DUKASCOPY
Swiss Banking Group

DUKASCOPY BANK SA

ANNUAL REPORT 2018

CONTENTS

INTRODUCING DUKASCOPY GROUP

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

The founders' vision materialised in the form of an international FinTech group headed by Dukascopy Bank, an Internet-based Swiss bank and securities dealer counting 182.6 employees on the 31.12.2018 (counted in full time equivalent, 212.0 on the 31.12.2017). On the same date, Dukascopy Group counted 272.8 employees of which 262.7 for the consolidated companies (respectively 350.9 and 304.4 employees on 31.12.2017 for the Group and consolidated entities).

The bank, securities dealers and payment institution of Dukascopy Group are regulated in Switzerland, Latvia and Japan. The Group offers multiproduct (FX, bullion, CFD, binary options) online and mobile trading platforms together with an increasing range of other financial services including current accounts, guarantees, classical banking payments, innovative instant payments via smartphones, payment cards, its own crypto-currency, etc. to individuals and institutions.

The motto of Dukascopy Group is to offer to everyone from around the world easy-to-use financial services at affordable conditions in a friendly and modern environment. Since 2016, an account with Dukascopy can be opened within one day, fully online which currently allows the Bank to open more than 1 000 accounts per day. In 2018, the Bank has quadrupled the number of its clients.

Dukascopy Group is also very active in media and entertainment through its Swiss online television "Dukascopy TV" (registered with OFCOM), Dukascopy online communities, social networks, online games and contests where members interact via the secure messenger "Dukascopy Connect 911" (chat and video) powered by Dukascopy Bank.

The Dukascopy brand is internationally well known for innovation, integrity and fun in digital financial services.

MESSAGE FROM THE BOARD OF DIRECTORS

In 2018, Dukascopy Group lived by the triple motto: "adaptation – innovation – growth". The Bank met successfully the global challenge of new and constantly evolving regulations while at the same time undergoing an internal restructuring and optimization process, emerging stronger and more resilient than ever before.

In the highly competitive environment of 2018, affirming our commitment to the highest standards of efficiency of our services and clients' satisfaction was clearly not enough. We strived to stay true to our reputation as a leading force in innovation and development in the Swiss banking industry both in terms of new services and new technologies.

Our continuous efforts came to fruition in the past months in the most spectacular way with the launch of the Dukascoin to worldwide acclaim.

All throughout 2018, Dukascopy Bank kept growing its retail clientele at a constantly accelerating pace.

We would like to thank our clients and partners for their trust and enthusiasm and all our employees for their dedicated service and for making 2018 another important milestone for the Dukascopy Group.

The Board of Directors

MESSAGE FROM THE co-CEOs

We express our gratitude to all our colleagues and business partners for the accomplishments made during this year, devoted to significantly diversify the services of the Bank.

In 2018, the Bank concentrated its efforts in getting ready for a strategical jump: collecting 1 million clients within the next few years. Dukascopy Bank has a serious plan to become the fastest growing bank in Switzerland. We understand that this is a serious challenge and, in the course of 2018 it was completed, finalized in order to prepare the Bank to achieve this target.

At the time of issuance of this annual report, the Bank already opens 1 000 new accounts per day. This is the result of a combination of the following factors: an effective modern messenger, a strong video-identification technology, an effective integration of artificial intelligence in the client on-boarding process and crypto-friendliness. All those ingredients built patiently during the last few years will play a fundamental role in our future success.

At the same time, we are committed to ensure the stability of the Bank and the self-financing of its expansion plan, thanks to the traditional trading business of the Bank. While competing mobile retail banking projects benefit from investments in the range of CHF 50 million, the Bank will finance its plan with its own resources. This is a challenge to achieve for 2019.

Our mobile retail banking environment includes a unique offer: almost free of charge currency exchange, instant free payments, low cost payment cards integrated with Apple Pay and Samsung Pay, all connected to free of charge accounts without minimum deposit. These unbeatable features attract many clients from around the world. The number of such accounts opened daily doubles each quarter.

We ensure our colleagues and business partners that this is the right way to become a banking phenomenon in the Swiss banking industry.

Thanks again to everybody for the contribution.

Veronika and Andrey Duka
co-Chief Executive Officers

REVIEW OF OPERATIONS

DUKASCOPY BANK SA

As a result of the decrease of volume and the significant investment in the growth of the number of Mobile Current Accounts (MCA), the main indicators of the financial activity of the Bank in 2018 were multidirectional. FX and CFD trading volumes of Dukascopy Bank were 11% lower than in 2017. The binary options trading volume was 21% above the year 2017. The number of active trading accounts increased by 50% compared to 2017. Total client deposits increased by 8% compared to 2017.

The Bank's net loss for 2018 is CHF 1 062 thousand. The Bank has cut costs since the beginning of 2018. In 2018, total operating expenses were 2.7% below the budget and 9.4% below operating expenses in 2017. Cost reduction measures will continue in the trading departments. At the same time the Bank has created from scratch a new department in charge of onboarding and supporting the MCA account business. This new department has about 60 employees and has been established in the form of outsourcing to Dukascopy Europe.

In September 2018, Dukascopy Bank has launched a popular trading platform MetaTrader 4. There were a few third-party solutions providing access to Dukascopy liquidity for the MetaTrader4 platform but for the first time in the company's history, Dukascopy Bank has released its own branded MT4 solution. At the end of the year, Dukascopy Bank had CHF 4 159 thousand in client deposits placed in MetaTrader 4.

Dukascopy Bank continuously expands its list of trading instruments to meet customer requests. The expanded list of instruments will improve the diversification of instruments for both self-trading clients and investors of Dukascopy's newly launched wealth management service: LP PAMM. Since July 2018, clients of Dukascopy Bank have a really unique opportunity to make money by offering FX and CFD liquidity together with 25 banks providing liquidity to Dukascopy clients.

The most demanded service of Dukascopy Bank in 2018 was the MCA account. In 2017, 116 MCA accounts were opened, while in 2018, this number of new accounts reached 25 553 (5 950 in December). At the end of the year, Dukascopy Bank had CHF 577 thousand in client deposits placed on MCA accounts. On the 18th of December 2018, FINMA gave Dukascopy the green light to launch crypto activities. On the 28th of February 2019, Dukascopy Bank officially launched its crypto token – the Dukascoin (DUK+) – the first payment coin issued for public use by a Swiss regulated bank. The Dukascoin simultaneously resides in two environments – in the blockchain and in the books of the Bank. The Bank has picked the popular ERC-20 standard on the Ethereum blockchain and the

Airdrop concept of token distribution. The issuance of new tokens is free of charge and limited to new MCA accounts opened at Dukascopy Bank, whereby each new client gets 5 Dukascoins for free and an equal amount granted to a referrer if any exists. The Bank itself receives 10 new coins from undistributed tokens every time a new account is created. These coins will be used to pay rewards, support liquidity and for other similar purposes. Clients may execute free and instant transfers of coins inside Dukascopy by simply knowing the receiver's phone number; at the same time all counterparties associated with the transfers are duly identified as they become clients of a Swiss bank. All clients have an opportunity to use standard banking services like payment cards, investments, cheap currency exchange, etc. Finally, clients are always free to withdraw their coins, exiting the secure area of the regulated Bank in favour of risks and freedom of the blockchain.

KEY FIGURES OF DUKASCOPY BANK

(in CHF million or in %)	**2018**	**2017**	**2016**
Total operating income	27.4	29.1	33.2
Total operating expenses	27.6	30.9	29.0
Net result	-1.1	0.1	2.5
Cost / income ratio	100.6%	106.3%	87.2%
Total assets	153.0	144.0	160.8
Total client deposits	113.9	105.5	118.1
Shareholders' equity	34.4	35.4	35.3

DUKASCOPY GROUP

As can be seen in the consolidated financial statements, the Group figures do not significantly deviate from those of Dukascopy Bank because the Bank remains the prominent element of Dukascopy Group.

Dukascopy Japan closed 2018 with a loss of CHF 432 thousand. Operating expenses were decreased by 24.3% compared to 2017. In April 2019, Dukascopy Japan launched MetaTrader 4. Dukascopy Japan became financially balanced in April 2019.

Dukascopy Europe closed 2018 with a loss of CHF 381 thousand. Due to changes in regulation, Dukascopy Europe IBS AS has suffered a negative impact on revenue and business during the year 2018. The subsidiary compensates the drop of business volume due to new restrictions of ESMA regulation through new income generated by services provided to the Bank under outsourcing agreements and by a general cost optimization policy. In November, Dukascopy Europe launched MetaTrader 4. 2019 is planned to be the year of stabilization.

Dukascopy Payments' size and financial results are not significant for the Group. It closed 2018 with a loss of CHF 42 thousand. The main purpose of Dukascopy Payments was to test the MCA business model and this task has been fully and successfully accomplished. In 2019 Dukasopy Payments will be liquidated.

CORPORATE GOVERNANCE

The corporate governance framework is defined by the Bank's Articles of Incorporation and governance policies.

The governing bodies of the Bank are:

- the General Meeting of shareholders;
- the Board of Directors;
- the Executive Committee;
- the External Auditor.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the Bank's supreme body. Its rights and liabilities are governed by the Swiss Civil Code. The shareholders elect the members of the Board and the External Auditor.

BOARD OF DIRECTORS

The board is responsible for the overall strategic direction, supervision, and control of the Bank and appoints the members of the Executive Committee. In 2017, the Board of Directors has created an Audit Committee comprising two members. At the end of 2018, the Board of Directors was composed of the following five members, all independent as per the FINMA circular 2018/1:

Bogdan Prensilevich is the chairman of the Board of Directors since 2009 and is a Board member since the inception of the company. Also he has been advising the company in legal matters since its foundation, in 2004. After completing his law studies at the University of Geneva he was admitted to the Geneva Bar Association in 2002. Since then he advises clients as an independent attorney. In 2007, he co-founded the Law firm "Etude de Cerjat & Prensilevich".

Gérard, Charles William de Cerjat is a member of the Board of Directors of the Bank since 2009. He obtained a law degree at the University of Geneva and was admitted at the Geneva Bar association in 1966. Since 1972, he advises clients as an independent lawyer. In 2007, he co-founded the Law firm "Etude de Cerjat & Prensilevich".

Frank Guemara is the vice-chairman of the Board of Directors which he joined in 2009, and the chairman of the Audit Committee since 2018. He obtained a master's degree in economic sciences from the University of Geneva and is also a Swiss Certified Public Accountant. In 1993, after having started his career at Coopers & Lybrand, he joined the bank Lombard Odier where he developed a consulting activity for family companies. In 2002, he founded Triportail SA, a company engaged in the transfer of family companies.

Pierre Zäch has been elected member of the Board of Directors in 2017. He obtained a degree in business sciences at the University of Geneva and is a Swiss Certified Public Accountant. He made his carrier in banking audit and advisory in financial services within several audit firms and banks but mostly at KPMG, where he has been a partner during 26 years. Mr Zäch has also taught for 7 years at the University of Geneva in the field of audit of financial institutions.

Per Prod'hom has joined the Board of Directors and became member of the Audit Committee in 2018. After obtaining degrees in law, business administration and EU law at the University of Geneva, he passed the bar exam and obtained the Swiss Tax Expert diploma. Among others, he has been working for 3 years at Deloitte, 17 years at Baker & McKenzie, where he co-headed the Geneva tax department, and he is currently a partner at the law firm Python, since 2014. He has also been a lecturer to the future tax experts at the Universities of Geneva and Lausanne ("LLM tax" in Geneva and "Master in International Taxation" in Lausanne).

Pierre Bongard has joined the Board of Directors in 2010 and resigned in 2018. He holds a master's degree from HEC Lausanne and is a Swiss Certified Public Accountant. He also serves as an independent director for a portfolio of financial service businesses. Prior to this he worked for 18 years at KPMG, the last six years as a partner responsible for Advisory Financial Services. He has held leadership positions in various Swiss industry bodies and is also a lecturer and a trainer in financial services.

EXECUTIVE COMMITTEE

The Executive Committee is responsible for the day-to-day operational management of the Bank's business and for the development and implementation of the strategy. At the end of 2018, the Executive Committee was composed of the following five members:

Veronika Duka, co-Chief Executive Officer & Chief Administrative Officer and founding shareholder. Graduated as an engineer from the Moscow State Aviation Technological University, she has been the administrative manager of scientific companies during 7 years before leading the Geneva Research Collaboration Foundation. The latter was a Not For Profit organization, active in the scientific field, supporting interdisciplinary research in natural and social sciences and developing novel economic applications in Geneva. Ms Duka has been playing her key executive role in the company since inception.

Andrey Duka, co-Chief Executive Officer & Chief Technology Officer and founding shareholder. He has graduated with honours as an engineer from the Moscow State Aviation Technological University and obtained a PhD from the Federal Institute of Aviation Materials of Moscow. After scientific research during his PhD, he worked for 7 years as a general manager in scientific companies and then joined the CERN as a Research Associate and founded the Geneva Research Collaboration Foundation which is presented above in connection with Veronika Duka. Mr Duka has been playing his key executive role in the company since inception.

Andrejs Bagautdinovs, Chief Integration Officer, obtained a master's degree from the Riga Civil Aviation University and an MBA in Global Banking & Finance from the European University of Geneva. After working for 4 years as an engineer and a programmer and before joining the company in 2006, he has been working for 14 years in the banking field (Payment, Investment and Treasury operations) at various positions including 3 years at executive level.

Laurent Bellières, Chief Risk Officer, obtained a degree in political sciences of the University of Geneva, a master's degree in business administration at HEC Lausanne and is a Swiss Certified Public Accountant. He specialized in the banking field by working as a banking auditor for 10 years, first at Ernst & Young, KPMG, and then as the head of internal audit in a Swiss bank. He joined the company in 2008 to assist it in becoming a bank and to supervise the control functions.

Irina Kupriyanova Vedeneeva, Chief Financial Officer, obtained a certificate of business administration from HEC Lausanne and a master's degree in Public Administration from IDHEAP. Before joining the company in 2006, she has been working for 15 years in the accounting and tax fields in several companies.

FINANCIAL STATEMENTS

and proposed appropriation of retained earnings

BALANCE SHEET

as at 31 December 2018

ASSETS	31.12.2018 CHF	31.12.2017 CHF
Liquid assets	34 042 501	18 777 862
Amounts due from banks	76 035 014	83 244 370
Amounts due from customers	168 175	590 145
Positive replacement values of derivative financial instruments	1 118 365	730 134
Financial investments	30 966 930	31 355 104
Accrued income and prepaid expenses	4 239 707	3 402 207
Participations	4 580 664	4 185 317
Tangible fixed assets	1 235 974	1 503 599
Other assets	646 945	243 429
TOTAL ASSETS	**153 034 275**	**144 032 167**

LIABILITIES	CHF	CHF
Amounts due to banks	24 892 701	16 277 194
Amounts due in respect of customer deposits	88 995 594	89 249 356
Negative replacement values of derivative financial instruments	857 765	703 404
Accrued expenses and deferred income	2 021 739	1 674 912
Other liabilities	1 864 968	633 479
Provisions	–	30 333
Bank's capital	22 000 000	22 000 000
Statutory retained earnings reserve	685 000	679 000
Profit carried forward	12 778 489	12 667 747
Result of the year	(1 061 981)	116 742
TOTAL LIABILITIES	**153 034 275**	**144 032 167**

OFF–BALANCE SHEET

as at 31 December 2018

Off–balance sheet commitments	31.12.2018 CHF	31.12.2017 CHF
Contingent liabilities	149 817	236 041
Irrevocable commitments	816 000	856 000

STATEMENT OF INCOME

for the year ended 31 December 2018

Result from interest operations	31.12.2018 CHF	31.12.2017 CHF
Interest and discount income	25 860	11 775
Interest and dividend income from financial investments	646 267	728 258
Interest expense	(368 505)	(626 259)
Gross result from interest operations	**303 622**	**113 774**
Changes in value adjustments for default risks and losses from interest operations	–	–
Subtotal net result from interest operations	**303 622**	**113 774**
Result from commission business and services		
Commission income from other services	615 932	647 547
Commission expense	(353 025)	(273 292)
Subtotal result from commission business and services	**262 907**	**374 255**
Result from trading activities	**26 879 726**	**28 584 973**
Operating expenses		
Personnel expenses	(12 301 451)	(12 934 520)
General and administrative expenses	(15 317 955)	(17 567 032)
Subtotal operating expenses	**(27 619 406)**	**(30 501 552)**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(609 423)	(577 466)
Changes to provisions and other value adjustments, and losses	(2 087)	(413 000)
Operating result	**(784 661)**	**(2 419 016)**
Extraordinary income	11 260	35 000
Changes in reserves for general banking risks	–	2 800 000
Taxes	(288 580)	(299 242)
Result of the year	**(1 061 981)**	**116 742**

PRESENTATION OF THE STATEMENT OF CHANGES IN EQUITY

as at 31 December 2018

	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**	**679 000**	–	**12 667 747**	**116 742**	**35 463 489**
Allocation of previous year result	–	–	–	–	–	–
- Allocation to statutory retained earnings reserve	–	6 000	–	–	(6 000)	–
- Allocation to profit carried forward	–	–	–	110 742	(110 742)	–
Result of the year	–	–		–	(1 061 981)	(1 061 981)
Equity at end of current period	**22 000 000**	**685 000**	**–**	**12 778 489**	**(1 061 981)**	**34 401 508**

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

	2018 CHF
Profit of the year	(1 061 981)
Profit carried forward	12 778 489
Amount at the disposal of the Shareholders' general meeting	**11 716 508**

Proposed utilisation	**2018 CHF**
To be carried forward	11 716 508
Total	**11 716 508**

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2018

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, Dubai, 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;
- offsetting of price gains and losses from trading activities.

2.2. Changes to accounting principles and valuation method

No changes in 2018.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2018

If a receivable is classed 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.

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

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2018

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".

f. 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 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 amortization 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".

g. 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 amortization 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 amortization of tangible fixed assets and intangible assets". The estimated operating lives of the different categories of tangible fixed assets and the amortization methods are as follows:

- Fixtures and fittings	4 years, on a linear basis
- Furniture	4 years, on a linear basis
- IT hardware	3 years, on a linear basis
- Vehicles	5 years, on a linear basis
- Software	5 years, on a linear basis

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 "Liabilities with banks" or "Other liabilities".

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2018

In case an indication arise that the value of a tangible fixed assets is impaired, an additional amortization is recorded in the item "Value adjustments on participations and amortization 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 amortization 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".

h. 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 in 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.

I. 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.

j. 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 income".
Expense due to current tax is disclosed in the statement of income via the item "Taxes".

k. 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.

l. 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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2018

There is an economic benefit if the Bank has the ability to reduce its future employer's contributions. On the contrary, 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 derivatives financial instruments" or "Negative replacement value 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:

		2018 CHF	2017 CHF
USD	1.00	0.98190	0.97460
EUR	1.00	1.12535	1.16930
GBP	1.00	1.25225	1.31720
CAD	1.00	0.71985	0.77470
JPY	1.00	0.00895	0.00864
AUD	1.00	0.69195	0.76100
NZD	1.00	0.65925	0.69100
NOK	1.00	0.11360	0.11877
SEK	1.00	0.11087	0.11908
SGD	1.00	0.71989	0.72889

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2018

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.

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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 a trusty service provider.

Market risks – trading operations

Due to the Bank's specialization 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 times. 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 materialize 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 honoured in due date or if the debtor disputes such payment obligation or indicates that he/she will not be able to honour 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 honour 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 event occurred after the balance sheet date that could have a material impact on the financial position of the Bank as of 31 December 2018.

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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	–	35 254	132 921	168 175
Total at 31 December 2018 (before netting with value adjustments)	**–**	**35 254**	**132 921**	**168 175**
Total at 31 December 2017 (before netting with value adjustments)	–	29 847	566 784	596 631
Total at 31 December 2018 (after netting with value adjustments)	**–**	**35 254**	**132 921**	**168 175**
Total at 31 December 2017 (after netting with value adjustments)	–	29 847	560 298	590 145

Off-balance sheet commitments	**Secured by mortgages CHF**	**Other collateral CHF**	**Unsecured CHF**	**Total CHF**
Contingent liabilities*	–	149 817	–	149 817
Irrevocable commitments	–	–	816 000	816 000
Total at 31 December 2018	**–**	**149 817**	**816 000**	**965 817**
Total at 31 December 2017	–	236 041	856 000	1 092 041

*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 2018	**–**	**–**	**–**	**–**
Total at 31 December 2017	6 486	–	6 486	6 486

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Presentation of derivative financial instruments (assets and liabilities)

	Trading instruments, in CHF		
OTC transactions	**Positive replacement values**	**Negative replacement values**	**Contract volumes**
Interest instruments:			
- CFD	20	–	184 085
Total Interest instruments	**20**	**–**	**184 085**
Currencies:			
- forward contracts*	1 293 342	1 209 867	746 775 387
- swaps	1 136 845	1 041 757	1 290 986 231
Total currencies	**2 430 187**	**2 251 624**	**2 037 761 618**
Precious metals:			
- forward contracts*	28 489	109	9 627 949
- swaps	67 910	2 012	36 484 464
Total precious metals	**96 399**	**2 121**	**46 112 413**
Equity securities and indices:			
- CFD	56 675	75 410	11 951 527
Total equity securities and indices	**56 675**	**75 410**	**11 951 527**
Others:			
- CFD	11 108	4 634	13 408 346
Total others	**11 108**	**4 634**	**13 408 346**
Total at 31 December 2018 before impact of netting contracts	**2 594 389**	**2 333 789**	**2 109 417 989**
of which determinated of using valuation models	**–**	**–**	**–**
Total at 31 December 2017 before impact of netting contracts	2 186 870	2 160 140	2 007 274 503
of which determinated of using valuation models	–	–	–
Total at 31 December 2018 after impact of netting contracts	**1 118 365**	**857 765**	
Total at 31 December 2017 after impact of netting contracts	730 134	703 404	

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

Breakdown by counterparty

	Central clearing houses	Banks & securities dealers	Others customers	Total
Positive replacement values after impact of netting contacts Total at 31 December 2018	–	**1 035 239**	**83 126**	**1 118 365**
Positive replacement values after impact of netting contacts Total at 31 December 2017	–	606 930	123 204	730 134

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Breakdown of financial investments

	Book value		Fair value	
Debt securities	**2018 CHF**	**2017 CHF**	**2018 CHF**	**2017 CHF**
of which bonds held to maturity	*30 966 930*	*31 355 104*	*31 092 445*	*31 571 555*
Total	**30 966 930**	**31 355 104**	**31 092 445**	**31 571 555**
including securities eligible for repo transactions in accordance with liquidity regulations	*30 966 930*	*31 355 104*	*31 092 445*	*31 571 555*

Breakdown of contreparties by Scope rating

2018	**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	**30 966 930**	–	–	–	–	–
2017						
Debt securities: Book value of bonds held to maturity	31 355 104	–	–	–	–	–

We use SCOPE rating.

Presentations of participations

	2017			2018			
Participations	**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	4 185 317	–	4 185 317	724 222*	(328 875)**	–	4 580 664
Total participations	**4 185 317**	**–**	**4 185 317**	**724 222***	**(328 875)****	**–**	**4 580 664**

*This amount relates to the increase of Dukascopy Japan K.K. capital (CHF 269 542) and Dukascopy Europe IBS AS capital (CHF 454 680).
**This amount relates to the decrease of Dukascopy International Ltd. capital.

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

Participations	Activity	Share capital CHF	Head office	Share capital in %	Share vote in %	Held directly
2018						
SWFX-Swiss FX Marketplace SA	dormant	100 000	Geneva	100	100	100
Dukascopy Europe IBS AS	brokerage	1 933 921	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	6 021 839	Tokyo	100	100	100
Dukascopy International Ltd.	dormant	10 983	Limassol	100	100	100
Dukascopy Ltd.	in liquidation	985	Belize	100	100	100
2017						
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	5 752 297	Tokyo	100	100	100
Dukascopy International Ltd.	dormant	329 475	Limassol	100	100	100
Dukascopy Ltd.	dormant	985	Belize			

Presentations of tangible fixed assets

	2017			2018			
	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	22 999 011	(22 795 969)	203 042	173 529	–	(55 911)	320 660
Other tangible fixed assets	9 562 307	(8 261 750)	1 300 557	168 269	–	(553 512)	915 314
Total fixed assets	**32 561 318**	**(31 057 719)**	**1 503 599**	**341 798**	**–**	**(609 423)**	**1 235 974**

Leasing

	2019 CHF	2020 CHF	2021 CHF	2022 CHF	2023 CHF
Future leasing installments arising from operating leases	**1 871 367**	**1 256 306**	**372 649**	**305 765**	**167 894**
of which, may be terminated within one year	*233 267*	–	–	–	–

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Breakdown of other assets and liabilities

Other assets	2018 CHF	2017 CHF
Wire transfers	646 945	243 429
Total other assets	**646 945**	**243 429**

Other liabilities	2018 CHF	2017 CHF
Wire transfers	1 483 946	154 880
Indirect taxes to be paid	381 022	478 574
Others	–	25
Total other liabilities	**1 864 968**	**633 479**

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

	2018		2017	
	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	29 911 679	3 931 660	30 295 009	4 334 290
Margin accounts assigned as collateral	16 540 898	1 291 642	13 561 942	5 678 525
Deposits made with banks to secure guarantees	219 528	219 528	219 524	219 524
Total	**46 672 105**	**5 442 830**	**44 076 475**	**10 232 339**

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 (2017: nil). The overfunding in the pension fund is based on its unaudited accounts as of 31 December 2018 (coverage ratio is 112%). Based on the last audited financial statements of the Caisse Inter-Entreprises-CIEPP as at 31 December 2017, the coverage ratio was 119.5% (31 December 2016: 113.4%).
There is no pension fund for the other foreign representation offices of the Bank.

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Presentation of economic benefit / obligation and the pension expenses

	Over or underfunding 31.12.18	Economic interest of the Bank 2018	Economic interest of the Bank 2017	Change in economic interest versus prior year	Contributions paid for 2018	Pension expenses in personnel expenses 2018	Pension expenses in personnel expenses 2017
Pension plans with overfunding	–	–	–	–	313 429	313 429	324 743

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

	Balance at 31 Dec. 2017 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 Dec. 2018 CHF
Provisions for other business risks	30 333	(25 469)	–	–	–	–	(4 864)	–
Total provisions	**30 333**	**(25 469)**	–	–	–	–	**(4 864)**	–
Reserves for general banking risks	–	–	–	–	–	–	–	–
Value adjustments for default risks and country risks – *of which, value adjustments for default risks in respect of impaired loans/receivables*	**6 486**	**(6 486)**	–	–	–	–	–	–

Provisions are valued according to the best estimate principle.

Presentation of the Bank's capital

	2018 Total par value CHF	2018 Number of shares CHF	2018 Capital eligible for dividend CHF	2017 Total par value CHF	2017 Number of shares CHF	2017 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**

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Disclosure of amounts due from/to related parties

	2018		2017	
	Amounts due from CHF	Amounts due to CHF	Amounts due from CHF	Amounts due to CHF
Holders of qualified participations	–	41	228 550	585
Group companies	25 991	5 530 745	242 011	6 553 360
Linked companies	–	–	–	–
Transactions with members of governing bodies	–	30 916	–	120
Other related parties	–	719	33 534	46 594

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

	2018			
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
	2017			
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	Cancell-able 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	34 042 501	–	–	–	–	–	–	34 042 501
Amounts due from banks	75 815 486	219 528	–	–	–	–	–	76 035 014
Amounts due from customers	76 502	91 673	–	–	–	–	–	168 175
Positive replacement values of derivative financial instruments	1 118 365	–	–	–	–	–	–	1 118 365
Financial investments	–	–	–	12 127 567	11 675 341	7 164 022	–	30 966 930
Total current assets at 31 December 2018	**111 052 854**	**311 201**	–	**12 127 567**	**11 675 341**	**7 164 022**	–	**142 330 985**
Total current assets at 31 December 2017	102 974 036	305 126	11 695 888	–	12 544 179	7 178 386	–	134 697 615
Third-party liabilities								
Amounts due to banks	24 892 701	–	–	–	–	–	–	24 892 701
Amounts due in respect of customer deposits	88 995 594	–	–	–	–	–	–	88 995 594
Negative replacement values of derivative financial instruments	857 765	–	–	–	–	–	–	857 765
Total third-party liabilities at 31 December 2018	**114 746 060**	–	–	–	–	–	–	**114 746 060**
Total third-party liabilities at 31 December 2017	106 229 954	–	–	–	–	–	–	106 229 954

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

	2018			2017		
ASSETS in CHF ('000)	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Liquid assets	28 490	5 552	34 042	15 330	3 448	18 778
Amounts due from banks	59 674	16 361	76 035	68 092	15 152	83 244
Amounts due from customers	55	113	168	276	314	590
Positive replacement values of derivative financial instruments	236	882	1 118	49	681	730
Financial investments	19 292	11 675	30 967	19 659	11 696	31 355
Accrued income and prepaid expenses	2 945	1 295	4 240	2 272	1 130	3 402
Participations	200	4 381	4 581	200	3 985	4 185
Tangible fixed assets	741	495	1 236	865	639	1 504
Other assets	647	-	647	244	–	244
Total assets	**112 280**	**40 754**	**153 034**	**106 987**	**37 045**	**144 032**

LIABILITIES in CHF ('000)						
Amounts due to banks	–	24 892	24 892	–	16 277	16 277
Amounts due in respect of customer deposits	7 450	81 546	88 996	9 552	79 698	89 250
Negative replacement values of derivative financial instruments	71	787	858	325	378	703
Accrued expenses and deferred income	1 731	291	2 022	1 376	299	1 675
Other liabilities	1 865	–	1 865	633	–	633
Provisions	–	–	–	30	–	30
Bank's capital	22 000	–	22 000	22 000	–	22 000
Statutory retained earnings reserve	685	–	685	679	–	679
Profit carried forward	12 778	–	12 778	12 668	–	12 668
Result of the year	(1 062)	–	(1 062)	117	–	117
Total liabilities	**45 518**	**107 516**	**153 034**	**47 380**	**96 652**	**144 032**

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

	2018		2017	
ASSETS	**Absolute CHF ('000)**	**Share %**	**Absolute CHF ('000)**	**Share %**
Switzerland	112 280	73.4	106 987	74.3
Europe excluding Switzerland	23 942	15.6	21 254	14.8
USA and Canada	13 053	8.5	12 185	8.5
Others	3 759	2.5	3 606	2.4
Total	**153 034**	**100.0**	**144 032**	**100.0**

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

	2018		2017	
SERV Rating	**Absolute CHF ('000)**	**Share %**	**Absolute CHF ('000)**	**Share %**
1	37 748	92.8	34 072	92.0
2	52	0.1	2	0.0
3	343	0.8	523	1.4
4	263	0.6	32	0.1
5	93	0.2	2 028	5.5
6	2 009	4.9	58	0.1
7	246	0.6	259	0.7
without rating	–	–	71	0.2
Total	**40 754**	**100.0**	**37 045**	**100.0**

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

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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	28 490	5 552	–	–	–	–	34 042
Amounts due from banks	6 489	15 970	42 505	5 519	124	5 428	76 035
Amounts due from customers	18	67	37	1	–	45	168
Positive replacement values of derivative financial instruments	1 118	–	–	–	–	–	1 118
Financial investments	19 292	–	11 675	–	–	–	30 967
Accrued income and prepaid expenses	2 828	271	937	53	–	151	4 240
Participations	4 581	–	–	–	–	–	4 581
Tangible fixed assets	1 236	–	–	–	–	–	1 236
Other assets	47	287	218	23	–	72	647
Total assets	**64 099**	**22 147**	**55 372**	**5 596**	**124**	**5 696**	**153 034**
Claims arising from spot exchange and swap transactions	68 472	519 201	897 353	141 419	211 667	271 045	2 109 157
Total at 31 December 2018	**132 571**	**541 348**	**952 725**	**147 015**	**211 791**	**276 741**	**2 262 191**

Liabilities							
Amounts due to banks	180	14 743	8 383	156	938	492	24 892
Amounts due in respect of customer deposits	8 606	24 083	47 251	3 736	199	5 121	88 996
Negative replacement values of derivative financial instruments	858	–	–	–	–	–	858
Accrued expenses and deferred income	1 046	729	192	3	23	29	2 022
Other liabilities	480	630	105	573	–	77	1 865
Bank's capital	22 000	–	–	–	–	–	22 000
Statutory retained earnings reserve	685	–	–	–	–	–	685
Profit carried forward	12 778	–	–	–	–	–	12 778
Result of the year	(1 062)	–	–	–	–	–	(1 062)
Total liabilities	**45 571**	**40 185**	**55 931**	**4 468**	**1 160**	**5 719**	**153 034**
Delivery obligations arising from spot exchange and swap transactions	79 768	453 703	925 869	148 903	190 735	310 179	2 109 157
Total at 31 December 2018	**125 339**	**493 888**	**981 800**	**153 371**	**191 895**	**315 898**	**2 262 191**
Net position by currency	**7 232**	**47 460**	**(29 075)**	**(6 356)**	**19 896**	**(39 157)**	**–**

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2018

Breakdown of contingent assets and contingent liabilities

Contingent assets	2018 CHF	2017 CHF
Other contingent assets	–	–
Total contingent assets	–	–

Contingent liabilities		
Other contingent liabilities	149 817	236 041
Total contingent liabilities	**149 817**	**236 041**

Breakdown of the result from trading activities

Trading income	2018 CHF	2017 CHF
Leveraged margin trading	26 137 131	27 814 990
Binary options	742 595	769 983
Total	**26 879 726**	**28 584 973**

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2018

Breakdown by underlying risk

Result from trading activities from:	**2018 CHF**	**2017 CHF**
Equity securities	2 135 353	1 986 656
Foreign currency	17 675 805	23 113 809
Commodities / precious metals	7 068 568	3 484 508
Total	**26 879 726**	**28 584 973**

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

Negative interest	**2018 CHF**	**2017 CHF**
Negative interest on credit operations	112 410	76 270

Negative interest on credit operations is disclosed as a reduction in Interest and discount income.

Breakdown of personnel expenses

Personnel expenses	**2018 CHF**	**2017 CHF**
Salaries	9 909 977	10 465 408
of which, expenses relating to share-based compensation and alternative forms of variable compensation	–	–
Benefits	2 277 708	2 369 601
Other personnel expenses	113 766	99 511
Total personnel expenses	**12 301 451**	**12 934 520**

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2018

Breakdown of general and administrative expenses

General and administrative expenses	2018 CHF	2017 CHF
Premises	2 469 349	2 479 058
IT related expenses	2 768 071	2 566 309
Legal and consulting	1 050 295	1 087 931
RM and Compliance Outsourcing	411 138	–
Post, telecommunications and data	715 843	678 631
Expenses for vehicles	48 186	79 185
Office supply	210 983	247 216
Audit fees	287 820	262 440
of which for financial and regulatory audits	*287 820*	*262 440*
of which for other services	–	–
Marketing and communication	5 673 089	8 438 563
Travels	1 218 265	1 222 684
Others	464 916	505 015
Total general and administrative expenses	**15 317 955**	**17 567 032**

Explanations regarding material losses and material release of Reserves for general banking risks

	2018 CHF	2017 CHF
Operational loss	(2 087)	413 000
Release of Reserves for general banking risks	–	2 800 000

In 2017, Operational loss is the result of the settlements of two litigations.
In 2017, General banking risk reserve was released to cover the settlement of litigations and to compensate the unfavourable changes in market environment and conditions.

Explanations regarding extraordinary income and expenses

Extraordinary income	2018 CHF	2017 CHF
Disposal of fully depreciated fixed assets	11 260	35 000
Total extraordinary income	**11 260**	**35 000**

There was no extraordinary expenses in 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2018

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

	2018		2017	
	Domestic CHF	Foreign CHF	Domestic CHF	Foreign CHF
Subtotal net result for interest operations	303 622	–	113 774	–
Subtotal result from commission business and services	262 907	–	374 255	–
Result from trading activities	26 879 726	–	28 584 973	–
Personnel expenses	(6 406 320)	(5 895 131)	(7 038 205)	(5 896 315)
General and administrative expenses	(6 418 814)	(8 899 141)	(8 059 942)	(9 507 090)
Subtotal operating expenses	**(12 825 134)**	**(14 794 272)**	**(15 098 147)**	**(15 403 405)**
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	(347 449)	(261 974)	(332 109)	(245 357)
Changes to provisions and other value adjustments and losses	(2 087)	–	(413 000)	–
Operating result	**14 271 585**	**(15 056 246)**	**13 229 746**	**(15 648 762)**

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

	2018 CHF	2017 CHF
Current tax expenses	(288 580)	(299 242)
Total taxes	**(288 580)**	**(299 242)**

	2018	2017
Average tax rate	**-36.8%**	**-12.4%**

Negative average tax rate is explained by the loss at operating level.

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, income statement, statement of changes in equity and notes (pages 12 to 39 of this report) for the year ended 31 December 2018.

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 2018 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, 30 April 2019

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

KEY METRICS DISCLOSURES (FINMA circ. 2016/1) FOR THE FINANCIAL STATEMENTS

as at 31 December 2018

KM1: Key regulatory figures

	Available capital (amounts) 000 CHF	2018	2018Q3	2018Q2	2018Q1	2017
1	Common Equity Tier 1 (CET1)	29 821				31 161
1a	Fully loaded ECL accounting model CET1	–				–
2	Tier 1	29 821				31 161
2a	Fully loaded ECL accounting model Tier 1	–				–
3	Total capital	29 821				31 161
3a	Fully loaded ECL accounting model Total capital	–				–
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	235 963				210 188
4a	Minimum capital requirements (000 CHF)	18 877				16 815
	Risk-based capital ratios (as a percentage % of RWA)					
5	CET1 ratio (%)	12,64%				14,83%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	–				–
6	T1 ratio (%)	12,64%				14,83%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	–				–
7	Total capital ratio (%)	12,64%				14,83%
7a	Fully loaded ECL accounting model total capital ratio (%)	–				–
	Additional CET1 requirements (buffers) as a percentage of RWA					
8	Capital conservation buffer requirement according to Basel min.requirements (%)	1,88%				1,25%
8	Countercyclical buffer requirement according to Basel min.requirements (%)	–				–
10	Bank G-SIB and/or D-SIB additional requirements	–				–
11	Total of bank CET1 specific buffer requirements according to Basel min.requirements (%)	1,88%				1,25%
12	CET1 available after meeting the bank's minimum capital requirements (%)	9,14%				11,33%
	Target capital ratios according to Annex 8 of the Capital Adequacy Ordinance (CAO) (% of RWA)					
12a	Capital conservation buffer according to CAO, Annex 8 (%)	2,50%				2,50%
12b	Countercyclical capital buffer according to CAO, Art. 44 and Art. 44a (%)	–				–
12c	CET1 capital target (%) according to CAO, Annex 8 + countercyclical buffer*	7,00%				7,00%
12d	T1 capital target according to CAO, Annex 8 + countercyclical buffer*	8,50%				8,50%
12e	Total capital target according to CAO, Annex 8 + contercyclical buffer*	10,50%				10,50%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio exposure measure (000 CHF)	154 165				144 315
14	Basel IIII Leverage Ratio	19,34%				21,59%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%)	19,34%				21,59%
	Medium short-term liquidity coverage ratio LCR					
15	LCR Numerator: total stock of high quality liquid assets (000 CHF)	36 860	25 355	22 292	21 204	25 493
16	LCR Denumerator: total cash outflow (000 CHF)	9 083	8 042	7 800	7 128	7 589
17	Liquidity coverage ratio (%)	406%	315%	286%	297%	336%

* According to CAO, Art. 44 and 44a

KEY METRICS DISCLOSURES (FINMA circ. 2016/1) FOR THE FINANCIAL STATEMENTS

as at 31 December 2018

OV1: Overwiew of risk-weighted assets

in 000 CHF	RWA 2018	RWA 2017	Min. capital requirements 2018
Credit risk	25 400	27 013	2 032
Market risk	146 750	113 000	11 740
Operational risk	56 088	60 775	4 487
Risks without counterparty	7 725	9 400	618
Amounts below the thereshold 3 (subject to 250% risk weight)	–	–	–
Total	**235 963**	**210 188**	**18 877**

In order to determin the minimum capital requirement we use:
- credit risk: standard approach;
- market risk: standard approach;
- operational risk: based indicator approach.

LIQA : Liquidity risk management

Dukascopy Bank and its Group have abundant liquidity which comes exclusively from client deposits and accumulated profits. Moreover, over 90% of all assets are very liquid (cash at sight and investment grade government bonds) which are deposited in countries where transferability of assets is highly probable, mostly in Switzerland, Germany, UK and in the USA. The Treasurer monitors the evolution of client withdrawals as an early warning indicator. The Risk Committee, of which the Treasurer is a member, monitors liquidity indicators quarterly, annually updates the liquidity contingency plan and performs a stress test which consistently confirms the very comfortable liquidity situation of the Bank (and its Group) and its compliance with the very low liquidity risk appetite of the Bank. The Risk Committee quarterly informs the Board of Directors and the Executive Committee on the Bank's liquidity situation. The treasurer maintains reserves of immediately usable liquidity in the main currencies so as to allow the Bank to honour its short term payment obligations.

KEY METRICS DISCLOSURES (FINMA circ. 2016/1) FOR THE FINANCIAL STATEMENTS

as at 31 December 2018

CR1: Credit risk - credit quality of assets

in 000 CHF	Gross carrying values of: Defaulted exposures	Gross carrying values of: Non-Defaulted exposures	Value adjustments/ impairments	Net values
Loans (excluding debt securities)	–	116 251	–	116 251
Debt securities	–	30 967	–	30 967
Off-balance sheet expositions	–	966	–	966
Total	**–**	**148 184**	**–**	**148 184**

A situation of "default" is recognised when the debtor has failed to pay interests or to reimburse the loan at the contractually agreed maturity date.

CR3: Credit risk - overview of credit risk mitigation techniques

in 000 CHF	Unsecured exposures / carrying values	Exposures secured by collateral / carrying values	Exposures secured by financial guaranthees or credit derivatives / the amounts effectively covered
Loans (Debt securities included)	147 183	–	35
Off-balance sheet expositions	816	150	–
Total	**147 999**	**150**	**35**
of which defaulted	–	–	–

ORA: Operational risks

Operational risks include IT, cyber, confidentiality, fraud, compliance and legal risks. The Bank is particularly exposed to IT and cyber risks due to its reliance on technological solutions connected to the Internet. The identification, measurement, management, monitoring and reporting of the Bank's risks are organised in a comprehensive Risk Management Concept complemented by specific concepts on cyber-security, data confidentiality and operational risk management and by other internal regulations. Compliance risks are specifically subject to a Compliance Risk Analysis and Action Plan. All this documentation is reviewed annually by the relevant specialised committees of the Bank: the Risk Committee, the Compliance Committee and the IT Steering Committee. The Bank makes sure that each identified operational risk remains within the limits of its appetite and keeps the internal controls under scrutiny which allows to keep those risks at acceptable levels. Quarterly, the Board of Directors and the Executive Committee are informed of the evolutions in the Bank and Group's risk profile, receive operational risk indicators allowing them to monitor the situation of risks and their compliance with the Bank's objectives.
To determine the capital requirements applicable to operational risks the Bank uses the basic indicator method.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as at 31 December 2018

ASSETS	31.12.2018 CHF	31.12.2017 CHF
Liquid assets	34 042 501	18 777 862
Amounts due from banks	83 725 422	90 974 844
Amounts due from customers	398 924	814 672
Positive replacement values of derivative financial instruments	1 129 562	740 683
Financial investments	30 966 930	31 355 104
Accrued income and prepaid expenses	4 419 432	3 862 242
Non-consolidated participations	1 029 320	1 358 195
Tangible fixed assets	1 245 283	1 523 204
Other assets	808 442	253 257
TOTAL ASSETS	**157 765 816**	**149 660 063**

LIABILITIES	CHF	CHF
Amounts due to banks	20 415 841	10 615 554
Amounts due in respect of customer deposits	99 681 661	101 083 691
Negative replacement values of derivative financial instruments	875 367	714 150
Accrued expenses and deferred income	2 261 436	2 042 632
Other liabilities	1 929 308	697 738
Provisions	–	30 333
Bank's capital	22 000 000	22 000 000
Retained earnings reserve	12 179 002	12 503 831
Currency translation reserve	303 012	296 963
Consolidated result of the year	(1 879 811)	(324 829)
TOTAL LIABILITIES	**157 765 816**	**149 660 063**

CONSOLIDATED OFF-BALANCE SHEET TRANSACTIONS

as at 31 December 2018

Off–balance sheet commitments	31.12.2018 CHF	31.12.2017 CHF
Contingent liabilities	149 817	236 041
Irrevocable commitments	816 000	856 000

CONSOLIDATED STATEMENT OF INCOME

for the year ended 31 December 2018

	31.12.2018 CHF	31.12.2017 CHF
Result from interest operations		
Interest and discount income	25 860	11 775
Interest and dividend income from financial investments	646 267	728 258
Interest expense	(368 505)	(626 259)
Gross result from interest operations	**303 622**	**113 774**
Changes in value adjustments for default risks and losses from interest operations	–	–
Subtotal net result from interest operations	**303 622**	**113 774**
Result from commission business and services		
Commission income from other services	700 357	727 024
Commission expense	(420 543)	(344 809)
Subtotal result from commission business and services	**279 814**	**382 215**
Result from trading activities	**28 520 424**	**31 115 496**
Operating expenses		
Personnel expenses	(14 082 265)	(14 965 963)
General and administrative expenses	(15 967 069)	(18 467 627)
Subtotal operating expenses	**(30 049 334)**	**(33 433 590)**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(620 283)	(593 056)
Changes to provisions and other value adjustments, and losses	(3 335)	(413 791)
Operating result	**(1 569 092)**	**(2 828 952)**
Extraordinary income	11 260	35 000
Changes in reserves for general banking risks	–	2 100 000
Taxes	(321 979)	369 123
Consolidated result of the year	**(1 879 811)**	**(324 829)**

PRESENTATION OF THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 December 2018

	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**	–	**296 963**	**12 503 831**	**(324 829)**	**34 475 965**
Allocation of previous year result	–	–	–	–	–	–
- Allocation to Retained earnings reserve	–	–	–	(324 829)	324 829	–
Currency translation differences	–	–	6 049	–	–	6 049
Result of the year	–	–	–	–	(1 879 811)	(1 879 811)
Equity at end of current period	**22 000 000**	–	**303 012**	**12 179 002**	**(1 879 811)**	**32 602 203**

CONSOLIDATED CASH FLOW STATEMENT

as at 31 December 2018

	2018		2017	
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	–	1 880	–	325
Change in reserves for general banking risks	–	–	–	2 100
Value adjustement on participations, depreciation and amortisation of tangible fixed assets and intangible assets	620	–	593	–
Provisions and other value adjustments	–	30	–	918
Accrued income and prepaid expenses	–	557	–	1 036
Accrued expenses and differred income	219	–	–	872
Other items	676	–	–	141
Subtotal	**1 515**	**2 467**	**593**	**5 392**
Cash flow from shareholder's equity transactions				
Recognised in reserves	6	–	57	–
Subtotal	**6**	–	**57**	–
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets				
Participations	329	–	–	1
Other tangible fixed assets	–	342	–	1 091
Subtotal	**329**	**342**	–	**1 092**
Cash flow from banking operations.				
Medium and long-term business (> 1 year)				
Financial instruments	12 496	11 675	12 587	7 178
Amounts due from customers	63	–	–	63
Short-term business				
Amounts due to banks	9 800	–	–	6 398
Amounts due in respect of customer deposits	–	1 402	–	2 349
Negative replacement values of derivative financial instuments	161	–	–	428
Amounts due from banks	7 249	–	70	–
Amounts due from customers	353	–	63	216
Positive replacement values of derivative financial instuments	–	389	829	–
Financial instruments	11 696	12 128	14 247	11 696
Liquidity				
Liquid assets	–	15 265	6 366	–
Subtotal	41 818	40 859	34 162	28 328
Total	**43 668**	**43 668**	**34 812**	**34 812**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

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, Dukascopy 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;
- offsetting of price gains and losses from trading activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2018

2.2. Changes to accounting principles and valuation method
No changes in 2018.

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.
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 classed 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 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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

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 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".

f. 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 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 amortization 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".

g. 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 amortization 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 amortization of tangible fixed assets and intangible assets".

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The estimated operating lives of the different categories of tangible fixed assets and the amortization methods are as follows:

- Fixtures and fittings	4 years, on a linear basis
- Furniture	4 years, on a linear basis
- IT hardware	3 years, on a linear basis
- Vehicles	5 years, on a linear basis
- Software	5 years, on a linear basis

The acquisition cost of tangible fixed assets acquired during the year is 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 "Liabilities with 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 amortization 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".

h. 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 in 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.

i. 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.

j. 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 income".
Deferred taxes, stemming from temporary timing differences between the taxable and accounting values of assets and

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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".

k. 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.

l. 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. On the contrary, 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 derivatives financial instruments" or "Negative replacement value 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".

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

		2018 CHF	2017 CHF
USD	1.00	0.98190	0.97460
EUR	1.00	1.12535	1.16930
GBP	1.00	1.25225	1.31720
CAD	1.00	0.71985	0.77470
JPY	1.00	0.00895	0.00864
AUD	1.00	0.69195	0.76100
NZD	1.00	0.65925	0.69100
NOK	1.00	0.11360	0.11877
SEK	1.00	0.11087	0.11908
SGD	1.00	0.71989	0.72889

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

		2018 CHF	2017 CHF
EUR	1.00	1.15484	1.11195
JPY	1.00	0.00886	0.00878

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 in 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 Directors has adopted a General Risk Policy aiming at limiting and managing the main risks affecting the Bank where most of the Group's

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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 a trusty service provider.

Market risks – trading operations
Due to the Group's specialization 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.
The Bank automatically measures its market risk exposure on a permanent and real time basis. The IT system automatically caps

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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 times. 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 materialize 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 a 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 event occurred after the consolidated balance sheet date that could have a material impact on the financial position of the Group as of 31 December 2018.

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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	–	35 254	363 670	398 924
Total at 31 December 2018 (before netting with value adjustments)	–	**35 254**	**363 670**	**398 924**
Total at 31 December 2017 (before netting with value adjustments)	–	29 847	791 311	821 158
Total at 31 December 2018 (after netting with value adjustments)	–	**35 254**	**363 670**	**398 924**
Total at 31 December 2017 (after netting with value adjustments)	–	29 847	784 825	814 672

Off-balance sheet commitments	**Secured by mortgages CHF**	**Other collateral CHF**	**Unsecured CHF**	**Total CHF**
Contingent liabilities*	–	149 817	–	149 817
Irrevocable commitments	–	–	816 000	816 000
Total at 31 December 2018	–	**149 817**	**816 000**	**965 817**
Total at 31 December 2017	–	236 041	856 000	1 092 041

*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 2018	–	–	–	–
Total at 31 December 2017	6 486	–	6 486	6 486

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Presentation of derivative financial instruments (assets and liabilities)

OTC transactions	Trading instruments, in CHF Positive replacement values	 Negative replacement values	 Contract volumes
Interest instruments:			
- CFD	20	–	184 085
Total Interest instruments	**20**	**–**	**184 085**
Currencies:			
- forward contracts*	1 293 342	1 209 867	746 775 387
- swaps	1 148 061	1 058 381	1 290 889 446
Total currencies	**2 441 403**	**2 268 248**	**2 037 664 833**
Precious metals:			
- forward contracts*	28 489	109	9 627 948
- swaps	67 910	2 447	36 484 310
Total precious metals	**96 399**	**2 556**	**46 112 258**
Equity securities and indices:			
- CFD	56 670	75 460	11 951 527
Total equity securities and indices	**56 670**	**75 460**	**11 951 527**
Others:			
- CFD	11 095	5 127	13 408 346
Total others	**11 095**	**5 127**	**13 408 346**
Total at 31 December 2018 before impact of netting contracts	**2 605 587**	**2 351 391**	**2 109 321 049**
of which determinated of using valuation models	**–**	**–**	**–**
Total at 31 December 2017 before impact of netting contracts	2 197 421	2 170 888	2 007 061 043
of which determinated of using valuation models	–	–	–
Total at 31 December 2018 after impact of netting contracts	**1 129 562**	**875 367**	
Total at 31 December 2017 after impact of netting contracts	740 683	714 150	

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

Breakdown by counterparty

	Central clearing houses	Banks & securi-ties dealers	Others customers	Total
Positive replacement values after impact of netting contacts Total at 31 December 2018	**–**	**1 030 497**	**99 065**	**1 129 562**
Positive replacement values after impact of netting contacts Total at 31 December 2017	–	596 046	144 637	740 683

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Breakdown of financial investments

	Book value		Fair value	
Debt securities	**2018 CHF**	**2017 CHF**	**2018 CHF**	**2017 CHF**
of which bonds held to maturity	*30 966 930*	*31 355 104*	*31 092 445*	*31 571 555*
Total	**30 966 930**	**31 355 104**	**31 092 445**	**31 571 555**
including securities eligible for repo transactions in accordance with liquidity regulations	*30 966 930*	*31 355 104*	*31 092 445*	*31 571 555*

Breakdown of contreparties by Scope rating

2018	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	**30 966 930**	–	–	–	–	–
2017						
Debt securities: Book value of bonds held to maturity	31 355 104	–	–	–	–	–

We use SCOPE rating.

Presentations of non-consolidated participations

	2017			2018			
Non-consolidated participations	**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	1 358 195	–	1 358 195	–	(328 875)*	–	1 029 320
Total non-consolidated participations	**1 358 195**	–	**1 358 195**	–	**(328 875)***	–	**1 029 320**

*This amount relates to the decrease of Dukascopy International Ltd. capital.

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

			2018			
Consolidated participations	**Activity**	**Share capital CHF**	**Head office**	**Share capital in %**	**Share vote in %**	**Held directly**
Dukascopy Europe IBS AS	brokerage	1 933 921	Riga	100	100	100
Dukascopy Japan K.K.	brokerage	6 021 839	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	10 983	Limassol	100	100	100
Dukascopy Ltd.	in liquidation	985	Belize	100	100	100

Consolidated participations			2017			
Dukascopy Europe IBS AS	brokerage	1 479 241	Riga	100	100	100
Dukascopy Japan K.K.	brokerage	5 752 297	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
Dukascopy Ltd.	dormant	985	Belize	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 owned by the Bank or which have dominant influence of the Bank by another manner, at the exception of Group companies whose integration would not have any significant influence on the consolidated financial statements, such as SWFX – Swiss FX Marketplace SA (total balance sheet CHF 81 731, net loss CHF 685), Dukascopy Community SA (total balance sheet CHF 477 604, net profit CHF 54 557), Dukascopy Payments AS (total balance sheet CHF 751 179, net loss CHF 41 995), Dukascopy Ltd (total balance sheet CHF 2 720, net profit CHF 1 508) and Dukascopy International Ltd (total balance sheet CHF 5 758, net loss CHF 1 942). Dukascopy Europe IBS AS and Dukascopy Japan K.K. are fully integrated in the consolidated financial statement of the Group.

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Presentations of tangible fixed assets

	2017			2018			
	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	23 043 687	(22 839 918)	203 769	173 529	(7)	(56 388)	320 904
Other fixed assets	9 605 867	(8 286 433)	1 319 434	168 269	571	(563 895)	924 379
Total fixed assets	**32 649 554**	**(31 126 351)**	**1 523 203**	**341 798**	**564**	**(620 283)**	**1 245 283**

*Difference of change included.

Leasing

	2019 CHF	2020 CHF	2021 CHF	2022 CHF	2023 CHF
Future leasing installments arising from operating leases	**2 201 078**	**1 439 217**	**374 273**	**307 389**	**168 399**
of which, may be terminated within one year	*233 267*	–	–	–	–

Breakdown of other assets and liabilities

Other assets	2018 CHF	2017 CHF
Wire transfers	808 434	252 944
Others	8	313
Total other assets	**808 442**	**253 257**
Other liabilities		
Wire transfers	1 496 080	159 021
Indirect taxes to be paid	385 011	483 340
Others	48 217	55 377
Total other liabilities	**1 929 308**	**697 738**

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

	2018		2017	
	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	29 911 679	3 931 660	30 295 009	4 334 290
Margin accounts assigned as collateral*	16 540 898	1 291 642	13 561 942	5 678 525
Deposits made with banks to secure guarantees	219 528	219 528	219 524	219 524
Total	**46 672 105**	**5 442 830**	**44 076 475**	**10 232 339**

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 (2017: nil). The overfunding in the pension fund is based on its unaudited accounts as of 31 December 2018 (coverage ratio is 112%). Based on the last audited financial statements of the Caisse Inter-Entreprises-CIEPP as at 31 December 2017, the coverage ratio was 119.5% (31 December 2016: 113.4%).

The employees based in Japan are affiliated to a defined contributions scheme pension fund of the state of Japan.
This fund does not allow any employer's contribution reserve.

There is no pension funds for other consolidated entities of the Group.

Presentation of economic benefit / obligation and the pension expenses

	Over/under-funding 31.12.18	Economic interest of the Bank		Change in economic interest versus prior year	Contributions paid in 2018	Pension expenses in personnel expenses	
		2018	2017			2018	2017
Pension plans with overfunding	–	–	–	–	356 795	356 795	378 468

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as at 31 December 2018

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

	Balance at 31 Dec. 2017 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 Dec. 2018 CHF
Provisions for other business risks	30 333	(25 469)	–	–	–	–	(4 864)	–
Total provisions	**30 333**	**(25 469)**	–	–	–	–	**(4 864)**	–
Reserves for general banking risks	–	–	–	–	–	–	–	–
Value adjustments for default risks and country risks - *of which, value adjustments for default risks in respect of impaired loans/receivables*	6 486	(6 486)	–	–	–	–	–	–

Provisions are valued according to the best estimate principle.

Presentation of Bank's capital

	2018			2017		
	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**

Disclosure of amounts due from/to related parties

	2018		2017	
	Amounts due from CHF	Amounts due to CHF	Amounts due from CHF	Amounts due to CHF
Holders of qualified participation	–	41	228 550	585
Group companies	21 250	979 094	231 128	880 450
Linked companies	–	–	–	–
Transactions with members of governing bodies	–	30 916	–	120
Other related parties	–	719	33 534	46 594

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

Disclosure of holders of significant participations

	2018			
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
	2017			
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

Presentation of the maturity structure of financial instruments

			Due					
ASSETS	At sight CHF	Cancell-able CHF	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	34 042 501	–	–	–	–	–	–	34 042 501
Amounts due from banks	83 505 894	219 528	–	–	–	–	–	83 725 422
Amounts due from customers	77 084	321 840	–	–	–	–	–	398 924
Positive replacement values of derivative financial instruments	1 129 562	–	–	–	–	–	–	1 129 562
Financial investments	–	–	–	12 127 567	11 675 341	7 164 022	–	30 966 930
Total current assets at 31 December 2018	**118 755 041**	**541 368**	–	**12 127 567**	**11 675 341**	**7 164 022**	–	**150 263 339**
Total current assets at 31 December 2017	110 715 865	528 847	11 695 888	–	12 544 179	7 178 386	–	142 663 165
Third-party liabilities								
Amounts due to banks	20 415 841	–	–	–	–	–	–	20 415 841
Amounts due in respect of customer deposits	99 681 661	–	–	–	–	–	–	99 681 661
Negative replacement values of derivative financial instruments	875 367	–	–	–	–	–	–	875 367
Total third-party liabilities at 31 December 2018	**120 972 869**	–	–	–	–	–	–	**120 972 869**
Total third-party liabilities at 31 December 2017	112 413 395	–	–	–	–	–	–	112 413 395

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

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

ASSETS	2018			2017		
in CHF ('000)	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Liquid assets	28 490	5 552	34 042	15 330	3 448	18 778
Amounts due from banks	59 674	24 052	83 726	68 092	22 883	90 975
Amounts due from customers	55	344	399	276	539	815
Positive replacement values of derivative financial instruments	237	893	1 130	50	691	741
Financial investments	19 292	11 675	30 967	19 659	11 696	31 355
Accrued income and prepaid expenses	2 988	1 432	4 420	2 313	1 549	3 862
Non-consolidated participations	200	829	1 029	200	1 158	1 358
Tangible fixed assets	741	504	1 245	865	658	1 523
Other assets	808	–	808	253	–	253
Total assets	**112 485**	**45 281**	**157 766**	**107 038**	**42 622**	**149 660**
LIABILITIES						
Amounts due to banks	–	20 416	20 416	–	10 616	10 616
Amounts due in respect of customer deposits	7 511	92 170	99 681	9 592	91 492	101 084
Negative replacement values of derivative financial instruments	73	803	876	325	389	714
Accrued expenses and deferred income	1 992	270	2 262	1 698	344	2 042
Other liabilities	1 929	–	1 929	698	–	698
Provisions	–	–	–	30	–	30
Reserves for general banking risks	–	–	–	–	–	–
Bank's capital	22 000	–	22 000	22 000	–	22 000
Retained earnings reserve	12 179	–	12 179	12 504	–	12 504
Currency translation reserve	303	–	303	297	–	297
Consolidated profit of the year	(1 062)	(818)	(1 880)	117	(442)	(325)
Total liabilities	**44 925**	**112 841**	**157 766**	**47 261**	**102 399**	**149 660**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

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

	2018		2017	
ASSETS	**Absolute CHF ('000)**	**Share %**	**Absolute CHF ('000)**	**Share %**
Switzerland	112 485	71.3	107 038	71.5
Europe excluding Switzerland	23 752	15.0	21 679	14.5
USA and Canada	13 054	8.3	12 203	8.2
Others	8 475	5.4	8 740	5.8
Total	**157 766**	**100**	**149 660**	**100**

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

	2018		2017	
SERV Rating	**Absolute CHF ('000)**	**Share %**	**Absolute CHF ('000)**	**Share %**
1	42 610	94.1	39 343	92.3
2	10	0.0	7	0.0
3	394	0.9	570	1.3
4	76	0.2	56	0.1
5	1 806	4.0	2 144	5.2
6	107	0.2	101	0.2
7	224	0.5	269	0.6
without rating	54	0.1	132	0.3
Total	**45 281**	**100.0**	**42 622**	**100.0**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

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	28 490	5 552	–	–	–	–	34 042
Amounts due from banks	6 490	15 989	42 530	5 524	7 658	5 534	83 725
Amounts due from customers	18	88	37	1	210	46	400
Positive replacement values of derivative financial instruments	1 130	–	–	–	–	–	1 130
Financial investments	19 292	–	11 675	–	–	–	30 967
Accrued income and prepaid expenses	2 829	340	991	57	28	175	4 420
Non-consolidated participations	1 029	–	–	–	–	–	1 029
Tangible fixed assets	1 236	–	–	–	9	–	1 245
Other assets	47	287	218	23	161	72	808
Total assets	**60 561**	**22 256**	**55 451**	**5 605**	**8 066**	**5 827**	**157 766**
Claims arising from spot exchange and swap transactions	68 477	519 201	897 296	141 415	211 665	271 013	2 109 067
Total at 31 December 2018	**129 038**	**541 457**	**952 747**	**147 020**	**219 731**	**276 840**	**2 266 833**

LIABILITIES	CHF	EUR	USD	GBP	JPY	Others	Total
Amounts due to banks	3	12 395	6 975	59	821	163	20 416
Amounts due in respect of customer deposits	8 783	25 640	48 676	3 838	7 189	5 556	99 682
Negative replacement values of derivative financial instruments	875	–	–	–	–	–	875
Accrued expenses and deferred income	1 046	811	220	6	148	30	2 261
Other liabilities	481	683	114	574	–	78	1 930
Bank's capital	22 000	–	–	–	–	–	22 000
Retained earnings reserve	12 179	–	–	–	–	–	12 179
Currency translation reserve	303	–	–	–	–	–	303
Consolidated profit of the year	(1 880)	–	–	–	–	–	(1 880)
Total liabilities	**43 790**	**39 529**	**55 985**	**4 477**	**8 158**	**5 827**	**157 766**
Delivery obligations arising from spot exchange and swap transactions	79 768	453 596	925 873	148 916	190 734	310 180	2 109 067
Total at 31 December 2018	**123 558**	**493 125**	**981 858**	**153 393**	**198 892**	**316 007**	**2 266 833**
Net position by currency	**5 480**	**48 332**	**(29 111)**	**(6 373)**	**20 839**	**(39 167)**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

Breakdown of contingent assets and contingent liabilities

Contingent assets	2018 CHF	2017 CHF
Other contingent assets	–	–
Total contingent assets	**–**	**–**
Contingent liabilities		
Other contingent liabilities	149 817	236 041
Total contingent liabilities	**149 817**	**236 041**

Breakdown of the result from trading activities

Trading income	2018 CHF	2017 CHF
Leveraged margin trading	27 737 529	30 242 297
Binary options	782 895	873 199
Total	**28 520 424**	**31 115 496**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2018

Breakdown by underlying risk

Result from trading activities	2018 CHF	2017 CHF
Equity securities	2 222 635	2 072 334
Foreign currency	19 187 947	25 485 547
Commodities / precious metals	7 109 843	3 557 615
Total	**28 520 424**	**31 115 496**

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

Negative interest	2018 CHF	2017 CHF
Negative interest on credit operations	112 410	76 270

Negative interest on credit operations is disclosed as a reduction in Interest and discount income.

Breakdown of personnel expenses

Personnel expenses	2018 CHF	2017 CHF
Salaries	11 183 894	11 970 420
of which, expenses relating to share-based compensation and alternative forms of variable compensation	–	–
Benefits	2 730 127	2 840 520
Other personnel expenses	168 244	155 023
Total personnel expenses	**14 082 265**	**14 965 963**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

Breakdown of general and administrative expenses

General and administrative expenses	2018 CHF	2017 CHF
Premises	2 987 215	2 880 887
IT related expenses	2 783 504	2 577 995
Legal and consulting	1 157 675	1 215 602
Post, telecommunications and data	765 948	733 413
Expenses for vehicles	48 186	79 185
Office supply	219 133	259 018
Audit fees	303 611	290 076
of which for financial and regulatory audits	*303 611*	*290 076*
of which for other services	–	–
Marketing and communication	5 911 778	8 624 641
Travels	1 219 425	1 223 484
Others	570 594	583 326
Total general and administrative expenses	**15 967 069**	**18 467 627**

Explanations regarding material losses and material release of Reserves for general banking risks

	2018 CHF	2017 CHF
Operational loss	(3 335)	(413 791)
Release of Reserves for general banking risks	–	2 100 000

In 2017, Operational loss is the result of the settlements of two litigations.
In 2017, General banking risk reserve was released to cover the settlement of litigations and to compensate the unfavourable changes in market environment and conditions.

Explanations regarding extraordinary income and expenses

Extraordinary income	2018 CHF	2017 CHF
Disposal of fully depreciated fixed assets	11 260	35 000
Total extraordinary income	**11 260**	**35 000**

There was no extraordinary expenses in 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

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

	2018		2017	
	Domestic CHF	**Foreign CHF**	**Domestic CHF**	**Foreign CHF**
Subtotal net result from interest operations	303 622	–	113 774	–
Subtotal result from commission business and services	262 907	16 907	374 255	7 960
Result from trading activities	26 879 726	1 640 698	28 584 973	2 530 523
Personnel expenses	(6 414 025)	(7 668 240)	(7 040 513)	(7 925 450)
General and administrative expenses	(6 418 819)	(9 548 250)	(8 059 947)	(10 407 680)
Subtotal operating expenses	**(12 832 844)**	**(17 216 490)**	**(15 100 460)**	**(18 333 130)**
Value adjustment on participations and depreciation and amortization of tangible fixed assets and intangible assets	(347 449)	(272 834)	(332 109)	(260 947)
Change to provisions and other value adjustments and losses	(2 087)	(1 248)	(413 000)	(791)
Operating result	**14 263 875**	**(15 832 967)**	**13 227 433**	**(16 056 385)**

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

	2018 CHF	**2017 CHF**
Deferred taxes	–	(700 000)
Current tax expenses	(321 979)	330 877
Total taxes	**(321 979)**	**(369 123)**

	2018	**2017**
Average tax rate	**-20.5%**	**13.0%**

Negative average tax rate is explained by the loss at operating level.

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 45 to 73 of this report) for the year ended 31 December 2018.

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 2018 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, 30 April 2018

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

KEY METRICS DISCLOSURES (FINMA circ. 2016/1) FOR THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

KM1: Key regulatory figures

	Available capital (amounts) 000 CHF	**2018**	**2018Q3**	**2018Q2**	**2018Q1**	**2017**
1	Common Equity Tier 1 (CET1)	31 573				33 118
1a	Fully loaded ECL accounting model CET1	–				–
2	Tier 1	31 573				33 118
2a	Fully loaded ECL accounting model Tier 1	–				–
3	Total capital	31 573				33 118
3a	Fully loaded ECL accounting model Total capital	–				–
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	242 300				215 388
4a	Minimum capital requirements (000 CHF)	19 384				17 231
	Risk-based capital ratios (as a percentage % of RWA)					
5	CET1 ratio (%)	13.03%				15.38%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	–				–
6	T1 ratio (%)	13.03%				15.38%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	–				–
7	Total capital ratio (%)	13.03%				15.38%
7a	Fully loaded ECL accounting model total capital ratio (%)	–				–
	Additional CET1 requirements (buffers) as a percentage of RWA					
8	Capital conservation buffer requirement according to Basel min.requirements (%)	1.88%				1.25%
8	Countercyclical buffer requirement according to Basel min.requirements (%)	–				–
10	Bank G-SIB and/or D-SIB additional requirements	–				–
11	Total of bank CET1 specific buffer requirements according to Basel min.requirements (%)	1.88%				1.25%
12	CET1 available after meeting the bank's minimum capital requirements (%)	9.53%				11.88%
	Target capital ratios according to Annex 8 of the Capital Adequacy Ordinance (CAO) (% of RWA)					
12a	Capital conservation buffer according to CAO, Annex 8 (%)	2.50%				2.50%
12b	Countercyclical capital buffer according to CAO, Art. 44 and Art. 44a (%)	–				–
12c	CET1 capital target (%) according to CAO, Annex 8 + countercyclical buffer*	7.00%				7.00%
12d	T1 capital target according to CAO, Annex 8 + countercyclical buffer*	8.50%				8.50%
12e	Total capital target according to CAO, Annex 8 + contercyclical buffer*	10.50%				10.50%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio exposure measure (000 CHF)	159 943				151 317
14	Basel IIII Leverage Ratio	19.74%				21.89%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%)	19.74%				21.89%
	Medium short-term liquidity coverage ratio LCR					
15	LCR Numerator: total stock of high quality liquid assets (000 CHF)	36 860	25 355	22 292	21 204	25 493
16	LCR Denumerator: total cash outflow (000 CHF)	8 197	7 170	6 707	6 034	6 377
17	Liquidity coverage ratio (%)	450%	354%	332%	351%	400%

* According to CAO, Art. 44 and 44a

DUKASCOPY
Swiss Banking Group

KEY METRICS DISCLOSURES (FINMA circ. 2016/1) FOR THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

OV1: Overwiew of risk-weighted assets

in 000 CHF	RWA 2018	RWA 2017	Min. capital requirements 2018
Credit risk	27 625	29 213	2 210
Market risk	146 837	112 488	11 747
Operational risk	60 050	64 163	4 804
Risks without counterparty	7 788	9 525	623
Amounts below the thereshold 3 (subject to 250% risk weight)	–	–	–
Total	**242 300**	**215 388**	**19 384**

In order to determin the minimum capital requirement we use:
- credit risk: standard approach;
- market risk: standard approach;
- operational risk: based indicator approach.

LIQA : Liquidity risk management

Dukascopy Bank and its Group have abundant liquidity which comes exclusively from client deposits and accumulated profits. Moreover, over 90% of all assets are very liquid (cash at sight and investment grade government bonds) which are deposited in countries where transferability of assets is highly probable, mostly in Switzerland, Germany, UK and in the USA. The Treasurer monitors the evolution of client withdrawals as an early warning indicator. The Risk Committee, of which the Treasurer is a member, monitors liquidity indicators quarterly, annually updates the liquidity contingency plan and performs a stress test which consistently confirms the very comfortable liquidity situation of the Bank (and its Group) and its compliance with the very low liquidity risk appetite of the Bank. The Risk Committee quarterly informs the Board of Directors and the Executive Committee on the Bank's liquidity situation. The treasurer maintains reserves of immediately usable liquidity in the main currencies so as to allow the Bank to honour its short term payment obligations.

KEY METRICS DISCLOSURES (FINMA circ. 2016/1) FOR THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2018

CR1: Credit risk - credit quality of assets

in 000 CHF	Gross carrying values of		Value adjustments/ impairments	Net values
	Defaulted exposures	Non-Defaulted exposures		
Loans (excluding debt securities)	–	124 524	–	124 524
Debt securities	–	30 967	–	30 967
Off-balance sheet expositions	–	966	–	966
Total	**–**	**156 457**	**–**	**156 457**

A situation of "default" is recognised when the debtor has failed to pay interests or to reimburse the loan at the contractually agreed maturity date.

CR3: Credit risk - overview of credit risk mitigation techniques

in 000 CHF	Unsecured exposures / carrying values	Exposures secured by collateral / carrying values	Exposures secured by financial guaranthees or credit derivatives / the amounts effectively covered
Loans (Debt securities included)	155 456	–	35
Off-balance sheet expositions	816	150	–
Total	**156 272**	**150**	**35**
of which defaulted	–	–	–

ORA: Operational risks

Operational risks include IT, cyber, confidentiality, fraud, compliance and legal risks. The Bank is particularly exposed to IT and cyber risks due to its reliance on technological solutions connected to the Internet. The identification, measurement, management, monitoring and reporting of the Bank's risks are organised in a comprehensive Risk Management Concept complemented by specific concepts on cyber-security, data confidentiality and operational risk management and by other internal regulations. Compliance risks are specifically subject to a Compliance Risk Analysis and Action Plan. All this documentation is reviewed annually by the relevant specialised committees of the Bank: the Risk Committee, the Compliance Committee and the IT Steering Committee. The Bank makes sure that each identified operational risk remains within the limits of its appetite and keeps the internal controls under scrutiny which allows to keep those risks at acceptable levels. Quarterly, the Board of Directors and the Executive Committee are informed of the evolutions in the Bank and Group's risk profile, receive operational risk indicators allowing them to monitor the situation of risks and their compliance with the Bank's objectives.
To determine the capital requirements applicable to operational risks the Bank uses the basic indicator method.

DUKASCOPY
Swiss Banking Group

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