Swiss Forex Bank & Marketplace

DUKASCOPY BANK SA

ANNUAL REPORT 2017

DUKASCOPY
Swiss Forex Bank & Marketplace

CONTENTS

DUKASCOPY
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INTRODUCING DUKASCOPY GROUP

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

The founders' vision materialised in the form of an international FinTech group headed by Dukascopy Bank, an Internet-based Swiss bank and securities dealer counting 212.0 employees on the 31.12.2017 (counted in full time equivalent, 197.1 on the 31.12.2016). On the same date, Dukascopy Group counted 350.9 employees of which 304.4 for the consolidated companies (respectively 339.8 and 293.4 employees on 31.12.2016 for the Group and consolidated entities).

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

The motto of Dukascopy Group is to offer modern and easy-to-use services at affordable conditions to everyone from around the world. Since 2016, an account with Dukascopy can be opened within a day, fully online.

Dukascopy Group is also 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 known for innovation, integrity and fun in digital financial services.

MESSAGE FROM THE BOARD OF DIRECTORS

2017 was a year of continuous investments in the structure and products of Dukascopy Bank and the Group, in line with our key strategic objectives, to offer the optimal experience and quality to our clients.

With the global economy recovering from its past difficulties, 2017 provided significant trading volumes to Dukascopy Bank, in growth with the excellent vintages of previous years. The race for the Bitcoin observed over the last quarter of the year distracted some investors from the traditional currency pairs and reminded the actors of the financial sector that crypto-currencies were here to play an increasing role in the future.

Faithful to its strong commitment to innovation and technology, Dukascopy Bank further consolidates its leading position in its sector by developing its international presence and products to guarantee the delivery of efficient and transparent performances in an environment constantly challenged by new regulations and profound digital transformations.

We would like to thank our clients and partners for their loyalty and their trust, our shareholders for their support in our strategy for development and innovation, and all our employees for their ongoing commitment to the success of Dukascopy.

The Board of Directors

MESSAGE FROM THE co-CEOs

2017: CREATING THE FUTURE

After two excellent years 2015 and 2016, 2017 remained at the top in terms of trading volume. That achievement is especially important to us taking into consideration the massive growth of the crypto-currency market and its increasing competition with FX and CFD businesses where the Bank is traditionally active.

In 2017, the Bank concentrated its resources on intensive development and implementation of new services, products and solutions, successful implementation of which creates a solid basis for long term sustainable growth of the Bank. Thanks to these steps, the Bank is expecting serious enlargement of its core trading business and establishing of its brand inside a new business area: highly automated retail banking and micro-investments based on mobile solutions.

During 2017, the trading business of the Bank has added a wide range of new instruments including new currency pairs, CFDs on commodities and stocks from the main stock markets around the globe. Moreover, the legal basis and IT infrastructure necessary for CFD trading of crypto-currencies have been set up. We launched Bitcoin trading in the beginning of 2018.

Along with continuous improvement and development of its own home-built trading platforms, the Bank started to integrate the most popular trading platform - MetaTrader4 (MT4). MT4 will be offered to the clients of the Bank, its subsidiaries and its White-Label partners in the middle of 2018.

In 2017, the Bank made a strategical shift of emphasis from the trading business to micro-retail banking. The modern concept of retail banking based on the mobile application "Dukascopy Connect 911" has been developed and tested at "Dukascopy Payments", a subsidiary of the Bank based in the European Union. In 2017 we made all the necessary integrations and, in early 2018, launched the mobile retail banking services at Dukascopy Bank.

The Bank has implemented a client on-boarding technology that allows opening all sorts of accounts 24 hours, 7 days a week. This way the Bank provides people from around the globe with a unique opportunity, in just one hour, to remotely open a bank account; to issue virtual payment VISA cards and to begin instant payments in 25 currencies. This includes crypto-currencies, and micro-investments and other services of a modern Swiss bank.

We are preparing the Bank to meet the future: the next stage of banking evolution will use artificial intelligence and machine learning. In this perspective, the Bank's IT infrastructure should be restructured in advance, as later will be too late.

Also, in 2017 the Bank expanded its geographical presence by setting a new representative office within the Dubai International Financial Center (DIFC). This office will start operations in 2018. We trust it will support the growth of the Bank's clients base in the Middle East.

Unavoidably, such a wide range of projects required investments which have been covered by reserves made by the Bank in previous years.

We expect 2018 to bring very positive changes to both our clients and our business. We take this opportunity to thank all our employees, clients and our business partners for their continued trust.

Veronika and Andrey Duka
co-Chief Executive Officers

REVIEW OF OPERATIONS

DUKASCOPY BANK SA

Business volume has reached its third record in a row. The number of active trading accounts increased by 14% compared to 2016.

However, operating income is below budget and below the previous year (-12%). Operating expenses are in line with the budget but above the previous year (+5%). This results in an operating loss of CHF 2.4 million, fully offset by the release of Reserves for general banking risks in the amount of CHF 2.8 million. Bottom line: Dukascopy Bank publishes a profit of CHF 117 thousand for the year 2017.

Total client deposits have been negatively impacted by a withdrawal from a White Label partner and presumably by the massive rush on Bitcoin which left less money available for our more classical trading instruments.

DUKASCOPY GROUP

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

Dukascopy Japan has doubled its client deposits, its operating income and cut by two its operating loss (CHF 485 thousand). Operating expenses decreased by 7.5% compared to 2016. We expect financial equilibrium for Dukascopy Japan in 2018.

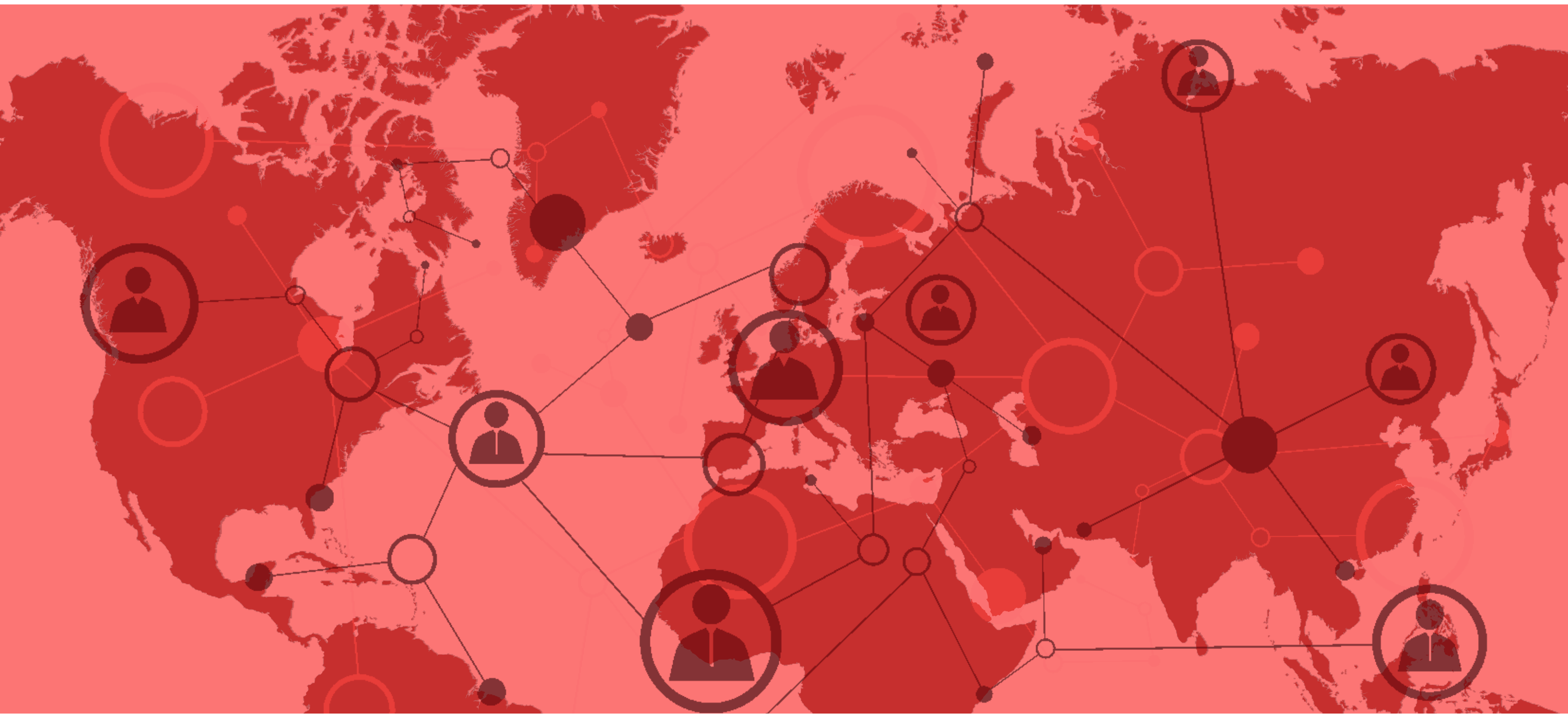
Dukascopy Europe continues to be stable and financially balanced. The company closed 2017 with a profit of CHF 46 thousand.

Dukascopy Payments' size and financial results are not significant for the Group. It closed 2017 with a loss of CHF 5 thousand.

KEY FIGURES OF DUKASCOPY BANK

	Year 2017 (in CHF million or in %)	**Year 2016** (in CHF million or in %)	**Year 2015** (in CHF million or in %)
Trading volume	657 751.2	657 273.3	654 598.8
Total operating income	29.1	33.2	35.0
Total operating expenses	30.5	29.0	25.6
Net profit	0.1	2.5	3.4
Cost / income ratio	104.9%	87.2%	73.3%
Total assets	144.0	160.8	184.1
Total client deposits	105.5	118.1	144.53
Shareholders' equity	35.4	35.3	32.8

CORPORATE GOUVERNANCE



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 2016, the Board of Directors has created an Audit Committee comprising two members. At the end of 2017, the Board of Directors was composed of the six following members, all independent as per the FINMA circular 2017/1:

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".

Pierre Bongard is the vice-chairman of the Board of Directors since 2010 and chairman of the Audit Committee since 2016. 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 trainer in financial services.

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 a member of the Board of Directors since 2009 and a member of the Audit Committee since 2016. 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-Alain Guillaume has joined the Board of Directors in 2011 and resigned in 2018. After obtaining his attorney's certificate in Geneva in 1995, Pierre-Alain Guillaume joined the tax department of Arthur Andersen in Geneva. From 1999 he worked with attorneys Oberson in Geneva and Lausanne, where he became a Partner in 2004. He founded GLM Avocats in 2007 and joined Chabrier Avocats SA in 2009 where he is a Partner and for which he created and heads the tax group.

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 during 7 years at the University of Geneva in the field of audit of financial institutions.

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 2017, 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 honors 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 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 a MBA in Global Banking & Finance of the European University of Geneva. After working 4 years as an engineer and programmer and before joining the company in 2006, he has been working 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 for assisting it in becoming a bank and for supervising the control functions.

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

DUKASCOPY
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FINANCIAL STATEMENTS

and proposed appropriation of retained earnings

BALANCE SHEET

as at 31 December 2017

ASSETS	31.12.2017 **CHF**	31.12.2016 **CHF**
Liquid assets	18 777 862	25 143 768
Amounts due from banks	83 244 370	87 023 363
Amounts due from customers	590 145	393 118
Positive replacement values of derivative financial instruments	730 134	1 540 749
Financial investments	31 355 104	39 314 705
Accrued income and prepaid expenses	3 402 207	2 404 563
Participations	4 185 317	3 920 294
Tangible fixed assets	1 503 599	990 590
Other assets	243 429	24 035
TOTAL ASSETS	**144 032 167**	**160 755 185**
LIABILITIES	**CHF**	**CHF**
Amounts due to banks	16 277 194	22 766 831
Amounts due in respect of customer deposits	89 249 356	95 342 404
Negative replacement values of derivative financial instruments	703 404	1 109 767
Accrued expenses and deferred income	1 674 912	2 580 717
Other liabilities	633 479	560 307
Provisions	30 333	248 412
Reserves for general banking risks	–	2 800 000
Bank's capital	22 000 000	22 000 000
Statutory retained earnings reserve	679 000	553 000
Profit carried forward	12 667 747	10 279 488
Profit of the year	116 742	2 514 259
TOTAL LIABILITIES	**144 032 167**	**160 755 185**

OFF–BALANCE SHEET

as at 31 December 2017

Off–balance sheet commitments	31.12.2017 **CHF**	31.12.2016 **CHF**
Contingent liabilities	236 041	123 733
Irrevocable commitments	856 000	856 000

STATEMENT OF INCOME

for the year ended 31 December 2017

Result from interest operations	31.12.2017 CHF	31.12.2016 CHF
Interest and discount income	11 775	(5 275)
Interest and dividend income from financial investments	728 258	1 058 834
Interest expense	(626 259)	(929 443)
Gross result from interest operations	**113 774**	**124 116**
Changes in value adjustments for default risks and losses from interest operations	–	–
Subtotal net result from interest operations	**113 774**	124 116

Result from commission business and services		
Commission income from other services	647 547	595 610
Commission expense	(273 292)	(219 806)
Subtotal result from commission business and services	**374 255**	**375 804**

Result from trading activities	**28 584 973**	**32 714 092**

Operating expenses		
Personnel expenses	(12 934 520)	(12 704 536)
General and administrative expenses	(17 567 032)	(16 265 113)
Subtotal operating expenses	**(30 501 552)**	**(28 969 649)**

Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	(577 466)	(552 557)
Changes to provisions and other value adjustments, and losses	(413 000)	(117 800)
Operating result	**(2 419 016)**	**3 574 006**

Extraordinary income	35 000	–
Changes in reserves for general banking risks	2 800 000	–
Taxes	(299 242)	(1 059 747)
Profit of the year	**116 742**	**2 514 259**

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

	2017 CHF
Profit of the year	116 742
Profit carried forward	12 667 747
Amount at the disposal of the Shareholders' general meeting	**12 784 489**
Proposed utilisation	**2017 CHF**
Contribution to the statutory retained earnings reserve	6 000
To be carried forward	12 778 489
Total	**12 784 489**

PRESENTATION OF THE STATEMENT OF CHANGES IN EQUITY

as at 31 December 2017

	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**	**553 000**	**2 800 000**	**10 279 488**	**2 514 259**	**38 146 747**
Allocation of previous year result	–	–	–	–	–	–
- Allocation to statutory retained earnings reserve	–	126 000	–	–	(126 000)	–
- Allocation to profit carried forward	–	–	–	2 388 259	(2 388 259)	–
Other allocations to (transfer from) the reserves for general banking risks	–	–	(2 800 000)	–	–	(2 800 000)
Profit (result of the year)	–	–	–	–	116 742	116 742
Equity at end of current period	**22 000 000**	**679 000**	**–**	**12 667 747**	**116 742**	**35 463 489**

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

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

On the 1st of January 2017 the method of amortization of IT hardware, vehicles and software was changed from degressive to linear basis; estimated operating life cycles weren’t changed. If we applied this method from January 1, 2016 this would resulted in an increase of depreciation in 2016 by CHF 29'049. Comparative figures haven’t been adapted.

Financial instruments

a. Liquid assets

Liquid assets are recognized at their nominal value.

b. Amounts due from banks and amounts due from customers

They are recognized at their nominal value less any necessary value adjustments. Amounts due in respect of precious metal account deposits are valued at fair value.
The Bank is not active in credit activities. However, loans and advances on salaries may be granted to employees of the Bank and amounts receivable from clients may appear in the normal course of the Bank’s core activities.
Doubtful receivables, i.e. obligations entered with clients for which the debtor is unlikely to meet its future obligations, are

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

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.
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 2017

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 indictors exist, the recoverable amount is calculated. The recoverable amount is calculated for each individual asset. The recoverable amount is the higher amount of the net selling price and the value in use.

An asset is impaired if its carrying amount exceeds its recoverable amount. If the asset is impaired, the book value is reduced to match the recoverable amount and the impairment is charged via the item "Value adjustments on participations and 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
- Furnitures	4 years, on a linear basis
- IT hardwares	3 years, on a linear* basis
- Vehicles	5 years, on a linear* basis
- Softwares	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".

* on a degressive basis until 01 January 2017.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

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 2017

There is an economic benefit if the Bank has the ability to reduce its future employer's contributions. A contrario, there is a liability if, owing to a shortfall in the pension fund, the Bank wants or has to participate in the financing of the pension fund.
The Bank assesses whether there is an economic benefit or economic obligation arising from pension schemes as of the balance sheet date. The assessment is based on the contracts and financial statements of the pension funds (established under Swiss GAAP FER 26 in Switzerland).
The identified economic benefit (including the employer contribution reserves without a waiver of use) are recorded in "Other assets". If an economic obligation is identified for an individual pension fund, it is recorded in "Provisions". The difference with the corresponding value of the prior period are recorded in the statement of income in "Personnel expenses".

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

		2017 CHF	**2016 CHF**
USD	1.00	0.97460	1.01870
EUR	1.00	1.16930	1.07190
GBP	1.00	1.31720	1.25645
CAD	1.00	0.77470	0.75765
JPY	1.00	0.00864	0.00870
AUD	1.00	0.76100	0.73385
NZD	1.00	0.69100	0.70510
NOK	1.00	0.11877	0.11785
SEK	1.00	0.11908	0.11192
SGD	1.00	0.72889	0.70363

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

3. Risk Management

As online bank mainly offering fully automated (Straight-Through-Processing) brokerage services via innovative in-house developed IT solutions, Dukascopy Bank is mostly subject to operational, market and legal risks. Since the Bank is not active in credit activities and only executes client orders based on collateral (client margin deposits and bank guarantees), its credit risk exposure is normally limited to possible default of institutional trading counterparties.

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

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

The Board of Directors is the supreme governing body of the risk management organization. It has established an analysis of the main risks the Bank is exposed to. Based on its risk analysis, the Board of Directors has adopted a General Risk Policy aiming at limiting and managing the main risks affecting the Bank. The General Risk Policy defines the risk appetite, the main risk limits and features of the risk measurement and risk management. The Board of Directors monitors compliance with the limits as well as the implementation of the risk policy based on a comprehensive quarterly reporting on risks.

The executive management is responsible for the execution of the Board of Directors' policies. It ensures a suitable risk management organization is in place as well as the use of an adequate risk monitoring system. It monitors the use of limits and ensure that an adequate internal reporting is in place. The risk control function and the compliance function are independent of business operations. They monitor all risks as the second line of defense and establish most of the quarterly reporting about risks to the executive management and Board of Directors.

Operational risks

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

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

Market risks – trading operations
Due to the Bank's 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 time. If deemed necessary, the Bank's advanced technology allows it to fully exclude exposure deriving from trading on all or specific instruments, for instance in anticipation of exceptional market events such as the abandon of a currency peg by a Central Bank.

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

Counterparty risk in interbank business

The Bank deposits its liquidity and trades (mainly to hedge client transactions) with more than 20 different banks and other institutional trading counterparties external to its ECN marketplace such as brokers and other marketplaces. Counterparty and default risks relating to banks and other trading counterparties are mitigated by the fixation of exposure limits within the competences set by the Board of Directors. The respect of the risk limits is controlled on a daily basis and limits are adapted as often as deemed necessary.

In principle, the Bank works only with first-class counterparties. Before entering into a business relationship with a counterparty in interbank business, the Bank performs an assessment of the counterparty risk and sets a risk exposure limit accordingly. The limit depends significantly on the rating, if any, and on the capital adequacy of the counterparty which are reassessed on an annual basis or more frequently if deemed necessary. The Bank is attentive to financial news and public information circulating about its counterparties. In case of negative information concerning the stability of a counterparty, its creditworthiness is verified by the Bank. If deemed necessary, risk limits and credit risk exposures are adjusted or suppressed by the executive management and the risk control function. The Treasurer monitors compliance with the limits on a daily basis.

Liquidity

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

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

4.1. Amounts due from customers

With regard to receivables covered by bank guarantees, the credit risk mostly relates to banks having issued such guarantees and the default risk is determined as explained in section 4.2. below. If a bank guarantee issuer defaults, the receivable becomes unsecured and default risks are assessed like for unsecured loans or advances to Bank's employees.

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

4.2. Amounts due from banks

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

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

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 2017.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

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	–	29 847	566 784	596 631
Total at 31 December 2017 (before netting with value adjustments)	**–**	**29 847**	**566 784**	**596 631**
Total at 31 December 2016 (before netting with value adjustments)	–	30 440	369 164	399 604
Total at 31 December 2017 (after netting with value adjustments)	**–**	**29 847**	**560 298**	**590 145**
Total at 31 December 2016 (after netting with value adjustments)	–	30 440	362 678	393 118

Off-balance sheet commitments	**Secured by mortgages CHF**	**Other collateral CHF**	**Unsecured CHF**	**Total CHF**
Contingent liabilities*	–	236 041	–	236 041
Irrevocable commitments	–	–	856 000	856 000
Total at 31 December 2017	**–**	**236 041**	**856 000**	**1 092 041**
Total at 31 December 2016	–	123 733	856 000	979 733

*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 2017	**6 486**	**–**	**6 486**	**6 486**
Total at 31 December 2016	6 486	–	6 486	6 486

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

Presentation of derivative financial instruments (assets and liabilities)

OTC transactions	Trading instruments: Positive replacement values CHF	Trading instruments: Negative replacement values CHF	Trading instruments: Contract volumes CHF
Currencies:			
- forward contracts*	1 004 432	1 063 858	556 588 676
- swaps	1 088 006	1 080 310	1 402 645 554
Total currencies	**2 092 438**	**2 144 168**	**1 959 234 230**
Precious metals:			
- forward contracts*	25 514	–	2 670 535
- swaps	48 439	–	30 407 264
Total precious metals	**73 953**	**–**	**33 077 799**
Equity securities and indices:			
- CFD	6 553	15 560	10 516 521
Total equity securities and indices	**6 553**	**15 560**	**10 516 521**
Others:			
- forward contracts*	–	–	–
- CFD	13 926	412	4 445 953
Total others	**13 926**	**412**	**4 445 953**
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 2016 before impact of netting contracts	4 773 243	4 342 261	2 785 634 806
of which determinated of using valuation models	–	–	–
Total at 31 December 2017 after impact of netting contracts	**730 134**	**703 404**	
Total at 31 December 2016 after impact of netting contracts	1 540 749	1 109 767	

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

Breakdown by counterparty

	Central clearing houses	Banks and securities dealers	Others customers	Total
Positive replacement values after impact of netting contacts Total at 31 December 2017	–	**606 930**	**123 204**	**730 134**
Positive replacement values after impact of netting contacts Total at 31 December 2016	–	1 441 348	99 401	1 540 749

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

Breakdown of financial investments

Debt securities	Book value		Fair value	
	2017 CHF	2016 CHF	2017 CHF	2016 CHF
of which bonds held to maturity	*31 355 104*	*39 314 705*	*31 571 555*	*39 474 808*
Total	**31 355 104**	**39 314 705**	**31 571 555**	**39 474 808**
including securities eligible for repo transactions in accordance with liquidity regulations	31 355 104	39 314 705	31 571 555	39 474 808

Breakdown of countreparties by Fitch rating

2017	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	**31 355 104**	**–**	**–**	**–**	**–**	**–**
2016						
Debt securities: Book value of bonds held to maturity	39 314 705	–	–	–	–	–

Presentations of participations

Participations	2016			2017			
	Cost value CHF	Value adjustment CHF	Book value at end of year CHF	Additions CHF	Disposals Reimbursement CHF	Value adjustment CHF	Book value at end of year CHF
Without listed value	3 920 294	–	3 920 294	265 023*	–	–	4 185 317
Total participations	**3 920 294**	**–**	**3 920 294**	**265 023***	**–**	**–**	**4 185 317**

*This amount relates to the increase of Dukascopy Japan K.K. capital (CHF 264'038) and to the creation of Dukascopy Ltd (CHF 985).

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

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

Participations	2017					
	Activity	Share capital CHF	Head office	Share capital in %	Share vote in %	Held directly
SWFX-Swiss FX Marketplace SA	dormant	100 000	Geneva	100	100	100
Dukascopy Europe IBS AS	brokerage	1 479 241	Riga	100	100	100
Dukascopy Community SA	social media	100 000	Geneva	100	100	100
Dukascopy Payments AS	e-money	827 735	Riga	100	100	100
Dukascopy Japan K.K.	brokerage	5 752 297	Tokyo	100	100	100
Dukascopy International Ltd	dormant	329 475	Limassol	100	100	100
Dukascopy Ltd	dormant	985	Belize	100	100	100
	2016					
SWFX-Swiss FX Marketplace SA	dormant	100 000	Geneva	100	100	100
Dukascopy Europe IBS AS	brokerage	1 479 241	Riga	100	100	100
Dukascopy Community SA	social media	100 000	Geneva	100	100	100
Dukascopy Payments AS	e-money	827 735	Riga	100	100	100
Dukascopy Japan K.K.	brokerage	5 488 259	Tokyo	100	100	100
Dukascopy International Ltd	dormant	329 475	Limassol	100	100	100

Presentations of tangible fixed assets

	2016			2017			
	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	22 778 824	(22 759 877)	18 947	220 187	–	(36 092)	203 042
Other tangible fixed assets	8 740 606	(7 768 963)	971 643	870 288	–	(541 374)	1 300 557
Total fixed assets	**31 519 430**	**(30 528 840)**	**990 590**	**1 090 475**	**–**	**(577 466)**	**1 503 599**

On the 1st of January 2017 the method of amortization of IT hardware, vehicles and software was changed from degressive to straight-line basis; estimated operating life cycles weren't changed. If we applied this method from January 1, 2016 this would resulted in an increase of depreciation in 2016 by CHF 29'049. Comparative figures haven't been adapted.

Leasing

	2018 CHF	2019 CHF	2020 CHF	2021 CHF	2022 CHF	2023 CHF
Future leasing installments arising from operating leases	**1 795 805**	**1 354 893**	**911 026**	**341 342**	**305 765**	**167 894**
of which, may be terminated within one year	*140 746*	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

Breakdown of other assets and liabilities

Other assets	**2017 CHF**	**2016 CHF**
Wire transfers	243 429	24 035
Total other assets	**243 429**	**24 035**
Other liabilities		
Wire transfers	154 880	186 537
Indirect taxes to be paid	478 574	373 770
Others	25	–
Total other liabilities	**633 479**	**560 307**

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

	2017		**2016**	
	Book value of pledged assets and assets assigned as collateral CHF	**Effective commitments CHF**	**Book value of pledged assets and assets assigned as collateral CHF**	**Effective commitments CHF**
Swiss and US government bonds	30 295 009	4 334 290	30 758 644	7 126 738
Margin accounts assigned as collateral	13 561 942	5 678 525	15 816 443	11 277 276
Deposits made with banks to secure guarantees	219 524	219 524	223 577	223 577
Total	**44 076 475**	**10 232 339**	**46 798 664**	**18 627 591**

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 (2016: nil). The overfunding in the pension fund is based on its unaudited accounts as of 31 December 2017 (coverage ratio is 118%). Based on the last audited financial statements of the Caisse Inter-Entreprises-CIEPP as at 31 December 2016, the coverage ratio was 114% (31 December 2015: 111.9%).
There is no pension fund for the other foreign representation offices of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

Presentation of economic benefit / obligation and the pension expenses

	Over or underfunding 31.12.17	Economic interest of the Bank		Change in economic interest versus prior year	Contributions paid for 2017	Pension expenses in personnel expenses	
		2017	2016			2017	2016
Pension plans with overfunding	–	–	–	–	324 743	324 743	326 353

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

	Balance at 31 December 2016 CHF	Use in conformity with designated purpose CHF	Reclassifi-cations CHF	Currency differences CHF	Recoveries, past due interest CHF	New creations charged to income CHF	Releases to income CHF	Balance at 31 December 2017 CHF
Provisions for other business risks	248 412	(218 079)	–	–	–	–	–	30 333
Total provisions	**248 412**	**(218 079)**	–	–	–	–	–	**30 333**
Reserves for general banking risks	**2 800 000**	–	–	–	–	–	(2 800 000)	–
Value adjustments for default risks and country risks – of which, value adjustments for default risks in respect of impaired loans/receivables	**6 486**	–	–	–	–	–	–	**6 486**

Provisions for other business risks include provisions for legal fees and litigations arising out of the normal conduct of Dukascopy Bank's activities.
Provisions are valued according to the best estimate principle.

Presentation of the Bank's capital

	2017			2016		
	Total par value CHF	Number of shares CHF	Capital eligible for dividend CHF	Total par value CHF	Number of shares CHF	Capital eligible for dividend CHF
Share capital	22 000 000	21 712 000	22 000 000	22 000 000	21 712 000	22 000 000
Registred shares	22 000 000	21 712 000	22 000 000	22 000 000	21 712 000	22 000 000
of which, paid up	*22 000 000*	*21 712 000*	*22 000 000*	*22 000 000*	*21 712 000*	*22 000 000*
Total Bank's capital	**22 000 000**	**21 712 000**	**22 000 000**	**22 000 000**	**21 712 000**	**22 000 000**

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

Disclosure of amounts due from/to related parties

	2017		2016	
	Amounts due from CHF	Amounts due to CHF	Amounts due from CHF	Amounts due to CHF
Holders of qualified participations	228 550	585	–	–
Group companies	242 011	6 553 360	33 943	6 408 800
Linked companies	–	–	–	–
Transactions with members of governing bodies	–	120	–	–
Other related parties	33 534	46 594	–	29

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

Disclosure of holders of significant participations

	2017			
With voting rights	Nominal CHF	Number of shares CHF	% of equity in %	Capital eligible for dividend CHF
Dr. Andrey Duka	10 890 000	10 746 000	49.5	10 890 000
Veronika Duka	10 890 000	10 746 000	49.5	10 890 000

With voting rights	2016			
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

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

Presentation of the maturity structure of financial instruments

ASSETS	At sight CHF	Cancell-able CHF	Due Within 3 months CHF	Due Within 3 to 12 months CHF	Due Within 1 to 5 years CHF	Due Over 5 years CHF	Due No maturity CHF	Total CHF
Liquid assets	18 777 862	–	–	–	–	–	–	18 777 862
Amounts due from banks	83 024 846	219 524	–	–	–	–	–	83 244 370
Amounts due from customers	441 194	85 602	–	–	63 349	–	–	590 145
Positive replacement values of derivative financial instruments	730 134	–	–	–	–	–	–	730 134
Financial investments	–	–	11 695 888	–	12 480 830	7 178 386	–	31 355 104
Total current assets at 31 December 2017	**102 974 036**	**305 126**	**11 695 888**	–	**12 544 179**	**7 178 386**	–	**134 697 615**
Total current assets at 31 December 2016	113 812 889	288 109	–	14 246 900	25 067 805	–	–	153 415 703
Third-party liabilities								
Amounts due to banks	16 277 194	–	–	–	–	–	–	16 277 194
Amounts due in respect of customer deposits	89 249 356	–	–	–	–	–	–	89 249 356
Negative replacement values of derivative financial instruments	703 404	–	–	–	–	–	–	703 404
Total third-party liabilities at 31 December 2017	**106 229 954**	–	–	–	–	–	–	**106 229 954**
Total third-party liabilities at 31 December 2016	119 219 002	–	–	–	–	–	–	119 219 002

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

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

ASSETS	2017			2016		
in CHF ('000)	Domestic	Foreign	Total	Domestic	Foreign	Total
Liquid assets	15 330	3 448	18 778	9 010	16 134	25 144
Amounts due from banks	68 092	15 152	83 244	64 755	22 268	87 023
Amounts due from customers	276	314	590	220	173	393
Positive replacement values of derivative financial instruments	49	681	730	648	892	1 540
Financial investments	19 659	11 696	31 355	27 081	12 234	39 315
Accrued income and prepaid expenses	2 272	1 130	3 402	1 277	1 128	2 405
Participations	200	3 985	4 185	200	3 720	3 920
Tangible fixed assets	865	639	1 504	647	344	991
Other assets	244	–	244	24	–	24
Total assets	**106 987**	**37 045**	**144 032**	**103 862**	**56 893**	**160 755**
LIABILITIES						
Amounts due to banks	–	16 277	16 277	–	22 767	22 767
Amounts due in respect of customer deposits	9 552	79 698	89 250	7 610	87 733	95 343
Negative replacement values of derivative financial instruments	325	378	703	41	1 069	1 110
Accrued expenses and deferred income	1 376	299	1 675	2 057	524	2 581
Other liabilities	633	–	633	560	–	560
Provisions	30	–	30	248	–	248
Reserves for general banking risks	–	–	–	2 800	–	2 800
Bank's capital	22 000	–	22 000	22 000	–	22 000
Statutory retained earnings reserve	679	–	679	553	–	553
Profit carried forward	12 668	–	12 668	10 279	–	10 279
Profit of the year	117	–	117	2 514	–	2 514
Total liabilities	**47 380**	**96 652**	**144 032**	**48 662**	**112 093**	**160 755**

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

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

ASSETS	2017		2016	
	Absolute CHF ('000)	Share %	Absolute CHF ('000)	Share %
Switzerland	106 987	74.3	103 862	64.6
Europe excluding Switzerland	21 254	14.8	40 515	25.2
USA and Canada	12 185	8.5	13 131	8.2
Others	3 606	2.4	3 247	2.0
Total	**144 032**	**100.0**	**160 755**	**100.0**

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

SERV Rating	2017		2016	
	Absolute CHF ('000)	Share %	Absolute CHF ('000)	Share %
1	34 072	92.0	54 398	95.6
2	2	0.0	55	0.1
3	523	1.4	441	0.8
4	32	0.1	39	0.1
5	2 028	5.5	1 648	2.9
6	58	0.1	57	0.1
7	259	0.7	199	0.3
without rating	71	0.2	56	0.1
Total	**37 045**	**100.0**	**56 893**	**100.0**

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

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	15 330	3 448	–	–	–	–	18 778
Amounts due from banks	6 456	4 678	57 818	7 041	327	6 924	83 244
Amounts due from customers	257	199	95	8	–	31	590
Positive replacement values of derivative financial instruments	730	–	–	–	–	–	730
Financial investments	19 659	–	11 696	–	–	–	31 355
Accrued income and prepaid expenses	2 235	213	852	25	–	77	3 402
Participations	4 185	–	–	–	–	–	4 185
Tangible fixed assets	1 504	–	–	–	–	–	1 504
Other assets	92	3	147	1	–	1	244
Total assets	**50 448**	**8 541**	**70 608**	**7 075**	**327**	**7 033**	**144 032**
Claims arising from spot exchange and swap transactions	119 446	537 537	783 750	145 278	145 751	275 486	2 007 248
Total at 31 December 2017	**169 894**	**546 078**	**854 358**	**152 353**	**146 078**	**282 519**	**2 151 280**
LIABILITIES							
Amounts due to banks	202	5 627	8 625	388	812	623	16 277
Amounts due in respect of customer deposits	9 940	23 605	45 170	4 573	103	5 859	89 250
Negative replacement values of derivative financial instruments	703	–	–	–	–	–	703
Accrued expenses and deferred income	968	448	213	11	–	34	1 674
Other liabilities	570	20	37	1	–	6	634
Provisions	30	–	–	–	–	–	30
Reserves for general banking risks	–	–	–	–	–	–	–
Bank's capital	22 000	–	–	–	–	–	22 000
Statutory retained earnings reserve	679	–	–	–	–	–	679
Profit carried forward	12 668	–	–	–	–	–	12 668
Profit of the year	117	–	–	–	–	–	117
Total liabilities	**47 877**	**29 700**	**54 045**	**4 973**	**915**	**6 522**	**144 032**
Delivery obligations arising from spot exchange and swap transactions	118 322	455 913	855 088	149 024	156 240	272 661	2 007 248
Total at 31 December 2017	166 199	**485 613**	**909 133**	**153 997**	**157 155**	**279 183**	**2 151 280**
Net position by currency	3 695	60 465	(54 775)	(1 644)	(11 077)	3 336	–

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

Breakdown of contingent assets and contingent liabilities

Contingent assets	2017 CHF	2016 CHF
Other contingent assets	–	–
Total contingent assets	**–**	**–**
Contingent liabilities		
Other contingent liabilities	236 041	123 733
Total contingent liabilities	**236 041**	**123 733**

Breakdown of the result from trading activities

Trading income	2017 CHF	2016 CHF
Leveraged margin trading	27 814 990	32 130 552
Binary options	769 983	583 540
Total	**28 584 973**	**32 714 092**

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017

Breakdown by underlying risk

Result from trading activities from:	2017 CHF	2016 CHF
Equity securities	1 986 656	1 864 703
Foreign currency	23 113 809	24 970 666
Commodities / precious metals	3 484 508	5 878 722
Total	**28 584 973**	**32 714 092**

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

Negative interest	2017 CHF	2016 CHF
Negative interest on credit operations	76 270	50 992
Negative interest on deposits	–	7 240

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

Breakdown of personnel expenses

Personnel expenses	2017 CHF	2016 CHF
Salaries	10 465 408	10 515 798
of which, expenses relating to share-based compensation and alternative forms of variable compensation	–	–
Benefits	2 369 601	2 124 634
Other personnel expenses	99 511	64 104
Total personnel expenses	**12 934 520**	**12 704 536**

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

Breakdown of general and administrative expenses

General and administrative expenses	2017 CHF	2016 CHF
Premises	2 479 058	2 226 100
IT related expenses	2 566 309	2 601 432
Legal and consulting	1 087 931	1 138 456
Post, telecommunications and data	678 631	602 233
Expenses for vehicles	79 185	51 318
Office supply	247 216	197 476
Audit fees	262 440	262 980
of which for financial and regulatory audits	*262 440*	*262 980*
of which for other services	–	–
Marketing and communication	8 438 563	7 767 097
Travels	1 222 684	999 900
Others	505 015	418 121
Total general and administrative expenses	**17 567 032**	**16 265 113**

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

	2017 CHF	2016 CHF
Operational loss	413 000	–
Release of Reserves for general banking risks	2 800 000	–

Operational loss is the result of settlements of two litigations.
General banking risks reserve has been released to cover settlement of litigation and to compensate unfavorable litigation and to compensate unfavorable changes in market environment and conditions.

Explanations regarding extraordinary income and expenses

Extraordinary income	2017 CHF	2016 CHF
Disposal of fully depreciated fixed assets	35 000	–
Total extraordinary income	**35 000**	–

There was no extraordinary expense in 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2017

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

	2017		2016	
	Domestic CHF	Foreign CHF	Domestic CHF	Foreign CHF
Subtotal net result for interest operations	113 774	–	124 116	–
Subtotal result from commission business and services	374 255	–	375 804	–
Result from trading activities	28 584 973	–	32 714 092	–
Personnel expenses	(7 038 205)	(5 896 315)	(7 676 240)	(5 028 296)
General and administrative expenses	(8 059 942)	(9 507 090)	(8 898 618)	(7 366 495)
Subtotal operating expenses	**(15 098 147)**	**(15 403 405)**	**(16 574 858)**	**(12 394 791)**
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	(332 109)	(245 357)	(342 260)	(210 297)
Changes to provisions and other value adjustments and losses	(413 000)	–	(117 800)	–
Operating result	**13 229 746**	**(15 648 762)**	**16 179 094**	**(12 605 088)**

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

	2017 CHF	2016 CHF
Current tax expenses	(299 242)	(1 059 747)
Total taxes	**(299 242)**	**(1 059 747)**

	2017	2016
Average tax rate	**-12,4%**	**29,7%**

Negative average tax rate is explaned 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 11 to 38 of this report) for the year ended 31 December 2017.

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 2017 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, 26 April 2018

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

MANDATORY PUBLICATION

as at 31 December 2017

Presentation of the capital adequacy

	2017 CHF ('000)	2016 CHF ('000)
Bank's capital	22 000	22 000
Statutory retained earnings reserve	679	553
Reserves for general banking risks	–	2 100
Profit carried forward	12 667	10 279
./. Participations	(4 185)	(3 920)
Total eligible capital (CET1)	**31 161**	**31 012**

2017	Used approach*		Required capital CHF ('000)
Credit risks	Swiss standardised		2 161
Risks without counterparty	Swiss standardised		752
Market risks	standardised		9 040
of which on currencies	*standardised*	*7 180*	
of which on equity instruments	*standardised*	*629*	
of which on gold and commodities	*standardised*	*1 231*	
Operational risks	basic indicator		4 862
Total required capital			**16 815**
Total required capital included buffer 10.5%			**22 070**
Surplus of eligible capital			**9 091**
RWA			**210 184**

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

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

MANDATORY PUBLICATION

as at 31 December 2017

Capital adequacy disclosures: capital ratios

	2017	2016
CET 1 Capital Ratio	14.83%	18.11%
T1 ratio	14.83%	18.11%
Ratio regarding the regulatory capital	14.83%	18.11%
CET1 requirements according to CAO	5.75%	5.13%
Of which capital buffers according to CAO	*1.25%*	*0.63%*
Of which countercyclical buffers	*0.00%*	*0.00%*
Available CET1 to cover the minimum and buffer requirements, after deducting AT1 and T2 requirements which are fulfilled with CET1	11.33%	14.61%
Capital target ratios for CET1 as per the FINMA circ. 11/2 plus the countercyclical buffer	7.00%	7.00%
Available CET1	11.33%	14.61%
Capital target ratios for T1 as per the FINMA circ. 11/2 plus the countercyclical buffer	8.50%	8.50%
Available T1	12.83%	16.11%
Regulatory capital target ratios according to the FINMA circ. 11/2 plus the countercyclical buffer	10.50%	10.50%
Available regulatory capital	14.83%	18.11%

Capital adequacy disclosures: leverage ratio

	2017	2016
Tier 1 capital	31 161	31 012
Exposure Measure	144 315	162 199
Leverage Ratio	21.6%	19.1%

Medium short-term liquidity coverage ratio LCR

	2017	2016
LCR Q1	407.0%	344.3%
LCR Q2	313.0%	348.4%
LCR Q3	338.2%	309.9%
LCR Q4	277.7%	310.1%

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as at 31 December 2017

ASSETS	31.12.2017 CHF	31.12.2016 CHF
Liquid assets	18 777 862	25 143 768
Amounts due from banks	90 974 844	91 044 598
Amounts due from customers	814 672	599 147
Positive replacement values of derivative financial instruments	740 683	1 570 122
Financial investments	31 355 104	39 314 705
Accrued income and prepaid expenses	3 862 242	2 826 155
Non-consolidated participations	1 358 195	1 357 210
Tangible fixed assets	1 523 204	1 025 700
Other assets	253 257	30 504
TOTAL ASSETS	**149 660 063**	**162 911 909**
LIABILITIES	**CHF**	**CHF**
Amounts due to banks	10 615 554	17 014 296
Amounts due in respect of customer deposits	101 083 691	103 432 543
Negative replacement values of derivative financial instruments	714 150	1 141 982
Accrued expenses and deferred income	2 042 632	2 914 792
Other liabilities	697 738	615 591
Provisions	30 333	948 412
Reserves for general banking risks	–	2 100 000
Bank's capital	22 000 000	22 000 000
Retained earnings reserve	12 503 831	10 794 138
Currency translation reserve	296 963	240 462
Consolidated result of the year	(324 829)	1 709 693
TOTAL LIABILITIES	**149 660 063**	**162 911 909**

CONSOLIDATED OFF-BALANCE SHEET TRANSACTIONS

as at 31 December 2017

Off–balance sheet commitments	31.12.2017 CHF	31.12.2016 CHF
Contingent liabilities	236 041	123 733
Irrevocable commitments	856 000	856 000

CONSOLIDATED STATEMENT OF INCOME

for the year ended 31 December 2017

Result from interest operations	31.12.2017 CHF	31.12.2016 CHF
Interest and discount income	11 775	(5 257)
Interest and dividend income from financial investments	728 258	1 058 834
Interest expense	(626 259)	(929 443)
Gross result from interest operations	**113 774**	**124 134**
Changes in value adjustments for default risks and losses from interest operations	–	134 055
Subtotal net result from interest operations	**113 774**	**258 189**

Result from commission business and services		
Commission income from other services	727 024	667 121
Commission expense	(344 809)	(291 364)
Subtotal result from commission business and services	**382 215**	**375 757**

Result from trading activities	**31 115 496**	**34 730 544**

Operating expenses		
Personnel expenses	(14 965 963)	(14 830 329)
General and administrative expenses	(18 467 627)	(17 060 590)
Subtotal operating expenses	**(33 433 590)**	**(31 890 919)**

Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	(593 056)	(566 952)
Changes to provisions and other value adjustments, and losses	(413 791)	(119 100)
Operating result	**(2 828 952)**	**2 787 519**

Extraordinary income	35 000	–
Changes in reserves for general banking risks	2 100 000	–
Taxes	369 123	(1 077 826)
Consolidated result of the year	**(324 829)**	**1 709 693**

CONSOLIDATED CASH FLOW STATEMENT

as at 31 December 2017

Cash flow from operating activities (internal financing)	**2017**		**2016**	
	Cash in-flow CHF ('000)	**Cash out-flow CHF ('000)**	**Cash in-flow CHF ('000)**	**Cash out-flow CHF ('000)**
Result of the year	–	325	1 710	–
Change in reserves for general banking risks	–	2 100	–	–
Value adjustement on participations, depreciation and amortization of tangible fixed assets and intangible assets	593	–	567	–
Provisions and other value adjustments	–	918	–	52
Accrued income and prepaid expenses	–	1 036	959	–
Accrued expenses and differred income	–	872	337	–
Other items	–	141		240
Subtotal	**593**	**5 392**	**3 573**	**292**
Cash flow from shareholder's equity transactions				
Recognised in reserves	57	–	178	–
Subtotal	**57**	**–**	**178**	**–**
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets				
Participations	–	1	–	549
Other tangible fixed assets	–	1 091	–	662
Subtotal	**–**	**1 092**	**–**	**1 211**
Cash flow from banking operations				
Medium and long-term business (> 1 year)				
Financial instruments	12 587	7 178	14 985	–
Amounts due from customers	–	63	–	–
Short-term business				
Amounts due to banks	–	6 398	–	17 217
Amounts due in respect of customer deposits	–	2 349	–	6 956
Negative replacement values of derivative financial instuments	–	428	367	–
Amounts due from banks	70	–	8 522	–
Amounts due from customers	63	216	418	–
Positive replacement values of derivative financial instuments	829	–	–	795
Financial instruments	14 247	11 696	–	14 247
Liquidity				
Liquid assets	6 366	–	12 675	–
Subtotal	**34 162**	**28 328**	**36 967**	**39 215**
Total	**34 812**	**34 812**	**40 718**	**40 718**

PRESENTATION OF THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 December 2017

	Bank's capital CHF	Reserves for general banking risks CHF	Currency translation reserve CHF	Retained earning reserve CHF	Consolidated profit for the year CHF	TOTAL CHF
Equity at start of current period	**22 000 000**	**2 100 000**	**240 462**	**10 794 138**	**1 709 693**	**36 844 293**
Allocation of previous year result	–	–	–	–	–	–
- Allocation to Retained earnings reserve	–	–	–	1 709 693	(1 709 693)	–
Other allocations to (transfer from) the Reserves for general banking risks	–	(2 100 000)	–	–	–	(2 100 000)
Others	–	–	56 501	–	–	56 501
Profit (result of the year)	–	–	–	–	(324 829)	(324 829)
Equity at end of current period	**22 000 000**	–	**296 963**	**12 503 831**	**(324 829)**	**34 475 965**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

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 2017

2.2. Changes to accounting principles and valuation method

On the 1st of January 2017, the method of amortization of IT hardware, vehicles and software was changed from degressive to linear basis; estimated operating life cycles weren't changed. If we applied this method from January 1, 2016 this would resulted in an increase of depreciation in 2016 by CHF 34'300. Taking into account that the impact is not significant, but the workload related to it is very considerable, the comparative figures for 2016 have not been adapted.

Financial instruments

a. Liquid assets

Liquid assets are recognized at their nominal value.

b. Amounts due from banks and amounts due from customers

They are recognized at their nominal value less any necessary value adjustments. Amounts due in respect of precious metal account deposits are valued at fair value.
The Group is not active in credit activities. However, loans and advances on salaries may be granted to employees of the Bank and amounts receivable from clients may appear in the normal course of the Bank's core activities.
Doubtful receivables, i.e. obligations entered with clients for which the debtor is unlikely to meet its future obligations, are valued individually and depreciated by means of individual value adjustments. Impaired receivables and any collateral obtained are valued at their liquidation value, and any adjustments in value are made in light of the debtors' creditworthiness. If the repayment of a loan depends exclusively on the proceeds of the collateral, a value adjustment is made for the entire unsecured portion of the receivable. If a receivable is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

The realized result from trading operations and the unrealized result from valuations relating to trading operations are recorded via the item "Result from trading operations".

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

Use of swaps
The Group uses currency swaps to rollover spot foreign exchange 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".
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 indictors exist, the recoverable amount is calculated. The recoverable amount is calculated for each individual asset. The recoverable amount is the higher amount of the net selling price and the value in use.
An asset is impaired if its carrying amount exceeds its recoverable amount. If the asset is impaired, the book value is reduced to match the recoverable amount and the impairment is charged via the item "Value adjustments on participations and 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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

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
- Furnitures	4 years, on a linear basis
- IT hardwares	3 years, on a linear* basis
- Vehicles	5 years, on a linear* basis
- Softwares	5 years, on a linear* basis

Acquisition costs of tangible fixed assets acquired during the year are depreciated at the same rate on a prorata basis.
Objects used by the Group as the lessees as part of a finance lease are recorded via the item "Tangible fixed assets" at cash purchase value. The leasing liabilities are disclosed, depending on the counterparty, in the items "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.

* on a degressive basis until 01 January 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

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 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. A contrario, there is a liability if, owing to a shortfall in the pension fund, the Group wants or has to participate in the financing of the pension fund. The Group assesses whether there is an economic benefit or economic obligation arising from pension schemes as of the consolidated balance sheet date. The assessment is based on the contracts and financial statements of the pension funds (established under Swiss GAAP FER 26 in Switzerland).
The identified economic benefits (including the employer contribution reserves without a waiver of use) are recorded in "Other assets". If an economic obligation is identified for an individual pension fund, it is recorded in "Provisions". The differences with the corresponding value of the prior period are recorded in the consolidated statement of income in "Personnel expenses".

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

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

		2017 CHF	2016 CHF
USD	1.00	0.97460	1.01870
EUR	1.00	1.16930	1.07190
GBP	1.00	1.31720	1.25645
CAD	1.00	0.77470	0.75765
JPY	1.00	0.00864	0.00870
AUD	1.00	0.76100	0.73385
NZD	1.00	0.69100	0.70510
NOK	1.00	0.11877	0.11785
SEK	1.00	0.11908	0.11192
SGD	1.00	0.72889	0.70363

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

		2017 CHF	2016 CHF
EUR	1.00	1.11195	1.09002
JPY	1.00	0.00878	0.00908

3. Risk Management

Due to its core business consisting in offering fully automated (Straight-Through-Processing) brokerage services via innovative in-house developed IT solutions, the Group is mostly subject to operational, market and legal risks. The Bank provides IT and trading technology to all Group companies under white labeling agreements. Besides, the Bank is the sole Group company which is allowed to take market risks. As a consequence, operational and market risks of the Group are concentrated at the Bank. Since the Group is not active in credit activities and only executes client orders based on collateral (client margin deposits and bank guarantees), its credit risk exposure is normally limited to possible default of institutional trading counterparties.

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

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

The Bank's Board of Directors is the supreme governing body of the risk management organization of the Group. It has established an analysis of the main risks the Bank and the Group are exposed to. Based on its risk analysis, the Board of Directors has adopted a General Risk Policy aiming at limiting and managing the main risks affecting the Bank where most of the Group's

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

risks are concentrated. In addition, the Board of Directors has adopted Group risk limits and an internal regulation governing the consolidated supervision of the Group by the Bank. The General Risk Policy defines the risk appetite, the main risk limits and features of the risk measurement and risk management of the Bank. The Board of Directors monitors compliance with the limits as well as the implementation of the risk policy based on a comprehensive quarterly reporting on risks and Group consolidated supervision.
The executive management of each Group company is responsible for the execution of the Group and local policies. It ensures a suitable risk management organization is in place as well as the use of an adequate risk monitoring system. It monitors the use of limits and ensures that an adequate internal reporting is in place, including to the attention of the Bank's officers in charge of the Group consolidated supervision. The Group and local risk control and compliance functions are independent of business operations. They monitor all risks as the second line of defense and establish most of the quarterly reporting about risks to the local and Bank's executive management and Board of Directors.

Operational risks
Operational risks are defined as the risk of losses due to inadequacy or failure of internal procedures, people and systems or due to external events. This definition includes risks related to client data confidentiality and legal risks, including fines by supervisory authorities and settlements. As Group offering highly automated services accessible through the Internet, the Group much relies on IT systems and Internet connections to operate. Automation brings high efficiency, eliminates human errors but at the same time means dependency on the availability and integrity of IT systems and Internet connections that the Group protects through advanced security solutions and permanent monitoring of the system components.
The operational risks are measured by calculating the probability and extent of possible financial damages due to negative events such as an error in client order execution or the breach of a regulation (compliance risk). The Bank has documented operational risks and key controls aiming at mitigating such risks (e.g. four eyes principle, reconciliations, automated controls, internal regulation, etc.) in a systematic manner via an internal regulation which is approved annually by the Board of Directors and based on the FINMA circular 2008/21. The operational risk management framework also includes a Business Continuity Management (BCM) documentation, which rules the maintenance or the resumption of business operations in case of occurrence of critical situations such as a natural disaster affecting the Bank or Group companies. The effectiveness of the Business Continuity Management of the Bank is tested annually. In other Group entities, the BCM documentation is adapted to local operations and applicable regulation.
The Bank establishes risk indicators, mainly based on operational incidents and losses which allow the Bank's risk control function to report about operational risks in a systematic and objective way to the Bank's executive management and Board of Directors.
The management of operational risks is one of the priorities of the Group since it has a direct effect on its stability and attractiveness as trusty service provider.

Market risks – trading operations
Due to the Group's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

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

Market risks – other currency risks

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

Market risks – interest rate risks

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

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 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

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	–	29 847	791 311	821 158
Total at 31 December 2017 (before netting with value adjustments)	**–**	**29 847**	**791 311**	**821 158**
Total at 31 December 2016 (before netting with value adjustments)	–	30 440	575 193	605 633
Total at 31 December 2017 (after netting with value adjustments)	**–**	**29 847**	**784 825**	**814 672**
Total at 31 December 2016 (after netting with value adjustments)	–	30 440	568 707	599 147

Off-balance sheet commitments	**Secured by mortgages CHF**	**Other collateral CHF**	**Unsecured CHF**	**Total CHF**
Contingent liabilities*	–	236 041	–	236 041
Irrevocable commitments	–	–	856 000	856 000
Total at 31 December 2017	**–**	**236 041**	**856 000**	**1 092 041**
Total at 31 December 2016	–	123 733	856 000	979 733

*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 2017	**6 486**	**–**	**6 486**	**6 486**
Total at 31 December 2016	6 486	–	6 486	6 486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

Presentation of derivative financial instruments (assets and liabilities)

OTC transactions	Trading instruments		
	Positive replacement values CHF	Negative replacement values CHF	Contract volumes CHF
Currencies:			
- forward contracts*	1 004 432	1 063 858	556 588 676
- swaps	1 098 806	1 090 258	1 402 432 347
Total currencies	**2 103 238**	**2 154 116**	**1 959 021 023**
Precious metals:			
- forward contracts*	25 514	–	2 670 535
- swaps	48 435	458	30 407 011
Total precious metals	**73 949**	**458**	**33 077 546**
Equity securities and indices:			
- CFD	6 357	15 702	10 516 521
Total equity securities and indices	**6 357**	**15 702**	**10 516 521**
Others:			
- CFD	13 877	612	4 445 953
Total others	**13 877**	**612**	**4 445 953**
Total at 31 December 2017 before impact of netting contracts	**2 197 421**	**2 170 888**	**2 007 061 043**
Total at 31 December 2016 before impact of netting contracts	4 802 617	4 374 477	2 785 374 738
Total at 31 December 2017 after impact of netting contracts	**740 683**	**714 150**	
Total at 31 December 2016 after impact of netting contracts	1 570 122	1 141 982	

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

Breakdown by counterparty

	Central clearing houses	Banks and securities dealers	Others customers	Total
Positive replacement values after impact of netting contacts Total at 31 December 2017	–	**596 046**	**144 637**	**740 683**
Positive replacement values after impact of netting contacts Total at 31 December 2016	–	1 433 574	136 548	1 570 122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

Breakdown of financial investments

Debt securities	Book value		Fair value	
	2017 CHF	**2016 CHF**	**2017 CHF**	**2016 CHF**
of which bonds held to maturity	*31 355 104*	*39 314 705*	*31 571 555*	*39 474 808*
Total	**31 355 104**	**39 314 705**	**31 571 555**	**39 474 808**
including securities eligible for repo transactions in accordance with liquidity regulations	*31 355 104*	*39 314 705*	*31 571 555*	*39 474 808*

Breakdown of countreparties by Fitch rating

2017	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	**31 355 104**	–	–	–	–	–
2016						
Debt securities: Book value of bonds held to maturity	39 314 705	–	–	–	–	–

Presentations of non-consolidated participations

Non-consolidated participations	2016			2017			
	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	1 357 210	–	1 357 210	985*	–	–	1 358 195
Total non-consolidated participations	**1 357 210**	–	**1 357 210**	**985***	–	–	**1 358 195**

*This amount relates to the creation of Dukascopy Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

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

Consolidated participations	2017					
	Activity	Share capital CHF	Head office	Share capital in %	Share vote in %	Held directly
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
	2016					
Dukascopy Europe IBS AS	brokerage	1 479 241	Riga	100	100	100
Dukascopy Japan K.K.	brokerage	5 488 259	Tokyo	100	100	100
Non-consolidated participations						
Dukascopy Community SA	social media	100 000	Geneva	100	100	100
Dukascopy Payments AS	e-money	827 735	Riga	100	100	100
SWFX-Swiss FX Marketplace SA	dormant	100 000	Geneva	100	100	100
Dukascopy International Ltd	dormant	329 475	Limassol	100	100	100

The Group's scope of consolidation comprises all companies owned, either directly or indirectly, over 50% of the capital or voting rights by the Bank or which are dominant influence of the Bank by another manner, at the exception of Group companies whose integration would not have any significantly influence on the consolidated financial statements, as SWFX – Swiss FX Marketplace SA (total balance sheet CHF 82'435, net loss CHF 704), Dukascopy Community SA (total balance sheet CHF 430'075, net profit CHF 96'655), Dukascopy Payments AS (total balance sheet CHF 1'450'621, net loss 5'114), Dukascopy Ltd (total balance sheet CHF 63'920, net loss CHF 407), Dukascopy International Ltd is frozen (total balance sheet CHF 329'475). Dukascopy Europe IBS AS and Dukascopy Japan K.K. are fully integrated in consolidated financial statement of the Group.

Presentations of tangible fixed assets

	2016			2017			
	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	22 798 671	(22 774 293)	24 378	220 187	93	(40 888)	203 770
Other fixed assets	8 830 498	(7 829 177)	1 001 321	870 288	(7)	(552 168)	1 319 434
Total fixed assets	**31 629 169**	**(30 603 470)**	**1 025 699**	**1 090 475**	**86**	**(593 056)**	**1 523 204**

*Difference of change included.

On the 1st January 2017, the method of amortization of IT hardware, vehicles and software was changed from degressive to linear basis; estimated operating life cycles weren't changed. If we applied this method from January 1, 2016 this would resulted in an increase of depreciation in 2016 by CHF 34'300. Taking into account that the impact is not significant, but the workload related to it is very considerable, the comparative figures for 2016 have not been adapted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

Leasing

	2018 CHF	2019 CHF	2020 CHF	2021 CHF	2022 CHF	2023 CHF
Future leasing installments arising from operating leases	**2 262 052**	**1 820 533**	**1 166 815**	**341 342**	**305 765**	**167 894**
of which, may be terminated within one year	*140 746*	–	–	–	–	–

Breakdown of other assets and liabilities

Other assets	**2017 CHF**	**2016 CHF**
Wire transfers	252 944	30 132
Others	313	372
Total other assets	**253 257**	**30 504**
Other liabilities		
Wire transfers	159 021	196 849
Indirect taxes to be paid	483 340	373 770
Others	55 377	44 972
Total other liabilities	**697 738**	**615 591**

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

	2017		**2016**	
	Book value of pledged assets and assets assigned as collateral CHF	**Effective commitments CHF**	**Book value of pledged assets and assets assigned as collateral CHF**	**Effective commitments CHF**
Swiss and US government bonds	30 295 009	4 334 290	30 758 644	7 126 738
Margin accounts assigned as collateral*	13 561 942	5 678 525	15 816 443	11 277 276
Deposits made with banks to secure guarantees	219 524	219 524	223 577	223 577
Total	**44 076 475**	**10 232 339**	**46 798 664**	**18 627 591**

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 no identifiable economic benefit to be capitalised in the balance sheet (2016: nil). The overfunding in the pension fund is based on its unaudited accounts as of 31 December 2017 (coverage ratio is approximately 118%). Based on the last audited financial statements of the Caisse Inter-Entreprises-CIEPP as at 31 December 2016, the coverage ratio was 114% (31 December 2015: 111.9%).
The employees based in Japan are affilated to a defined contributions scheme pension fund of the Japan state. This fund does not allow any employer's contribution reserve.
There is no pension funds for the other consolidated entities of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

Presentation of economic benefit / obligation and the pension expenses

	Over/under-funding 31.12.17	Economic interest of the Bank		Change in economic interest versus prior year	Contributions paid in 2017	Pension expenses in personnel expenses	
		2017	2016			2017	2016
Pension plans with overfunding	–	–	–	–	378 468	378 468	384 051

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

	Balance at 31 December 2016 CHF	Use in conformity with designated purpose CHF	Reclassifi-cations CHF	Currency differences CHF	Recoveries, past due interest CHF	New creations charged to income CHF	Releases to income CHF	Balance at 31 December 2017 CHF
Provisions for deferred taxes	700 000	–	–	–	–	–	(700 000)	–
Provisions for other business risks	248 412	(218 079)	–	–	–	–	–	30 333
Total provisions	**948 412**	**(218 079)**	–	–	–	–	**(700 000)**	**30 333**
Reserves for general banking risks	**2 100 000**	–	–	–	–	–	**(2 100 000)**	–
Value adjustments for default risks and country risks - of which, value adjustments for default risks in respect of impaired loans/receivables	**6 486**	–	–	–	–	–	–	**6 486**

Ohter provisions include provisions for legal fees and litigations arising out of the normal conduct of Dukascopy Bank's activities.

Provisions are valued according to the best estimate principle. Reserves for general banking risks have not been taxed.

Presentation of Bank's capital

	2017			2016		
	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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

Disclosure of amounts due from/to related parties

	2017		2016	
	Amounts due from CHF	Amounts due to CHF	Amounts due from CHF	Amounts due to CHF
Holders of qualified participation	228 550	585	–	–
Group companies	231 128	880 450	26 170	650 115
Linked companies	–	–	–	–
Transactions with members of governing bodies	–	120	–	–
Other related parties	33 534	46 594	–	29

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

Disclosure of holders of significant participations

	2017			
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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

Presentation of the maturity structure of financial instruments

ASSETS	At sight CHF	Cancell-able CHF	Due					Total CHF
			Within 3 months CHF	Within 3 to 12 months CHF	Within 1 to 5 years CHF	Over 5 years CHF	No maturity CHF	
Liquid assets	18 777 862	–	–	–	–	–	–	18 777 862
Amounts due from banks	90 755 320	219 524	–	–	–	–	–	90 974 844
Amounts due from customers	442 000	309 323	–	–	63 349	–	–	814 672
Positive replacement values of derivative financial instruments	740 683	–	–	–	–	–	–	740 683
Financial investments	–	–	11 695 888	–	12 480 830	7 178 386	–	31 355 104
Total current assets at 31 December 2017	**110 715 865**	**528 847**	**11 695 888**	–	**12 544 179**	**7 178 386**	–	**142 663 165**
Total current assets at 31 December 2016	117 865 758	491 877	–	14 246 900	25 067 805	–	–	157 672 340
Third-party liabilities								
Amounts due to banks	10 615 554	–	–	–	–	–	–	10 615 554
Amounts due in respect of customer deposits	101 083 691	–	–	–	–	–	–	101 083 691
Negative replacement values of derivative financial instruments	714 150	–	–	–	–	–	–	714 150
Total third-party liabilities at 31 December 2017	**112 413 395**	–	–	–	–	–	–	**112 413 395**
Total third-party liabilities at 31 December 2016	121 588 821	–	–	–	–	–	–	121 588 821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

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

ASSETS	2017			2016		
in CHF ('000)	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Liquid assets	15 330	3 448	18 778	9 010	16 134	25 144
Amounts due from banks	68 092	22 883	90 975	64 755	26 290	91 045
Amounts due from customers	276	539	815	221	378	599
Positive replacement values of derivative financial instruments	50	691	741	648	922	1 570
Financial investments	19 659	11 696	31 355	27 081	12 234	39 315
Accrued income and prepaid expenses	2 313	1 549	3 862	1 315	1 511	2 826
Non-consolidated participations	200	1 158	1 358	200	1 157	1 357
Tangible fixed assets	865	658	1 523	647	379	1 026
Other assets	253	–	253	30	–	30
Total assets	**107 038**	**42 622**	**149 660**	**103 907**	**59 005**	**162 912**
LIABILITIES						
Amounts due to banks	–	10 616	10 616	–	17 014	17 014
Amounts due in respect of customer deposits	9 592	91 492	101 084	7 693	95 740	103 433
Negative replacement values of derivative financial instruments	325	389	714	42	1 100	1 142
Accrued expenses and deferred income	1 698	344	2 042	2 342	573	2 915
Other liabilities	698	–	698	616	–	616
Provisions	30	–	30	948	–	948
Reserves for general banking risks	–	–	–	2 100	–	2 100
Bank's capital	22 000	–	22 000	22 000	–	22 000
Retained earnings reserve	12 504	–	12 504	10 794	–	10 794
Currency translation reserve	297	–	297	240	–	240
Consolidated profit of the year	117	(442)	(325)	2 514	(804)	1 710
Total liabilities	**47 261**	**102 399**	**149 660**	**49 289**	**113 623**	**162 912**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

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

ASSETS	2017		2016	
	Absolute CHF ('000)	Share %	Absolute CHF ('000)	Share %
Switzerland	107 038	71.5	103 907	63.8
Europe excluding Switzerland	21 679	14.5	40 912	25.1
USA and Canada	12 203	8.2	13 158	8.1
Others	8 740	5.8	4 935	3.0
Total	**149 660**	**100**	**162 912**	**100**

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

SERV Rating	2017		2016	
	Absolute CHF ('000)	Share %	Absolute CHF ('000)	Share %
1	39 343	92.3	56 276	95.4
2	7	0.0	57	0.1
3	570	1.3	478	0.8
4	56	0.1	65	0.1
5	2 144	5.2	1 752	2.9
6	101	0.2	80	0.1
7	269	0.6	208	0.4
without rating	132	0.3	89	0.2
Total	**42 622**	**100**	**59 005**	**100**

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 2017

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	15 330	3 448	–	–	–	–	18 778
Amounts due from banks	6 457	4 720	57 840	7 044	7 950	6 964	90 975
Amounts due from customers	257	220	95	8	203	32	815
Positive replacement values of derivative financial instruments	741	–	–	–	–	–	741
Financial investments	19 659	–	11 696	–	–	–	31 355
Accrued income and prepaid expenses	2 236	389	1 022	54	23	138	3 862
Non-consolidated participations	1 358	–	–	–	–	–	1 358
Tangible fixed assets	1 504	–	–	–	19	–	1 523
Other assets	92	8	149	1	–	3	253
Total assets	**47 634**	**8 785**	**70 802**	**7 107**	**8 195**	**7 137**	**149 660**
Claims arising from spot exchange and swap transactions	119 445	537 535	783 605	145 256	145 756	275 438	2 007 035
Total at 31 December 2017	**167 079**	**546 320**	**854 407**	**152 363**	**153 951**	**282 575**	**2 156 695**
LIABILITIES							
Amounts due to banks	4	3 001	6 683	105	723	100	10 616
Amounts due in respect of customer deposits	10 138	25 723	47 137	4 858	6 805	6 423	101 084
Negative replacement values of derivative financial instruments	714	–	–	–	–	–	714
Accrued expenses and deferred income	969	607	239	14	178	35	2 042
Other liabilities	570	80	37	1	3	7	698
Provisions	30	–	–	–	–	–	30
Reserves for general banking risks	–	–	–	–	–	–	–
Bank's capital	22 000	–	–	–	–	–	22 000
Retained earnings reserve	12 504	–	–	–	–	–	12 504
Currency translation reserve	297	–	–	–	–	–	297
Consolidated profit of the year	(325)	–	–	–	–	–	(325)
Total liabilities	**46 901**	**29 411**	**54 096**	**4 978**	**7 709**	**6 565**	**149 660**
Delivery obligations arising from spot exchange and swap transactions	118 321	455 690	855 083	149 024	156 246	272 671	2 007 035
Total at 31 December 2017	**165 222**	**485 101**	**909 179**	**154 002**	**163 955**	**279 236**	**2 156 695**
Net position by currency	**1 857**	**61 219**	**(54 772)**	**(1 639)**	**(10 004)**	**3 339**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

Breakdown of contingent assets and contingent liabilities

Contingent assets	2017 CHF	2016 CHF
Other contingent assets	–	–
Total contingent assets	–	–
Contingent liabilities		
Other contingent liabilities	236 041	123 733
Total contingent liabilities	**236 041**	**123 733**

Breakdown of the result from trading activities

Trading income	2017 CHF	2016 CHF
Leveraged margin trading	30 242 297	34 054 668
Binary options	873 199	675 876
Total	**31 115 496**	**34 730 544**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

Breakdown by underlying risk

Result from trading activities from:	2017 CHF	2016 CHF
Equity securities	2 072 334	1 983 665
Foreign currency	25 485 547	26 802 101
Commodities / precious metals	3 557 615	5 944 777
Total	**31 115 496**	**34 730 544**

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

Negative interest	2017 CHF	2016 CHF
Negative interest on credit operations	76 270	50 992
Negative interest on deposits	–	7 240

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

Breakdown of personnel expenses

Personnel expenses	2017 CHF	2016 CHF
Salaries	11 970 420	12 077 549
of which, expenses relating to share-based compensation and alternative forms of variable compensation	–	–
Benefits	2 840 520	2 624 654
Other personnel expenses	155 023	128 126
Total personnel expenses	**14 965 963**	**14 830 329**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017

Breakdown of general and administrative expenses

General and administrative expenses	2017 CHF	2016 CHF
Premises	2 880 887	2 616 947
IT related expenses	2 577 995	2 617 294
Legal and consulting	1 215 602	1 254 822
Post, telecommunications and data	733 413	659 486
Expenses for vehicles	79 185	51 318
Office supply	259 018	213 096
Audit fees	290 076	297 444
of which for financial and regulatory audits	*290 076*	*297 444*
of which for other services	–	–
Marketing and communication	8 624 641	7 874 701
Travels	1 223 484	1 003 837
Others	583 326	471 645
Total general and administrative expenses	**18 467 627**	**17 060 590**

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

	2017 CHF	2016 CHF
Operational loss	413 000	–
Release of Reserves for general banking risks	2 100 000	–

Operational loss is the result of settlements of two litigations.
General banking risk reserve has been released to cover settlement of litigation and to compensate unfavorable litigation and to compensate unfavorable changes in market environment and conditions.

Explanations regarding extraordinary income and expenses

Extraordinary income	2017 CHF	2016 CHF
Disposal of fully depreciated fixed assets	35 000	–
Total extraordinary income	**35 000**	–

There was no extraordinary expense in 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2017

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

	2017		2016	
	Domestic CHF	**Foreign CHF**	**Domestic CHF**	**Foreign CHF**
Subtotal net result from interest operations	113 774	–	124 496	133 693
Subtotal result from commission business and services	374 255	7 960	375 804	(47)
Result from trading activities	28 584 973	2 530 523	32 714 092	2 016 452
Personnel expenses	(7 040 513)	(7 925 450)	(7 681 694)	(7 148 635)
General and administrative expenses	(8 059 947)	(10 407 680)	(8 897 255)	(8 163 335)
Subtotal operating expenses	**(15 100 460)**	**(18 333 130)**	**(16 578 949)**	**(15 311 970)**
Value adjustment on participations and depreciation and amortization of tangible fixed assets and intangible assets	(332 109)	(260 947)	(342 260)	(224 692)
Change to provisions and other value adjustments and losses	(413 000)	(791)	(118 180)	(920)
Operating result	**13 227 433**	**(16 056 385)**	**16 175 003**	**(13 387 484)**

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

	2017 CHF	**2016 CHF**
Deferred taxes	(700 000)	–
Current tax expenses	330 877	1 077 826
Total taxes	**(369 123)**	**1 077 826**

	2017	**2016**
Average tax rate	**13.0%**	**38.8%**

Positive tax rate is explaned on the one hand by the loss at operating level and on the other hand, by the release of provision for deferred taxes.

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 43 to 71 of this report) for the year ended 31 December 2017.

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 2017 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, 26 April 2018

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

MANDATORY PUBLICATION

as at 31 December 2017

Presentation of the capital adequacy

	2017 CHF ('000)	2016 CHF ('000)
Bank's capital	22 000	22 000
Currency translation reserve	297	240
Reserves for general banking risks	–	2 100
Retained earnings reserve	12 179	10 794
./. Non-consolidated participations	(1 358)	(1 357)
Total eligible capital (CET1)	**33 118**	**33 777**

2017	**Used approach***	**Required capital CHF ('000)**	
Credit risks	Swiss standardised		2 337
Risks without counterparty	Swiss standardised		762
Market risks	standardised		8 999
of which on currencies	*standardised*	*7 139*	
of which on equity instruments	*standardised*	*629*	
of which on gold and commodities	*standardised*	*1 231*	
Operational risks	basic indicator		5 133
Total required capital			**17 231**
Total required capital included buffer 10.5%			**22 616**
Surplus of eligible capital			**10 502**
RWA			**215 388**

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

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

MANDATORY PUBLICATION

as at 31 December 2017

Capital adequacy disclosures: capital ratios

	2017	2016
CET 1 Capital Ratio	15.38%	19.61%
T1 ratio	15.38%	19.61%
Ratio regarding the regulatory capital	15.38%	19.61%
CET1 requirements according to CAO	5.75%	5.13%
Of which capital buffers according to CAO	*1.25%*	*0.63%*
Of which countercyclical buffers	*0.00%*	*0.00%*
Available CET1 to cover the minimum and buffer requirements, after deducting AT1 and T2 requirements which are fulfilled with CET1	11.88%	16.11%
Capital target ratios for CET1 as per the FINMA circ. 11/2 plus the countercyclical buffer	7.00%	7.00%
Available CET1	11.88%	16.11%
Capital target ratios for T1 as per the FINMA circ. 11/2 plus the countercyclical buffer	8.50%	8.50%
Available T1	13.38%	17.61%
Regulatory capital target ratios according to the FINMA circ. 11/2 plus the countercyclical buffer	10.50%	10.50%
Available regulatory capital	15.38%	19.61%

Capital adequacy disclosures: leverage ratio

	2017	2016
Tier 1 capital	33 118	33 777
Exposure Measure	151 317	165 757
Leverage Ratio	21.9%	20.4%

Medium short-term liquidity coverage ratio LCR

	2017	2016
LCR Q1	330.0%	380.2%
LCR Q2	403.5%	401.4%
LCR Q3	373.3%	357.0%
LCR Q4	482.7%	357.7%

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