
Exposure Measure	162 199	184 745
Leverage Ratio	19.1%	14.1%

Medium short-term liquidity coverage ratio LCR

	2016	2015
LCR Q1	344.3%	262.2%
LCR Q2	348.4%	259.7%
LCR Q3	309.9%	294.8%
LCR Q4	310.1%	348.9%

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as at 31 December 2016

ASSETS	31.12.2016 CHF	31.12.2015 CHF
Liquid assets	25 143 768	37 818 353
Amounts due from banks	91 044 598	99 566 325
Amounts due from customers	599 147	1 017 336
Positive replacement values of derivative financial instruments	1 570 122	775 125
Financial investments	39 314 705	40 052 872
Accrued income and prepaid expenses	2 826 155	3 785 436
Participations non-consolidated	1 357 210	808 085
Tangible fixed assets	1 025 700	930 728
Other assets	30 504	3 737
TOTAL ASSETS	**162 911 909**	**184 757 997**
LIABILITIES	**CHF**	**CHF**
Amounts due to banks	17 014 296	34 231 697
Amounts due in respect of customer deposits	103 432 543	110 388 649
Negative replacement values of derivative financial instruments	1 141 982	775 186
Accrued expenses and deferred income	2 914 792	2 577 651
Other liabilities	615 591	828 572
Provisions	948 412	1 000 000
Reserves for general banking risks	2 100 000	2 100 000
Bank's capital	22 000 000	22 000 000
Retained earnings reserve	10 794 138	7 906 520
Currency translation reserve	240 462	128 942
Consolidated profit of the year	1 709 693	2 820 780
TOTAL LIABILITIES	**162 911 909**	**184 757 997**

CONSOLIDATED OFF–BALANCE SHEET

as at 31 December 2016

Off–balance sheet commitments	31.12.2016 CHF	31.12.2015 CHF
Contingent liabilities	123 733	116 992
Irrevocable commitments	856 000	878 000

CONSOLIDATED STATEMENT OF INCOME

for the year ended 31 December 2016

Result from interest operations	31.12.2016 **CHF**	31.12.2015 **CHF**
Interest and discount income	(5 257)	(30 212)
Interest and dividend income from financial investments	1 058 834	1 047 607
Interest expense	(929 443)	(969 942)
Gross result from interest operations	**124 134**	**47 453**
Changes in value adjustments for default risks and losses from interest operations	134 055	675
Subtotal net result from interest operations	**258 189**	**48 128**

Result from commission business and services		
Commission income from other services	667 121	596 382
Commission expense	(291 364)	(289 644)
Subtotal result from commission business and services	**375 757**	**306 738**

Result from trading activities	**34 730 544**	**35 328 540**

Operating expenses		
Personnel expenses	(14 830 329)	(13 503 829)
General and administrative expenses	(17 060 590)	(14 035 170)
Subtotal operating expenses	**(31 890 919)**	**(27 538 999)**

Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(566 952)	(947 159)
Changes to provisions and other value adjustments, and losses	(119 100)	(200 787)
Operating result	**2 787 519**	**6 996 461**

Extraordinary income	–	2 161
Changes in reserves for general banking risks	–	(2 100 000)
Taxes	(1 077 826)	(2 077 842)
Consolidated profit of the year	**1 709 693**	**2 820 780**

CONSOLIDATED CASH FLOW STATEMENT

as at 31 December 2016

	2016		2015	
Cash flow from operating activities (internal financing):	**Cash in-flow CHF ('000)**	**Cash out-flow CHF ('000)**	**Cash in-flow CHF ('000)**	**Cash out-flow CHF ('000)**
Result of the year	1 710	–	2 821	–
Change in reserves for general banking risks	–	–	2 100	–
Value adjustement on participations, depreciation and amortisation of tangible fixed assets and intangible assets	567	–	947	–
Provisions and other value adjustments	–	52	774	–
Accrued income and prepaid expenses	959	–	–	2 011
Accrued expenses and differed income	337	–	546	–
Other items		240	15	1 567
Subtotal	**3 573**	**292**	**7 203**	**3 578**
Cash flow from shareholder's equity transactions:				
Recognised in reserves	178	–	–	37
Subtotal	**178**	**–**	**–**	**37**
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets:				
Participations	–	549	–	–
Other tangible fixed assets	–	662	–	430
Subtotal	**–**	**1 211**	**–**	**430**
Cash flow from banking operations: Medium and long-term business (> 1 year)				
Financial instruments	14 985	–	–	11 119
Short-term business:				
Amounts due to banks	–	17 217	–	920
Amounts due in respect of customer deposits	–	6 956	3 791	–
Negative replacement values of derivative financial instuments	367	–	100	–
Amounts due from banks	8 522	–	–	51 904
Amounts due from customers	418	–	–	930
Positive replacement values of derivative financial instuments	–	795	618	–
Financial instruments	–	14 247	–	–
Liquidity:				
Liquid assets	12 675	–	57 206	–
Subtotal	**36 967**	**39 215**	**61 715**	**64 873**
Total	**40 718**	**40 718**	**68 918**	**68 918**

PRESENTATION OF THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 December 2016

	Bank's capital CHF	Reserves for general banking risks CHF	Currency translation reserve CHF	Retained earning reserve CHF	Consolidated profit for the year CHF	TOTAL CHF
Equity at start of current period	**22 000 000**	**2 100 000**	**128 942**	**7 906 520**	**2 820 780**	**34 956 242**
Allocation of previous year result	–	–	–	–	–	–
- Allocation to Retained earnings reserve	–	–	–	2 820 780	(2 820 780)	–
Other allocations to (transfer from) the Reserves for general banking risks	–	–	–	–	–	–
Others	–	–	111 520	66 838	–	178 358
Profit (result of the year)	–	–	–	–	1 709 693	1 709 693
Equity at end of current period	**22 000 000**	**2 100 000**	**240 462**	**10 794 138**	**1 709 693**	**36 844 293**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2016

1. Name and legal status of the Group

Dukascopy Group (hereinafter the "Group") is headed by Dukascopy Bank SA (hereinafter the "Bank"), a limited company under Swiss law which renders online brokerage and online banking services from its head office in Geneva (Switzerland). The Bank fully owns two subsidiaries offering similar online brokerage services as the Bank, namely, Dukascopy Europe IBS AS, a European regulated broker based in Riga and Dukascopy Japan K.K., a Type-1 licensed brokerage company located in Tokyo. These two subsidiaries are included in the consolidated financial statements of the Group.

The Group's scope of consolidation comprises all companies owned and controlled, either directly or indirectly, over 50% of the capital or voting rights by the Bank, at the exception of Group companies which are insignificant with regard to the size of the Group. SWFX – Swiss FX Marketplace SA, Dukascopy Community SA, Dukascopy Payments AS, Dukascopy International Ltd and their subsidiaries, if any, are not consolidated in the Group's consolidated financial statements because they are of very small size.

2. Accounting and valuation principles

2.1. General principles

The Group's consolidated financial statements are established in accordance with the Swiss Code of Obligations, the Act on Banks and Saving institutions, its related Ordinance and the FINMA circular 15/1. In the notes, certain figures are rounded for publication but the calculations are based on the non-rounded figures, thus small rounding differences can arise. The consolidated financial statements have been complied to present a true and faithful picture of the Group's assets, financial position and results.

Consolidation method

Entities either directly or indirectly controlled by the Bank or over which the Bank exercises a dominant influence are consolidated according to the full consolidation method. This means assets, liabilities, off-balance sheet transactions, income and expenses of fully consolidated companies are included in the Group's consolidated financial statements. All material business relations between consolidated companies are eliminated from assets, liabilities, income and expenses. Net assets of Group companies are consolidated according to the purchase method. In the case of combined entities, the combination is an amalgamation of the accounts, performed in keeping the same rules as described above. If a significant influence is exercised over a company, the equity method is used for consolidation purposes. If the year-end closing date for consolidated companies' accounts is not 31 December, interim financial statements are compiled.

Entities are consolidated as from the date effective control over them passed to the Group; they are removed from the scope of consolidation as from the date such control ceases.

General valuation principles

The consolidated financial statements are prepared on the assumption of an ongoing concern. The accounting is therefore based on going-concern values.

Items are entered in the consolidated balance sheet as liabilities if they have arisen due to past events, if a cash outflow is probable and their value can be reliably estimated. If a reliable estimate is not possible, then it is a contingent liability, which is commented on in the notes.

The disclosed consolidated balance sheet items are valued individually.

In principle, neither assets and liabilities nor expenses and income are offset. Accounts receivable and account payable are offset in the following cases:

- deduction of value adjustments from the corresponding asset item;
- offsetting of positive and negative replacement values of derivative financial instruments with the same counterparty, if there are recognized and legally enforceable netting agreements in place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2016

2.2. Changes to accounting principles and valuation method
As per paragraph A3-59 PCB-Finma, result from trading activities embodies components directly linked to trading activities and partly included in the market place. Accordingly, from 1 January 2016 when the Bank refunds a client in relation to his/her trading activity (commercial gesture and/or correction of incorrect order execution), the refund is recorded in "Result from trading activities" instead of being recorded separately as operational loss. Comparative figures 2015 have been adapted.

Financial instruments
a. Liquid assets
Liquid assets are recognized at their nominal value.

b. Amounts due from banks and amounts due from customers
They are recognized at their nominal value less any necessary value adjustments. Amounts due in respect of precious metal account deposits are valued at fair value.
The Group is not active in credit activities. However, loans and advances on salaries may be granted to employees of the Bank and amounts receivable from clients may appear in the normal course of the Bank's core activities.
Doubtful receivables, i.e. obligations entered with clients for which the debtor is unlikely to meet its future obligations, are valued individually and depreciated by means of individual value adjustments. Impaired receivables and any collateral obtained are valued at their liquidation value, and any adjustments in value are made in light of the debtors' creditworthiness. If the repayment of a loan depends exclusively on the proceeds of the collateral, a value adjustment is made for the entire unsecured portion of the receivable.
If a receivable is classified as entirely or partially irrecoverable or a receivable is waived, the receivable is derecognized by booking it against the corresponding value adjustment.
Recovered amounts from receivables written off in earlier periods are recognized in "Change in value adjustments for default risk and losses from interest operations" in the consolidated statement of income.

c. Amounts due to banks and amounts due in respect of customer deposits
These items are recognized at their nominal value. Amounts due in respect of previous metal account deposits are valued at fair value.

d. Positive and negative replacement values of derivative financial instruments
Trading operations comprise execution of client orders and transactions of the Bank for its own account including hedging transactions.
The Trading portfolio and liabilities relating to trading operations of the Group are exclusively recognized in the consolidated off-balance sheet due to the nature of such transactions (spot forex, spot precious metals and derivatives). Spot trading transactions executed by the Group are accounted for according to the value date principle. This implies that between the trade date and the value date, spot transactions are disclosed as derivatives instruments. Explanations below concerning derivative financial instruments traded by the Group also apply to such spot trading operations.
Trading assets and liabilities are valued and recognized at fair value. Fair value is the price based on a price-efficient and liquid market or the price calculated using a valuation model.
The price gain or loss resulting from the valuation is recorded via the item "Result from trading operations".
Derivative financial instruments are used for trading and for hedging purposes.

Trading purposes
The valuation of derivative financial instruments for trading purposes is done according to the fair value and the positive or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2016

negative replacement value is recorded in the corresponding item. The fair value is based on market prices or option pricing models.
The realized result from trading operations and the unrealized result from valuations relating to trading operations are recorded via the item "Result from trading operations".

Hedging purposes
The Group also uses derivative financial instruments as part of its assets and liabilities management (ALM) to hedge against market risks. The Bank's subsidiaries active in brokerage activities have the obligation to hedge all their trading operations with the Bank. Hedging operations are valued and disclosed as trading operations.

Use of swaps
The Group uses currency swaps to rollover spot foreign exchange, CFDs and precious metals transactions to the next spot settlement date until positions are closed.

Netting
The Group offsets positive and negative replacement values with the same counterparty within the terms of the recognized and legally enforceable netting agreements.

e. Financial investments
Financial investments only count Swiss and US government bonds acquired with the intention to hold them until maturity. The valuation is based on the acquisition cost principle with the agio/disagio (premium/discount) accrued/deferred over the residual term to maturity (accrual method).
If held-to-maturity financial investments are sold or reimbursed early, the realized gains and losses, which correspond to the interest component, are accrued/deferred over the residual term to maturity of the transaction via the item "Other assets" or "Other liabilities".
Value adjustments for default risk are recorded immediately under "Changes in value adjustments for default risk and losses from interest operations".

Participations non-consolidated
Participations owned by the Bank which are not consolidated include equity securities of companies that are held for long-term purposes, irrespective of any voting rights. They are valued at historical costs minus any value adjustments , if any.
Each non-consolidated participation is tested for impairment as of the consolidated balance sheet date. This test is based on indicators reflecting a possible impairment of individual assets. If any such indictors exist, the recoverable amount is calculated. The recoverable amount is calculated for each individual asset. The recoverable amount is the higher amount of the net selling price and the value in use.
An asset is impaired if its carrying amount exceeds its recoverable amount. If the asset is impaired, the book value is reduced to match the recoverable amount and the impairment is charged via the item "Value adjustments on participations and amortisation of tangible fixed assets and intangible assets".
Realized gains from the sale of non-consolidated participations are recorded via the item "Extraordinary income" and realized losses are recorded via the item "Extraordinary expenses".

Tangible fixed assets
Investments in tangible fixed assets are capitalized as an asset if they exceed the minimal value for recognition of CHF 1'000.
Tangible fixed assets are recognized at acquisition cost minus the scheduled accumulated amortisation over the estimated operating life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2016

Tangible fixed assets are amortized at a consistent rate over an estimated operating life via the item "Value adjustments on participations and amortisation of tangible fixed assets and intangible assets".
The estimated operating lives of the different categories of tangible fixed assets and the amortisation methods are as follows:

- Fixtures and fittings	4 years, on a straight-line basis	- Vehicles	5 years, on a degressive* basis
- Furnitures	4 years, on a straight-line basis	- Softwares	5 years, on a degressive* basis
- IT hardwares	3 years, on a degressive* basis		

Acquisition costs of tangible fixed assets acquired during the year are depreciated at the same rate on a prorata basis.
Objects used by the Group as the lessees as part of a finance lease are recorded via the item "Tangible fixed assets" at cash purchase value. The leasing liabilities are disclosed, depending on the counterparty, in the items "Amount due to banks" or "Other liabilities".
Each tangible fixed asset is tested for impairment as of the consolidated balance sheet date. This test is based on indicators reflecting a possible impairment of individual assets impaired. If any such indicators exist, the recoverable amount is calculated. The recoverable amount is calculated for each individual asset.
The recoverable amount is the higher amount of the net selling price and the value in use. An asset is impaired if its carrying amount exceeds its recoverable amount. If the asset is impaired, the book value is reduced to match the recoverable amount and the impairment is charged via the item "Value adjustments on participations and amortisation of tangible fixed assets and intangible assets".
Realized gains from the sale of tangible fixed assets are recorded via the item "Extraordinary income" and realized losses are recorded via the item "Extraordinary expenses".

Provisions
The Group records provisions based on its assessment of the risks of loss and probable liabilities, based on past events, of which the amount and due date are uncertain but assessable. Legal and factual obligations are valued regularly. If an outflow of resources is likely and can be reliably estimated, a corresponding provision is created.
Existing provisions are reassessed at each consolidated balance sheet date. Based on this reassessment, the provisions are increased, left unchanged or released. Currently, provisions exclusively relate to legal risks and deferred tax. The variation of provisions is recorded in the consolidated statement of income via "Changes to provisions and other value adjustments and losses". Provisions are released via the consolidated statement of income if they are no longer needed on business grounds.

Reserves for general banking risks
Reserves for general banking risks are prudently created reserves to hedge against the risks in the course of business of the Group. The creation and release of Reserves for general banking risks are recognized via the item "Changes in reserves for general banking risks" in the consolidated statement of income. The Reserves for general banking risks are subject to tax when they exceed certain criteria. The portion of Reserves for general banking risks which is not subject to current tax triggers the recording of deferred tax in the item "Provisions" in the consolidated balance sheet via the item "Taxes" in the consolidated statement of income.

Taxes
Current taxes are recurring, usually annual, taxes on profits, capital and total income (Geneva professional tax). Transaction-related taxes are not included in current taxes.
Liabilities from current tax are disclosed via the item "Accrued liabilities and deferred expenses".
Deferred taxes, stemming from temporary timing differences between the taxable and accounting values of assets and

* The amortisation rate is applied to the accounting value at the beginning of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2016

liabilities, are booked as deferred taxes in the item “Provisions” on the liabilities side of the consolidated balance sheet. Deferred taxes are calculated based on the tax rate applied to the Bank. Expenses due to current and deferred taxes are disclosed in the consolidated statement of income via the item “Taxes”.

Off-balance sheet transactions
Off-balance sheet disclosures are at nominal value. Provisions are created in the liabilities in the consolidated balance sheet for foreseeable risks.

Pension benefit obligations
The Group’s employees based in Switzerland are insured for retirement, death or disablement through a defined contribution pension scheme. The Group bears the costs of the occupational benefit plan for employees and survivors as per the legal requirements. The employer contributions arising from the pension scheme are included in “Personnel expenses” on an accrual basis.
The treatment of pension commitments is based on the Swiss GAAP FER 16 rules. Employee benefit obligations mean all commitments resulting from the pension fund to which Group’s employees are insured.
There is an economic benefit if, due to contribution reserves, the Group has the ability to reduce its future employer's contributions. A contrario, there is a liability if, owing to a shortfall in the pension fund, the Group wants or has to participate in the financing of the pension fund.
The Group assesses whether there is an economic benefit or economic obligation arising from pension schemes as of the consolidated balance sheet date. The assessment is based on the contracts and financial statements of the pension funds (established under Swiss GAAP FER 26 in Switzerland).
The identified economic benefits (including the employer contribution reserves without a waiver of use) are recorded in “Other assets”. If an economic obligation is identified for an individual pension fund, it is recorded in “Provisions”. The differences with the corresponding value of the prior period are recorded in the consolidated statement of income in “Personnel expenses”.

2.3. Recording of business transactions
All business transactions concluded up to the consolidated balance sheet date are recorded as of their trade date (trade date principle) and valued according to the above-mentioned principles. Any foreign exchange spot transactions, foreign exchange forwards, swaps or any other derivative financial instrument entered into but not yet fulfilled are recorded in accordance with the settlement date accounting method. Between the trade date and the settlement date, these transactions are disclosed at replacement value via the item “Positive replacement values of derivative financial instruments” or “Negative replacement values of derivative financial instruments”.

2.4. Treatment of foreign currencies
For each Group company, income and expenses denominated in foreign currencies are converted, in the individual company accounts, at the exchange rate prevailing on the transaction date. Assets and liabilities in foreign currencies are converted at the exchange rate applicable on the period-closing date. Currency gains and losses resulting from currency translation are included in the respective statement of income of individual companies.
On consolidation, assets and liabilities of Group companies are converted into Swiss francs at the exchange rate of the consolidated balance sheet date at the exception of the shareholders’ equity which is converted at historical rate. Income and expenses of Group companies are converted at the exchange rate averaged over the reporting period. Exchange differences resulting from conversion into Swiss francs of individual financial statements are recognized in the consolidated balance sheet in the item “Currency translation reserve”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2016

At the consolidated balance sheet date, the main exchange rates used to convert assets and liabilities in foreign currencies were as follows:

		2016 CHF	2015 CHF
USD	1.00	1.01870	1.00230
EUR	1.00	1.07190	1.08815
GBP	1.00	1.25645	1.47700
CAD	1.00	0.75765	0.72440
JPY	1.00	0.00870	0.00834
AUD	1.00	0.73385	0.73065
NZD	1.00	0.70510	0.68455
NOK	1.00	0.11785	0.11395
SEK	1.00	0.11192	0.11846
SGD	1.00	0.70363	0.70296

The average exchange rate over the reporting period for conversion income and expenses of Group companies were as follows:

		2016 CHF	2015 CHF
EUR	1.00	1.09002	1.06791
JPY	1.00	0.00908	0.00809

3. Risk Management

Due to its core business consisting in offering fully automated (Straight-Through-Processing) brokerage services via innovative in-house developed IT solutions, the Group is mostly subject to operational, market and legal risks. The Bank provides IT and trading technology to all Group companies under white labeling agreements. Besides, the Bank is the sole Group company which is allowed to take market risks. As a consequence, operational and market risks of the Group are concentrated at the Bank.

Since the Group is not active in credit activities and only executes client orders based on collateral (client margin deposits and bank guarantees), its credit risk exposure is normally limited to possible default of institutional trading counterparties.

The identification, measurement, monitoring, management of risks and maintenance of the Group's stability, is a priority for the Group. The key elements of risk management and Group consolidated supervision are the following:

- a comprehensive risk policy and internal regulation defining among others the risk appetite and risk limits which are commensurate with the Bank's risk capacity;
- the permanent monitoring of risk limits and compliance with applicable regulatory capital, risk diversification and liquidity requirements at local and Group levels;
- a risk control function and risk officer in charge of monitoring the Bank's and Group's risk profile and risk management capabilities;
- proper segregation of duties;
- wide application of the four-eyes principle and IT-based controls in business operations;
- three lines of defense: risk management by business units, risk control and compliance functions and internal audit at local and Group levels;
- a comprehensive internal reporting on relevant risks.

The Bank's Board of Directors is the supreme governing body of the risk management organization of the Group. It has established an analysis of the main risks the Bank and the Group are exposed to. Based on its risk analysis, the Board of

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Directors has adopted a General Risk Policy aiming at limiting and managing the main risks affecting the Bank where most of the Group's risks are concentrated. In addition, the Board of Directors has adopted Group risk limits and an internal regulation governing the consolidated supervision of the Group by the Bank. The General Risk Policy defines the risk appetite, the main risk limits and features of the risk measurement and risk management of the Bank. The Board of Directors monitors compliance with the limits as well as the implementation of the risk policy based on a comprehensive quarterly reporting on risks and Group consolidated supervision.

The executive management of each Group company is responsible for the execution of the Group and local policies. It ensures a suitable risk management organization is in place as well as the use of an adequate risk monitoring system. It monitors the use of limits and ensures that an adequate internal reporting is in place, including to the attention of the Bank's officers in charge of the Group consolidated supervision. The Group and local risk control and compliance functions are independent of business operations. They monitor all risks as the second line of defense and establish most of the quarterly reporting about risks to the local and Bank's executive management and Board of Directors.

Operational risks

Operational risks are defined as the risk of losses due to inadequacy or failure of internal procedures, people and systems or due to external events. This definition includes risks related to client data confidentiality and legal risks, including fines by supervisory authorities and settlements. As Group offering highly automated services accessible through the Internet, the Group much relies on IT systems and Internet connections to operate. Automation brings high efficiency, eliminates human errors but at the same time means dependency on the availability and integrity of IT systems and Internet connections that the Group protects through advanced security solutions and permanent monitoring of the system components.

The operational risks are measured by calculating the probability and extent of possible financial damages due to negative events such as an error in client order execution or the breach of a regulation (compliance risk). The Bank has documented operational risks and key controls aiming at mitigating such risks (e.g. four eyes principle, reconciliations, automated controls, internal regulation, etc.) in a systematic manner via an internal regulation which is approved annually by the Board of Directors and based on the FINMA circular 2008/21. The operational risk management framework also includes a Business Continuity Management (BCM) documentation, which rules the maintenance or the resumption of business operations in case of occurrence of critical situations such as a natural disaster affecting the Bank or Group companies. The effectiveness of the Business Continuity Management of the Bank is tested annually. In other Group entities, the BCM documentation is adapted to local operations and applicable regulation.

The Bank establishes risk indicators, mainly based on operational incidents and losses which allow the Bank's risk control function to report about operational risks in a systematic and objective way to the Bank's executive management and Board of Directors.

The management of operational risks is one of the priorities of the Group since it has a direct effect on its stability and attractiveness as trusty service provider.

Market risks – trading operations

Due to the Group's specialisation in forex trading, market risks are concentrated on currency risk. Market risks related to other financial instruments offered by the Group (precious metals, stocks, commodities, equities, etc.) are minor in comparison to currency risks. As mentioned above, the Bank is the sole Group company which accepts and manages market risks on trading activities. The management of market risks deriving from trading operations is a priority risk management activity and a cornerstone of the Group's financial stability. In particular, the volatility on the forex market may trigger significant impact on the Group's financial situation due to the Bank's currency risk exposure via the item "Result from trading activities". For various reasons including for benefiting from bid and ask spreads, the Bank permanently keeps a certain portion of market exposure deriving from client orders execution.

The Bank applies prudent market risks limits and sophisticated monitoring of market risk exposure via automated hedging logics and 24h human and automated surveillance.

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The Bank automatically measures its market risk exposure on a permanent and real time basis. The IT system automatically caps such market risk exposure under the limits decided by the executive management and the Board of Directors. Those limits have been set sufficiently carefully to ensure that Swiss banking capital adequacy requirements are complied with at all time. If deemed necessary, the Bank's advanced technology allows it to fully exclude exposure deriving from trading on all or specific instruments, for instance in anticipation of exceptional market events such as the abandon of a currency peg by a Central Bank.

Market risks – other currency risks
The Group entities have limits applicable to currency risk exposure deriving from currency discrepancies between assets and liabilities. These limits are monitored on a regular basis and sufficient currency congruence is maintained between assets and liabilities through the assets and liabilities management (ALM).

Market risks – interest rate risks
The Group is not active in credit or other interest generating activities. The Group's exposure to interest rate risks mostly derives from government bonds bought and deposited by the Bank with trading counterparties as trading collateral. Only the Bank is exposed to interest rate risks. Since the Bank intends to hold those bonds until maturity, the identified interest rate risks should not materialise in losses. The Bank calculates and reports about interest rate risks on a quarterly basis.

Credit risk
The trading platforms automatically monitor the credit risk relating to clients by way of margin call and margin cut functionalities which shall ensure that the Group remains covered by sufficient collateral at any time. Unsecured loans are short term exceptions rent deposits, amounts due from tax authorities and granted to Bank's employees.

Counterparty risk in interbank business
The Group deposits its liquidity and trades (mainly to hedge client transactions) with more than 20 different banks and other institutional trading counterparties external to the Bank's ECN marketplace such as brokers and other marketplaces. Counterparty and default risks relating to banks and other trading counterparties are mitigated by the fixation of exposure limits approved by the competent officers including the Bank's Board of Directors. The respect of the risk limits is controlled on a daily basis and limits are adapted as often as deemed necessary.
In principle, the Group works only with first-class counterparties. Before entering into a business relationship with counterparty in interbank business, the Group performs an assessment of the counterparty risk and sets a risk exposure limit accordingly. The limit depends significantly on the rating, if any and on the capital adequacy of the counterparty which are reassessed on an annual basis or more frequently if deemed necessary. In case of extreme market events or negative events affecting certain counterparties, the Bank's executive management and risk control function urgently examine Group exposures and reconsider risk limits.

Liquidity
Due to the nature of its business activities, the Group has abundant liquidities and no long term monetary commitment. The Group is exclusively financed by its own capital, client deposits and therefore does not need to raise funds on the money market. Bank's subsidiaries deposit most of their liquidity with Dukascopy Bank. As a result the liquidity risk of the Group is low and requires limited monitoring. The liquidity risk management strategy of the Bank and an emergency liquidity plan has been approved by the Board of Directors. The latter identify reserves of liquidity, liquidity risk indicators and steps necessary to maintain sufficient liquidity for the Bank and the Group, including in case of liquidity stress situation.
The Bank's Treasurer monitors the liquidity situation of the Group. He/she ensures that the Group limits are complied with. The Group liquidity situation and concentration risks are monitored by the Bank's risk control function and reported quarterly to the executive management and to the Board of Directors.

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4. Methods used for identifying default risks and determining the need for value adjustments

4.1. Amounts due from customers

The Bank is the sole Group company accepting bank guarantees as collateral. With regard to receivables covered by bank guarantees, the credit risk mostly relates to banks having issued such guarantees and the default risk is determined as explained in section 4.2. below. If the bank having issued the bank guarantee defaults, the receivable becomes unsecured and default risks are assessed as described below, like for all other unsecured receivables.

The Group considers that a risk of default exists on unsecured receivables if a payment of interests or a reimbursement of principal is not honored in due date or if the debtor disputes such payment obligation or indicates that he/she will not be able to honor them. In such cases, the Group enquires about the debtor's intentions and financial situation and evaluates the chances of recovering the receivable. A value adjustment is recorded for the portion of receivable whose recovery is considered uncertain.

4.2. Amounts due from banks

In principle, the Group only takes credit risk exposure towards counterparties having sound creditworthiness. The Group considers that a counterparty is defaulting in case the latter refuses to honor a payment order in due time, or is declared bankrupted or placed under special administration due to insolvency/going concern issues. In such cases, the counterparty's situation is evaluated. A value adjustment is recorded on the portion of receivable whose recovery is considered uncertain.

4.3. Process for determining value adjustments and provisions

Value adjustments and provisions are reassessed at each balance sheet date. Changes in value adjustments and provisions are approved by the executive management unless they simply result from a use of provision in conformity with its purpose or the recovery of an impaired receivable.

5. Valuation of collateral

Collateral provided by clients is normally made of cash, in any currency accepted in deposit by the Group. As far as the Bank is concerned, collateral also may comprise up to 80% of bank guarantees issued by Swiss or European banks having a Baa or superior Long-Term senior debt Moody's rating. With the joint approval of the Bank's risk control function and executive management, the Bank may accept bank guarantees derogating the above criteria. Bank guarantees must be denominated in same currency as the client account reference currency. Collateral is valued at nominal value of the cash or bank guarantees. The Bank applies no haircut to collateral and grants a leverage for the trading of certain instruments.

6. Business policy regarding the use of derivative financial instruments and hedge accounting

Trading of OTC financial instruments with clients, including trading of certain financial derivatives (CFD and binary options), is the core business of the Group. As per Swiss legislation, the main instrument offered by the Group, namely leveraged margin trading on currencies and precious metals without delivery, does not qualify as derivative financial instrument, while it is often regarded as a CFD instrument in other jurisdictions. Therefore, depending on the qualification of leveraged margin trading, the Group may be seen as a pure provider of financial derivative instruments. The Group does not trade credit derivatives.

Dukascopy Group executes all trading operations in full STP (Straight-through-Processing).

The Group also uses derivative financial instruments for risk management purposes, mainly to hedge against market risks (including currency risk) mostly deriving from clients trading operations. By policy, the brokerage subsidiaries of the Bank must hedge all their trading operations with Dukascopy Bank, which is their unique trading venue. In its trading activity, including when dealing with its subsidiaries, the Bank always act as principal. The Bank hedges its own market risks by entering into hedging trades with external institutional counterparties or with clients. The Bank does not use hedge accounting.

7. Material events after the consolidated balance sheet date

No material events occurred after the consolidated balance sheet date that could have a material impact on the financial position of the Group as of 31 December 2016.

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Presentation of collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables

Loans (before netting with value adjustments)	**Secured by mortgages CHF**	**Other collateral CHF**	**Unsecured CHF**	**Total CHF**
Amounts due from customers	–	30 440	575 193	605 633
Total at 31 December 2016 (before netting with value adjustments)	**–**	**30 440**	**575 193**	**605 633**
Total at 31 December 2015 (before netting with value adjustments)	–	689 784	2 521 287	3 211 071
Total at 31 December 2016 (after netting with value adjustments)	**–**	**30 440**	**568 707**	**599 147**
Total at 31 December 2015 (after netting with value adjustments)	–	689 784	327 552	1 017 336

Off-balance sheet commitments	**Secured by mortgages CHF**	**Other collateral CHF**	**Unsecured CHF**	**Total CHF**
Contingent liabilities*	–	123 733	–	123 733
Irrevocable commitments	–	–	856 000	856 000
Total at 31 December 2016	**–**	**123 733**	**856 000**	**979 733**
Total at 31 December 2015	–	116 992	878 000	947 381

*Contingent liabilities are bank guarantees issued by the Bank on behalf of clients, fully secured by client cash deposits

Breakdown of impaired loans/receivables	**Gross debt amount CHF**	**Estimated liquidation proceeds of collateral CHF**	**Net debt amount CHF**	**Individual value adjustments CHF**
Total at 31 December 2016	**6 486**	**–**	**6 486**	**6 486**
Total at 31 December 2015	2 193 735	–	2 193 735	2 193 735

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Presentation of derivative financial instruments (assets and liabilities)

OTC transactions	Trading instruments		
	Positive replacement values CHF	Negative replacement values CHF	Contract volumes CHF
Currencies:			
- forward contracts*	2 631 638	2 578 692	1 446 130 727
- swaps	2 135 534	1 714 607	1 294 539 356
Total currencies	**4 767 172**	**4 293 299**	**2 740 670 083**
Precious metals:			
- forward contracts*	–	4 311	1 081 124
- swaps	7 881	74 256	27 165 109
Total precious metals	**7 881**	**78 567**	**28 246 233**
Equity securities and indices:	–	–	–
- CFD	23 444	2 611	11 399 450
Total equity securities and indices	**23 444**	**2 611**	**11 399 450**
Others:	–	–	–
- CFD	4 120	–	5 058 972
Total others	**4 120**	**–**	**5 058 972**
Total at 31 December 2016 before impact of netting contracts	**4 802 617**	**4 374 477**	**2 785 374 738**
Total at 31 December 2015 before impact of netting contracts	5 394 944	5 395 006	2 962 111 115
Total at 31 December 2016 after impact of netting contracts	**1 570 122**	**1 141 982**	
Total at 31 December 2015 after impact of netting contracts	775 125	775 186	

* Represent the spot trading transactions which are accounted for according to the value date principle.

Breakdown by counterparty

	Central clearing houses	Banks and securities dealers	Others customers	Total
Positive replacement values after impact of netting contacts Total at 31 December 2016	–	**1 433 574**	**136 548**	**1 570 122**
Positive replacement values after impact of netting contacts Total at 31 December 2015	–	520 573	254 552	775 125

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Breakdown of financial investments

Debt securities	Book value 2016 CHF	Book value 2015 CHF	Fair value 2016 CHF	Fair value 2015 CHF
of which bonds held to maturity	*39 314 705*	*40 052 872*	*39 474 808*	*40 550 740*
Total	**39 314 705**	**40 052 872**	**39 474 808**	**40 550 740**
including securities eligible for repo transactions in accordance with liquidity regulations	*39 314 705*	*40 052 872*	*39 474 808*	*40 550 740*

Breakdown of countreparties by Fitch rating

2016	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Lower than B-	Without rating
Debt securities: Book value of bonds held to maturity	**39 314 705**	**–**	**–**	**–**	**–**	**–**
2015						
Debt securities: Book value of bonds held to maturity	40 052 872	–	–	–	–	–

Presentations of non-consolidated participations

Non-consolidated participations	2015 Cost value CHF	2015 Value adjustment CHF	2015 Book value at end of year CHF	2016 Additions CHF	2016 Disposals Reimbursement CHF	2016 Value adjustment CHF	2016 Book value at end of year CHF
Without listed value	808 085	–	808 085	549 125*	–	–	1 357 210
Total non-consolidated participations	**808 085**	**–**	**808 085**	**549 125***	**–**	**–**	**1 357 210**

*This amount relates to the increase of Dukascopy Payments AS capital (CHF 219 650) and amount of incorporation of Dukascopy International Ltd (CHF 329 475).

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Disclosure of companies in which the Bank holds a permanent direct or indirect significant participations

Consolidated participations	Activity	Share capital CHF	Head office	Share capital in %	Vote in %	Held directly
	2016					
Dukascopy Europe IBS AS	brokerage	1 479 241	Riga	100	100	100
Dukascopy Japan K.K.	brokerage	5 488 259	Tokyo	100	100	100
Non-consolidated participations						
Dukascopy Community SA	social media	100 000	Geneva	100	100	100
Dukascopy Payments AS	e-money	827 735	Riga	100	100	100
SWFX-Swiss FX Marketplace SA	dormant	100 000	Geneva	100	100	100
Dukascopy International Ltd	dormant	329 475	Limassol	100	100	100
Consolidated participations			**2015**			
Dukascopy Europe IBS AS	brokerage	1 479 241	Riga	100	100	100
Dukascopy Japan K.K.	brokerage	5 488 259	Tokyo	100	100	100
Non-consolidated participations						
Dukascopy Community SA	social media	100 000	Geneva	100	100	100
Dukascopy Payments AS	e-money	608 085	Riga	100	100	100
SWFX-Swiss FX Marketplace SA	dormant	100 000	Geneva	100	100	100

The Group's scope of consolidation comprises all companies owned, either directly or indirectly, over 50% of the capital or voting rights by the Bank or which are under dominant influence of the Bank by another manner, at the exception of Group companies whose integration would not have any significantly influence on the consolidated financial statements, as SWFX – Swiss FX Marketplace SA (total balance sheet CHF 83 192, net loss CHF 757), Dukascopy Community SA (total balance sheet CHF 344 770, net profit CHF 100 723), Dukascopy Payments AS (total balance sheet CHF 546 757, net loss CHF 6 887) Dukascopy International Ltd is not yet activated (total balance sheet CHF 329 475). Dukascopy Europe IBS AS and Dukascopy Japan K.K. are fully integrated in the consolidated financial statements of the Group.

Presentations of tangible fixed assets

	2015			2016			
	Cost value CHF	**Accumulated depreciation CHF**	**Book value at end of year CHF**	**Additions CHF**	**Disposals CHF**	**Depreciation CHF**	**Book value at end of year CHF**
Softwares	22 771 286	(22 726 293)	44 993	2 901	454	(23 969)	24 379
Other fixed assets	8 492 617	(7 606 882)	885 735	657 961	608	(542 983)	1 001 321
Total fixed assets	**31 263 903**	**(30 333 175)**	**930 728**	**660 862**	**1 062**	**(566 952)**	**1 025 700**

Leasing

	2017 CHF	2018 CHF	2019 CHF	2020 CHF	2021 CHF	2022 CHF
Future leasing installments arising from operating leases	**1 959 195**	**1 117 280**	**1 068 526**	**878 844**	**89 500**	**53 923**
of which, may be terminated within one year	278 454	–	–	–	–	–

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Breakdown of other assets and liabilities

Other assets	**2016 CHF**	**2015 CHF**
Wire transfers	30 132	–
Others	372	3 737
Total other assets	**30 504**	**3 737**
Other liabilities		
Wire transfers	196 849	524 812
Indirect taxes to be paid	373 770	288 888
Others	44 972	14 872
Total other liabilities	**615 591**	**828 572**

Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership

	2016		**2015**	
	Book value of pledged assets and assets assigned as collateral CHF	**Effective commitments CHF**	**Book value of pledged assets and assets assigned as collateral CHF**	**Effective commitments CHF**
Swiss and US government bonds	30 758 644	7 126 738	31 261 303	9 529 393
Margin accounts assigned as collateral*	15 816 443	11 277 276	17 143 339	11 252 681
Deposits made with banks to secure guarantees	223 577	223 577	235 969	235 969
Total	**46 798 664**	**18 627 591**	**48 640 611**	**21 018 043**

*Comparative figures 2015 have been adapted to be compatible with 2016

Indications relating to pension funds

A collective pension fund plan exists for the employees based in Switzerland (Caisse Inter-Entreprises-CIEPP). This fund is a defined contributions scheme. There is no employer contribution reserve and there is no identifiable economic benefit to be capitalised in the balance sheet (2015: nil). The overfunding in the pension fund is based on its unaudited accounts as of 31 December 2016 (coverage ratio is approximately 114%). Based on the last audited financial statements of the Caisse Inter-Entreprises-CIEPP as at 31 December 2015, the coverage ratio was 111.9% (31 December 2014: 117.4%).
The employees based in Russia Federation were affilated to a defined contributions scheme pension fund of the Russian state which has been cancelled in 2015. Since 2015, employees based in Russia are no longer insured by any pension fund.
The employees based in Japan are affilated to a defined contributions scheme pension fund of the Japanese state. This fund does not allow any employer's contribution reserve.
There is no pension funds for the other consolidated entities of the Group.

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Presentation of economic benefit / obligation and the pension expenses

	Over/under-funding 31.12.16	Economic interest of the Bank		Change in economic interest versus prior year	Contributions paid in 2015	Pension expenses in personnel expenses	
		2016	2015			2016	2015
Pension plans with overfunding	–	–	–	–	**384 051**	**384 051**	360 302

Presentations of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

	Balance at 31 December 2015 CHF	Use in conformity with designated purpose CHF	Reclassifi-cations CHF	Currency differences CHF	Recoveries, past due interest CHF	New creations charged to income CHF	Releases to income CHF	Balance at 31 December 2016 CHF
Provisions for deferred taxes	700 000	–	–	–	–	–	–	700 000
Provisions for other business risks	300 000	(169 730)	–	–	–	322 569	(204 427)	248 412
Total provisions	**1 000 000**	**(169 730)**	–	–	–	**322 569**	**(204 427)**	**948 412**
Reserves for general banking risks	2 100 000	–	–	–	–	–	–	2 100 000
Value adjustments for default risks and country risks - of which, value adjustments for default risks in respect of impaired loans/receivables	**2 193 735**	**(2 053 194)**	–	–	–	–	**(134 055)**	**6 486**

Other provisions include provisions for legal fees and litigations arising out of the normal conduct of Dukascopy Bank's activities.
Provisions are valued according to the best estimate principle. Reserves for general banking risks have not been taxed.

Presentation of the Bank's capital

	2016			2015		
	Total par value CHF	Number of shares CHF	Capital eligible for dividend CHF	Total par value CHF	Number of shares CHF	Capital eligible for dividend CHF
Paid-in share capital	22 000 000	21 712 000	22 000 000	22 000 000	21 712 000	22 000 000
Total Bank's capital	**22 000 000**	**21 712 000**	**22 000 000**	**22 000 000**	**21 712 000**	**22 000 000**

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Disclosure of amounts due from/to related parties

	2016		2015	
	Amounts due from CHF	Amounts due to CHF	Amounts due from CHF	Amounts due to CHF
Holders of qualified participation	–	–	–	–
Group companies	26 170	650 115	2 625	406 431
Linked companies	–	–	–	–
Transactions with members of governing bodies	–	–	–	–
Other related parties	–	29	–	–

Dukascopy Bank engaged into transactions with related parties in the normal course of its business. These transactions mainly include rent, marketing services and software development support. Transactions with related parties are conducted at arm's length.

Disclosure of holders of significant participations

	2016			
With voting rights	Nominal CHF	Number of shares CHF	% of equity in %	Capital eligible for dividend CHF
Dr. Andrey Duka	10 890 000	10 746 000	49.5	10 890 000
Veronika Duka	10 890 000	10 746 000	49.5	10 890 000

	2015			
With voting rights	Nominal CHF	Number of shares CHF	% of equity in %	Capital eligible for dividend CHF
Dr. Andrey Duka	10 890 000	10 746 000	49.5	10 890 000
Veronika Duka	10 890 000	10 746 000	49.5	10 890 000

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Presentation of the maturity structure of financial instruments

ASSETS	At sight CHF	Cancellable CHF	Due: Within 3 months CHF	Due: Within 3 to 12 months CHF	Due: Within 1 to 5 years CHF	Due: Over 5 years CHF	Due: No maturity CHF	Total CHF
Liquid assets	25 143 768	–	–	–	–	–	–	25 143 768
Amounts due from banks	90 821 021	223 577	–	–	–	–	–	91 044 598
Amounts due from customers	330 847	268 300	–	–	–	–	–	599 147
Positive replacement values of derivative financial instruments	1 570 122	–	–	–	–	–	–	1 570 122
Financial investments	–	–	–	14 246 900	25 067 805	–	–	39 314 705
Total current assets at 31 December 2016	**117 865 758**	**491 877**	–	**14 246 900**	**25 067 805**	–	–	**157 672 340**
Total current assets at 31 December 2015	138 682 911	494 228	–	–	40 052 872	–	–	179 230 011
Third-party liabilities								–
Amounts due to banks	17 014 296	–	–	–	–	–	–	17 014 296
Amounts due in respect of customer deposits	103 432 543	–	–	–	–	–	–	103 432 543
Negative replacement values of derivative financial instruments	1 141 982	–	–	–	–	–	–	1 141 982
Total third-party liabilities at 31 December 2016	**121 588 821**	**–**	–	–	–	–	–	**121 588 821**
Total third-party liabilities at 31 December 2015	145 395 532	–	–	–	–	–	–	145 395 532

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Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle

ASSETS	2016			2015		
in CHF ('000)	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Liquid assets	9 010	16 134	25 144	8 385	29 433	37 818
Amounts due from banks	64 755	26 290	91 045	76 322	23 244	99 566
Amounts due from customers	221	378	599	722	295	1 017
Positive replacement values of derivative financial instruments	648	922	1 570	55	720	775
Financial investments	27 081	12 234	39 315	28 008	12 045	40 053
Accrued income and prepaid expenses	1 315	1 511	2 826	1 404	2 382	3 786
Participations	200	1 157	1 357	200	608	808
Tangible fixed assets	647	379	1 026	587	344	931
Other assets	30	–	30	1	3	4
Total assets	**103 907**	**59 005**	**162 912**	**115 684**	**69 074**	**184 758**
LIABILITIES						
Amounts due to banks	–	17 014	17 014	12 700	21 531	34 231
Amounts due in respect of customer deposits	7 693	95 740	103 433	7 766	102 623	110 389
Negative replacement values of derivative financial instruments	42	1 100	1 142	272	503	775
Accrued expenses and deferred income	2 342	573	2 915	2 298	280	2 578
Other liabilities	616	–	616	828	1	829
Provisions	948	–	948	1 000	–	1 000
Reserves for general banking risks	2 100	–	2 100	2 100	–	2 100
Bank's capital	22 000	–	22 000	22 000	–	22 000
Retained earnings reserve	10 794	–	10 794	7 906	–	7 906
Currency translation reserve	240	–	240	129	–	129
Consolidated profit of the year	2 514	(804)	1 710	3 390	(569)	2 821
Total liabilities	**49 289**	**113 623**	**162 912**	**60 389**	**124 369**	**184 758**

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Breakdown of total assets by country or group of countries (domicile principle)

ASSETS	2016		2015	
	Absolute CHF ('000)	Share %	Absolute CHF ('000)	Share %
Switzerland	103 907	63.8	115 684	62.6
Europe excluding Switzerland	40 912	25.1	53 202	28.8
USA and Canada	13 158	8.1	12 407	6.7
Others	4 935	3.0	3 465	1.9
Total	**162 912**	**100.0**	**184 758**	**100.0**

Breakdown of total assets by credit rating of country groups (risk domicile view)

SERV Rating	2016		2015	
	Absolute CHF ('000)	Share %	Absolute CHF ('000)	Share %
1	56 276	95.4	65 630	95.0
2	57	0.1	75	0.1
3	478	0.8	784	1.1
4	65	0.1	119	0.2
5	1 752	3.0	1 813	2.6
6	80	0.1	92	0.1
7	208	0.4	277	0.4
without rating	89	0.2	284	0.4
Total	**59 005**	**100.0**	**69 074**	**100.0**

The Bank does not use an internal rating system for country risk management. SERV is the rating issued by OECD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2016

Presentation of assets and liabilities broken by most significant currencies of the bank

ASSETS in CHF ('000)	**CHF**	**EUR**	**USD**	**GBP**	**JPY**	**Others**	**Total**
Liquid assets	9 010	16 134	–	–	–	–	25 144
Amounts due from banks	6 742	11 047	55 211	6 630	5 075	6 340	91 045
Amounts due from customers	195	106	58	5	204	31	599
Positive replacement values of derivative financial instruments	1 570	–	–	–	–	–	1 570
Financial investments	27 081	–	12 234	–	–	–	39 315
Accrued income and prepaid expenses	1 202	376	961	90	21	176	2 826
Participations	1 357	–	–	–	–	–	1 357
Tangible fixed assets	991	1	–	–	34	–	1 026
Other assets	5	1	14	–	–	10	30
Total assets	**48 153**	**27 665**	**68 478**	**6 725**	**5 334**	**6 557**	**162 912**
Claims arising from spot exchange and swap transactions	88 863	590 217	1 195 848	372 494	303 831	233 692	2 784 945
Total at 31 December 2016	**137 016**	**617 882**	**1 264 326**	**379 219**	**309 165**	**240 249**	**2 947 857**
LIABILITIES							
Amounts due to banks	3	6 173	9 703	94	967	74	17 014
Amounts due in respect of customer deposits	7 722	31 253	51 167	4 636	3 127	5 528	103 433
Negative replacement values of derivative financial instruments	1 142	–	–	–	–	–	1 142
Accrued expenses and deferred income	1 229	1 182	297	4	151	52	2 915
Other liabilities	381	116	106	3	–	10	616
Provisions	948	–	–	–	–	–	948
Reserves for general banking risks	2 100	–	–	–	–	–	2 100
Bank's capital	22 000	–	–	–	–	–	22 000
Retained earnings reserve	10 794	–	–	–	–	–	10 794
Currency translation reserve	240	–	–	–	–	–	240
Consolidated profit of the year	2 514	83	–	–	(887)	–	1 710
Total liabilities	**49 073**	**38 807**	**61 273**	**4 737**	**3 358**	**5 664**	**162 912**
Delivery obligations arising from spot exchange and swap transactions	80 308	581 465	1 220 470	364 144	306 391	232 167	2 784 945
Total at 31 December 2016	**129 381**	**620 272**	**1 281 743**	**368 881**	**309 749**	**237 831**	**2 947 857**
Net position by currency	**7 635**	**(2 390)**	**(17 417)**	**10 338**	**(584)**	**2 418**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2016

Breakdown of contingent assets and contingent liabilities

Contingent assets	2016 CHF	2015 CHF
Other contingent assets	–	–
Total contingent assets	–	–
Contingent liabilities		
Other contingent liabilities	123 733	116 992
Total contingent liabilities	**123 733**	**116 992**

Breakdown of the result from trading activities

Trading income	2016 CHF	2015 CHF
Leveraged margin trading	34 054 668*	34 638 042*
Binary options	675 876	690 498
Total	**34 730 544***	**35 328 540***

*From 1 January 2016, when the Bank refunds clients in relation to their trading activity (commercial gesture and/or correction of order execution), the refund is recorded in "Result from trading activities" instead of being recorded separately as operational loss (CHF 701 591 in 2015 and CHF 836 122 in 2016). Comparative figures 2015 have been adapted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2016

Breakdown by underlying risk

Result from trading activities from:	2016 CHF	2015 CHF
Equity securities	1 983 665	1 310 544
Foreign currency	26 802 101	29 660 174
Commodities / precious metals	5 944 777	4 357 823
Total	**34 730 544**	**35 328 540**

Comparative figures 2015 have been adapted.

Disclosure of material refinancing income in the item Interest and discount Income as well as material negative interest

Negative interest	2016 CHF	2015 CHF
Negative interest on credit operations	50 992	45 873
Negative interest on deposits	7 240	10 488

Negative Interest on credit operations are disclosed as a reduction in interest and discount income.
Negative Interest on deposits are disclosed as a reduction in interest expense.

Breakdown of personnel expenses

Personnel expenses	2016 CHF	2015 CHF
Salaries	12 077 549	10 971 694
of which, expenses relating to share-based compensation and alternative forms of variable compensation	–	–
Benefits	2 624 654	2 381 853
Other personnel expenses	128 126	150 282
Total personnel expenses	**14 830 329**	**13 503 829**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2016

Breakdown of general and administrative expenses

General and administrative expenses	2016 CHF	2015 CHF
Premises	2 616 947	2 397 224
IT related expenses	2 617 294	1 984 137
Legal and consulting	1 254 822	1 361 425
Post, telecommunications and data	659 486	612 020
Expenses for vehicles	51 318	45 108
Office supply	213 096	216 056
Audit fees	297 444	294 051
of which for financial and regulatory audits	*297 444*	*294 051*
of which for other services	–	–
Marketing and communication	7 874 701	5 901 437
Travels	1 003 837	856 694
Others	471 645	367 018
Total general and administrative expenses	**17 060 590**	**14 035 170**

Explanations regarding extraordinary income and expenses

Extraordinary income	2016 CHF	2015 CHF
Disposal of fully depreciated fixed assets	–	1 000
Deposits abandonned by clients	–	1 161
Total extraordinary income	–	**2 161**

There was no extraordinary expense in 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2016

Presentation of operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment

	2016		2015	
	Domestic CHF	**Foreign CHF**	**Domestic CHF**	**Foreign CHF**
Subtotal net result from interest operations	124 496	133 693	48 051	77
Subtotal result from commission business and services	375 804	(47)	332 892	(26 154)
Result from trading activities	32 714 092	2 016 452	33 879 842	1 448 698
Personnel expenses	(7 681 694)	(7 148 635)	(8 002 222)	(5 501 607)
General and administrative expenses	(8 897 255)	(8 163 335)	(7 692 202)	(6 342 968)
Subtotal operating expenses	**(16 578 949)**	**(15 311 970)**	**(15 694 424)**	**(11 844 575)**
Value adjustment on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(342 260)	(224 692)	(519 147)	(428 012)
Change to provisions and other value adjustments, and losses	(118 180)	(920)	(200 787)	–
Operating result	**16 175 003**	**(13 387 484)**	**17 846 427**	**(10 849 966)**

Presentation of current taxes, deferred taxes and disclosure of tax rate

	2016 CHF	**2015 CHF**
Deferred taxes	–	700 000
Current tax expenses	1 077 826	1 377 842
Total taxes	**1 077 826**	**2 077 842**

	2016	**2015**
Average tax rate	**38.8%**	**29.7%**

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF SHAREHOLDERS OF Dukascopy Bank SA, Geneva

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Dukascopy Bank SA, which comprise the balance sheet, statement of income, statement of changes in equity, cash flow statement and notes (pages 41 to 69) for the year ended 31 December 2016.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the provisions governing the preparation of financial statements for financial groups and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the provisions governing the preparation of financial statements for financial groups and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We recommend that the consolidated financial statements submitted to you be approved.

KPMG SA

Nicolas Moser
Licensed Audit Expert
Auditor in Charge

Romain Tranchant
Licensed Audit Expert

Geneva, 28 April 2017

Enclosure:
- Consolidated financial statements (balance sheet, statement of income, statement of changes in equity, cash flow statement and notes).

MANDATORY PUBLICATION

as at 31 December 2016

Presentation of the capital adequacy

	2016 CHF ('000)	2015 CHF ('000)
Share capital	22 000	22 000
Change reserve	240	129
Reserves for general banking risks	2 100	–
Profit carried forward	10 794	7 906
./. Participations	(1 357)	(808)
Total eligible capital (CET1)	**33 777**	**29 227**

2016	**Used approach***		**Required capital CHF ('000)**
Credit risks	Swiss standardised		2 259
Risks without counterparty	Swiss standardised		513
Market risks	standardised		6 010
of which on currencies	*standardised*	*3 094*	
of which on equity instruments	*standardised*	*1 064*	
of which on gold and commodities	*standardised*	*1 852*	
Operational risks	basic indicator		4 995
Total required capital			**13 777**
Total required capital included buffer 10.5%			**18 082**
Surplus of eligible capital			**15 695**
RWA			**172 206**

2015	**Used approach***		**Required capital CHF ('000)**
Credit risks	Swiss standardised		2 521
Risks without counterparty	Swiss standardised		465
Market risks	standardised		6 166
of which on currencies	*standardised*	*4 867*	
of which on equity instruments	*standardised*	*163*	
of which on gold and commodities	*standardised*	*1 136*	
Operational risks	basic indicator		4 792
Total required capital			**13 944**
Surplus of eligible capital			15 283

* The Bank uses the transitory rules allowed by the capital adequacy ordinance and is therefore not fully applying the Basel III regulation yet.

MANDATORY PUBLICATION

as at 31 December 2016

Capital adequacy disclosures: capital ratios

	2016	2015
CET 1 Capital Ratio	19.6%	16.8%
T1 ratio	19.6%	16.8%
Ratio regarding the regulatory capital	19.6%	16.8%
CET1 requirements according to CAO	5.1%	4.5%
Of which capital buffers according to CAO	*0.6%*	*0.0%*
Of which countercyclical buffers	*0.0%*	*0.0%*
Available CET1 to cover the minimum and buffer requirements, after deducting AT1 and T2requirements which are fulfilled with CET1	12.6%	9.8%
Capital target ratios for CET1 as per the FINMA circ. 11/2 plus the countercyclical buffer	7.0%	7.0%
Available CET1	12.6%	9.8%
Capital target ratios for T1 as per the FINMA circ. 11/2 plus the countercyclical buffer	8.5%	8.5%
Available T1	11.1%	8.3%
Regulatory capital target ratios according to the FINMA circ. 11/2 plus the countercyclical buffer	10.5%	10.5%
Available regulatory capital	9.1%	6.3%

Capital adequacy disclosures: leverage ratio

	2016	2015
Tier 1 capital	33 777	29 227
Exposure Measure	165 757	186 418
Leverage Ratio	20.4%	15.7%

Medium short-term liquidity coverage ratio LCR

	2016	2015
LCR Q1	380.2%	287.7%
LCR Q2	401.4%	282.1%
LCR Q3	357.0%	316.8%
LCR Q4	357.7%	379.0%

DUKASCOPY
Swiss Forex Bank & Marketplace

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