2017 Annual Report

Financial Report
Corporate Governance Report
Remuneration Report

We are pioneers and game-changers, stimulated by the endless possibilities of re-engineering banking. Constant innovation is our key to success.
2017 was especially marked by the implementation of cryptocurrency trading.

Swissquote

Annual Report 2017
Content

The Swiss leader in online banking
www.swissquote.com

Key figures

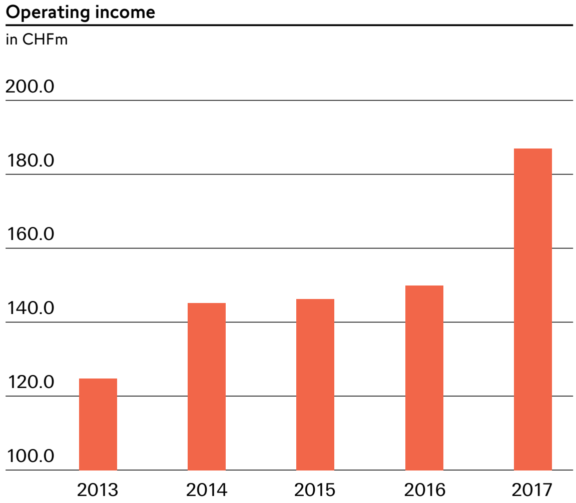
	2017	2016	2015	2014	2013
Number of accounts	309,286	302,775	231,327	221,922	216,357
% change	2.2%	30.9%	4.2%	2.6%	7.3%
Assets under custody in CHFm [1]	23,240	17,864	11,992	11,562	10,083
% change	30.1%	49.0%	3.7%	14.7%	17.5%
Client assets in CHFm [2]	24,112	18,557	11,992	11,562	10,083
% change	29.9%	54.7%	3.7%	14.7%	17.5%
Employees	593	550	524	532	507
% change	7.8%	5.0%	–1.5%	4.9%	37.8%

[1] Including cash deposited by clients

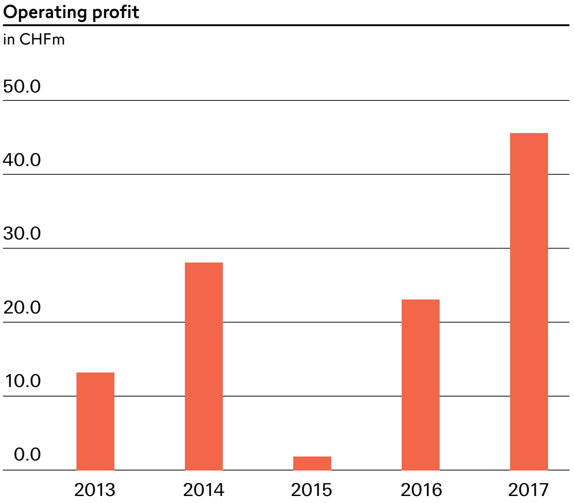
[2] Including assets that are not held for custody purposes but for which the technology of the Group gives clients access to the stock market and/or that are managed by Swissquote (Robo-Advisory technology).

in CHF thousand, except where indicated	2017	2016	2015	2014	2013
Operating income	187,756	150,245	146,622	145,524	124,871
% change	25.0%	2.5%	0.8%	16.5%	12.0%
Operating expenses	141,974	127,035	144,684	117,304	111,582
% change	11.8%	–12.2%	23.3%	5.1%	31.7%
Operating profit	45,782	23,210	1,938	28,220	13,289
% change	97.3%	1097.6%	–93.1%	112.4%	–50.3%
Operating profit margin [%]	24.4%	15.4%	1.3%	19.4%	10.6%
Net profit	39,185	20,753	2,075	23,521	11,656
% change	88.8%	900.1%	–91.2%	101.8%	–47.0%
Net profit margin [%]	20.9%	13.8%	1.4%	16.2%	9.3%
Total equity	295,148	280,834	267,670	274,362	247,941
% change	5.1%	4.9%	–2.4%	10.7%	2.8%
% of equity/total assets	5.8%	7.1%	7.2%	7.4%	7.7%
Number of shares	15,328,170	15,328,170	15,328,170	15,328,170	14,638,370
% change	–	–	–	4.7%	–
Capital ratio	26.1%	24.5%	22.0%	23.3%	20.6%

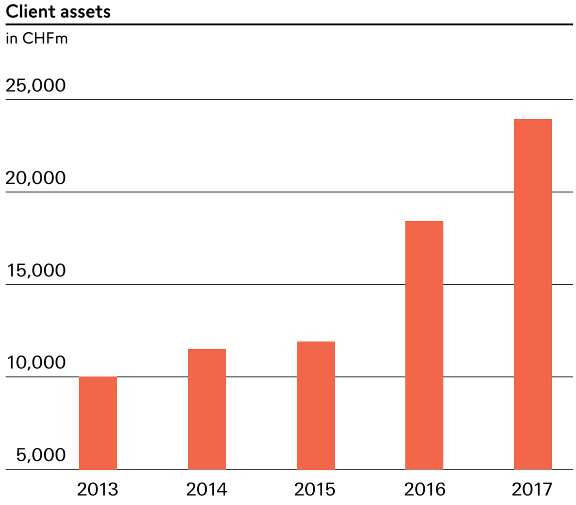
Key figures



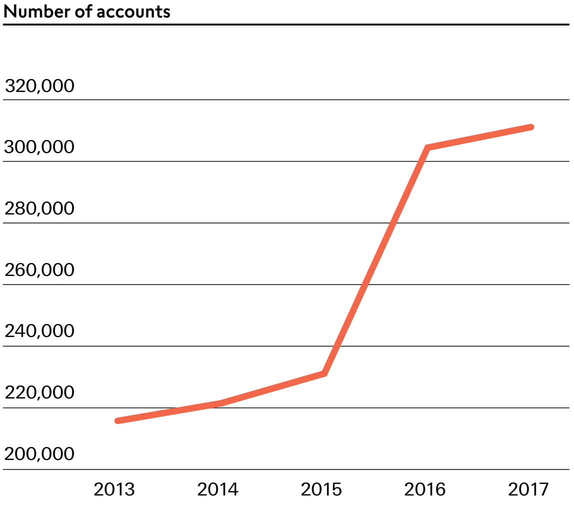
Operating income
in CHFm
200.0
180.0
160.0
140.0
120.0
100.0
2013
2014
2015
2016
2017



Operating profit
in CHFm
50.0
40.0
30.0
20.0
10.0
0.0
2013
2014
2015
2016
2017



Client assets
in CHFm
25,000
20,000
15,000
10,000
5,000
2013
2014
2015
2016
2017



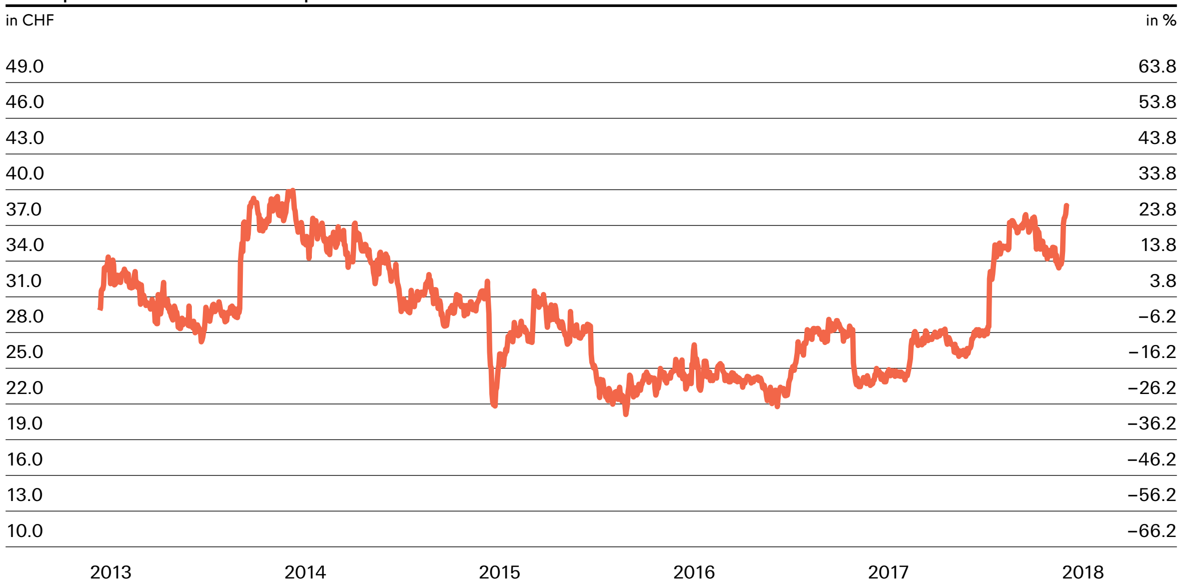
Number of accounts
320,000
300,000
280,000
260,000
240,000
220,000
200,000
2013
2014
2015
2016
2017

Swissquote share

Stock market trading

The registered shares, each with a nominal value of CHF 0.20, are listed on SIX Swiss Exchange under securities number 1067586 and ISIN CH0010675863. Their ticker symbols are: SQN (Swissquote); SQZ.S (Reuters); SQNSW (Bloomberg); SQN (Telekurs).

Development of stock market share price 2013–2017



Development of stock market share price January to December 2017

Swissquote share

	2017	2016	2015	2014	2013
Share price in CHF					
High	38.55	28.90	32.00	40.10	39.85
Low	23.30	21.50	20.55	28.00	27.00
31 December	38.15	23.85	25.25	31.20	39.15
Market capitalisation in CHF million					
High	590.9	443.0	490.5	614.7	583.3
Low	357.1	329.6	315.0	429.2	395.2
31 December	584.8	365.6	387.0	478.2	573.1
Share data in CHF					
Operating income per share	13.09	10.09	9.83	9.66	8.77
Net profit per share	2.73	1.39	0.14	1.56	0.82
Equity per share	19.26	18.32	17.46	17.90	16.94
Dividend per share	0.86 [1]	0.13	–	–	0.60
Other pay out per share	0.04 [1]	0.47	0.60	0.60	–

[1] Proposal of the Board of Directors

Report to the shareholders

Dear shareholders,

2017 was a highly successful year for Swissquote in every respect. This is reflected firstly in our record business figures:

- Operating income advanced by 25.0 percent to CHF 187.8 million.
- Net profit surged by 88.8 percent to CHF 39.2 million.
- Client assets rose by 29.9 percent to CHF 24.1 billion.
- Our capital ratio climbed by 6.5 percent to 26.1%.

Secondly, 2017 saw Swissquote's share price almost double, ending the year at CHF 38.15.

In 2018, Swissquote aims to further expand its position as Switzerland's biggest – and leading – digital bank. It will therefore be undertaking further investments in innovative fintech solutions. Despite this additional expenditure, it aims to increase its net revenues and earnings by approximately ten percent a year.

Revenues up by a 25 percent

Operating income grew by 25.0 percent to CHF 187.8 million (CHF 150.2 million) and was once again impacted by negative interest rates (-CHF 7.5 million). All four business areas contributed to the exceptional result.
Thanks to a year-on-year increase in the number of transactions by 310,000 to 2.6 million, **net fee & commission income** grew by 22.5 percent to CHF 85.2 million (CHF 69.5 million). The number of transactions per client per year remained stable at 11.0. However, other factors that contributed to the pleasing result included the growing importance of Robo-Advisory services (ePrivate Banking), successful trading in derivative products via Swiss DOTS, and trading in cryptocurrencies.
eForex income (included in net trading income) increased by 26.2 percent to CHF 66.7 million (CHF 52.8 million). The strong growth is explained by the significant increase in new clients (+29.0 percent) and the significant increase in client assets belonging to eForex clients (+45.5 percent).
Foreign exchange income (net trading income excluding eForex income) grew by 32.7 percent to CHF 22.3 million (CHF 16.8 million).
Net interest income increased on the back of growth in Lombard loans issued and steadily rising US short-term interest rates.

Near doubling of earnings

At CHF 142.0 million (CHF 127.0 million), **operating expenses** were 11.8 percent higher in 2017 than in the previous year. The increase in expenses was mainly due to continuing heavy investment in technology, marketing and staff, whose numbers grew from 550 to 593.
While operating expenses increased by CHF 14.9 million, operating income rose by CHF 37.5 million. In line with this trend of revenues and expenses, all earnings figures rose sharply: **operating profit** jumped by 97.3 percent to CHF 45.8 million (CHF 23.2 million), the operating profit margin increased to 24.4 percent (15.4 percent), **net profit** surged by 88.8 percent to CHF 39.2 million (CHF 20.8 million) and the net profit margin climbed to 20.9 percent (13.8 percent).
The **capital ratio** stood at 26.1 percent (24.5 percent in 2016). This means that Swissquote remains one of Switzerland's best-financed banks. Total equity amounted to CHF 295.1 million (CHF 280.8 million).

Record volume of client assets

2017 also saw client assets increase sharply by 29.9 percent to CHF 24.1 billion (CHF 18.6 billion). The **net new money inflow** amounted to CHF 2.7 billion. As at the end of 2017, client assets of CHF 23.0 billion (+31.6 percent) were held in trading accounts, CHF 600.6 million (-20.8 percent) in saving accounts, CHF 203.1 million (+75.2 percent) in Robo-Advisory accounts and CHF 328.9 million (+45.5 percent) in eForex accounts.
The **total number of accounts** grew by 6,511 (+2.2 percent) to 309,286 (302,775). The breakdown is as follows: 236,861 trading accounts (+0.3 percent), 28,955 saving accounts (-11.9 percent), 1,898 Robo-Advisory accounts (+22.3 percent) and 41,572 eForex accounts (+29.0 percent).

Report to the shareholders

Major success in cryptocurrency trading

From mid-2017, Swissquote became the first European online bank to offer its clients the opportunity to invest in cryptocurrencies and trade in them against the EUR or USD. The service was initially confined to Bitcoin, but since December Bitcoin Cash, Ether, Litecoin and Ripple have also been available. With five leading cryptocurrencies, Swissquote now has a larger offering of virtual currencies than any other bank. Clients invest and trade in cryptocurrencies through their ordinary Swissquote trading account in the same way as with any other currencies, shares or funds. The sharp increase in interest in cryptocurrencies, particularly in the fourth quarter of 2017, led to a flood of new accounts being opened towards the end of year. The impact of the new accounts on revenues will only become clearly noticeable in the figures for the first half of 2018.

Artificial intelligence aids investment decisions in the run-up to German elections

In the world of finance, the use of artificial intelligence is still in its infancy. However, Swissquote has set itself the goal of moving forward with this trend so that artificial intelligence applications can be made available to the broadest possible range of users as soon as possible. One example of such applications was a study conducted by Swissquote in conjunction with the Social Media Lab at EPFL (Federal Institute of Technology Lausanne) in the run-up to the German parliamentary elections on 24 September 2017. The aim was to investigate investors' opinions on the performance of the DAX by analysing social media. Thanks to artificial intelligence, it was possible to use these analyses to arrive at investment decisions based on the mood among voters. Swissquote offered investment strategies designed to profit from the fluctuations on the equity and currency markets.

Expansion at Swiss DOTS

2017 saw Swissquote further expand its offering on Swiss DOTS, the over-the-counter trading platform launched five years ago. One new issuer is Vontobel Investment Banking AG with 10,000 new leveraged products. This adds to the existing range of UBS, Goldman Sachs, Commerzbank and Deutsche Bank. The steadily increasing growth in both market share and transaction numbers bears testimony to the success of the business model.

Board of Directors welcomes new member

The Board of Directors of Swissquote Group Holding Ltd will propose that this year's Annual General Meeting elect Dr Monica Dell'Anna to serve as a member of the Board of Directors. The remaining five members will all stand for re-election. Born in 1971, Monica Dell'Anna is a Swiss and Italian dual citizen and she serves since 2016 as a member of the Executive Board at NZZ-Mediengruppe AG with responsibility for the Business Media division. She was previously a member of the Executive Board of BKW AG and spent more than ten years in various management roles at Swisscom. Swissquote would like to stress that the appointment of Monica Dell'Anna means the Board of Directors will gain an experienced business executive with a proven track record in digital transformation processes.

Distribution of profit to shareholders

In light of the very good business results and solid capital ratio, the Board of Directors will propose to the Annual General Meeting of Swissquote Group Holding Ltd, to be held on 4 May 2018, that a distribution of CHF 0.90 per share be paid, of which CHF 0.86 as a dividend and CHF 0.04 as a reimbursement of reserves from capital contributions.

Report to the shareholders

Acknowledgements

On behalf of the Board of Directors and Executive Management, we would like to thank our clients, who, by actively using our platform and providing a wide spectrum of informed feedback, are making a key contribution to Swissquote's business success and our long-term security, solidity and growth. We attach great importance to their suggestions and requests as well as their criticism, all of which help to drive us forward. Our thanks are also due to our shareholders for the trust they have placed in our company, as well as to all our employees for their personal commitment and readiness to achieve the exceptional again and again. And finally, we also owe a debt of gratitude to our cooperation partners for their unfailing expertise and support in helping us grow our business.

Mario Fontana
Chairman of the Board

Marc Bürki
Chief Executive Officer

Financial Report 2017
Content

Consolidated financial statements

Consolidated statement of financial positions

in CHF	Notes	31 December 2017	31 December 2016
Assets			
Cash and balances with central bank	1	3,517,110,596	2,284,650,001
Treasury bills and other eligible bills	1	259,850,000	277,554,556
Due from banks	1/4	425,399,549	398,214,374
Derivative financial instruments	2	72,390,700	41,516,556
Trading assets	3	8,251,045	6,942,709
Loans	4	278,589,147	226,350,929
Investment securities	5	384,884,309	554,524,886
Deferred income tax assets	12	1,297,620	1,026,000
Intangible assets	6	40,288,690	40,465,911
Information technology systems	7	44,937,871	40,729,830
Property, plant and equipment	8	61,572,383	63,911,608
Other assets	9	21,217,357	30,373,132
Total assets		**5,115,789,267**	**3,966,260,492**
Liabilities and equity			
Liabilities			
Deposits from banks	1	170,984,155	32,804,479
Derivative financial instruments	2	24,111,177	12,723,622
Due to customers	10	4,566,383,437	3,600,244,732
Other liabilities	11	50,280,159	35,732,333
Current income tax liabilities	12	5,310,652	379,204
Deferred tax liabilities	12	1,558,476	1,209,728
Provisions	13	2,012,911	2,331,930
Total liabilities		**4,820,640,967**	**3,685,426,028**
Equity			
Ordinary shares	15.1	3,065,634	3,065,634
Share premium		35,299,313	42,585,616
Share option reserve	15.2	1,482,727	1,968,928
Other reserve	15.3	(2,375,800)	(1,510,450)
Treasury shares	15.4	(29,318,059)	(13,991,184)
Retained earnings	15.5	286,994,485	248,715,920
Total equity		**295,148,300**	**280,834,464**
Total liabilities and equity		**5,115,789,267**	**3,966,260,492**

The notes on pages 16 to 107 are an integral part of these financial statements

Consolidated income statement

in CHF	Notes	2017	2016
Fee and commission income	16	96,127,958	78,997,271
Fee and commission expense	16	(10,923,893)	(9,454,113)
Net fee and commission income		**85,204,065**	**69,543,158**
Interest income	17	31,910,090	22,319,845
Negative interest rates expense	17	(17,900,933)	(9,973,432)
Interest expense	17	(1,774,530)	(1,044,701)
Net interest income		**12,234,627**	**11,301,712**
Net trading income	18	**90,316,997**	**69,400,445**
Operating income		**187,755,689**	**150,245,315**
Operating expenses	19	(141,973,676)	(127,035,191)
Operating profit		**45,782,013**	**23,210,124**
Income tax expense	12	(6,597,067)	(2,457,610)
Net profit		**39,184,946**	**20,752,514**
Share information			
Earnings per share	20	2.73	1.39
Diluted earnings per share	20	2.73	1.39
Weighted average number of shares	20	14,341,106	14,892,473

The notes on pages 16 to 107 are an integral part of these financial statements

Consolidated statement of comprehensive income

in CHF	Notes	2017	2016
Net profit		**39,184,946**	**20,752,514**
Other comprehensive income: Gains/losses recognised directly in equity			
Items that may be reclassified to the income statement			
Investment securities carried at fair value (available-for-sale):			
Net unrealised gains/losses	5	151,342	527,279
Net realised gains/losses reclassified to the income statement from equity	5/18	(363,648)	162,301
Income tax effect		38,215	(124,124)
Currency translation differences	15.3	145,208	(330,543)
Total other comprehensive income that may be reclassified to the income statement		**(28,883)**	**234,913**
Items that will not be reclassified to the income statement			
Defined benefit obligation:			
Remeasurement	14b	(1,147,000)	822,000
Income tax effect		206,460	(147,960)
Land and building:			
Revaluation	8	126,918	–
Income tax effect		(22,845)	–
Total other comprehensive income that will not be reclassified to the income statement		**(836,467)**	**674,040**
Other comprehensive income for the period (net of tax)		**(865,350)**	**908,953**
Total comprehensive income for the period		**38,319,596**	**21,661,467**

The notes on pages 16 to 107 are an integral part of these financial statements

Consolidated statement of changes in equity

in CHF	Notes	Ordinary shares	Share premium	Share option reserve	Other reserve	Treasury shares	Retained earnings	Total
Balance as at 1 January 2017		3,065,634	42,585,616	1,968,928	(1,510,450)	(13,991,184)	248,715,920	**280,834,464**
Net profit of the period		–	–	–	–	–	39,184,946	39,184,946
Investment securities carried at fair value (available-for-sale)	5/18	–	–	–	(212,306)	–	–	(212,306)
Remeasurement of defined benefit obligation	14b	–	–	–	(1,147,000)	–	–	(1,147,000)
Revaluation of land and building	8	–	–	–	126,918	–	–	126,918
Income tax effect		–	–	–	221,830	–	–	221,830
Currency translation differences	15.3	–	–	–	145,208	–	–	145,208
Other comprehensive income for the period		**–**	**–**	**–**	**(865,350)**	**–**	**39,184,946**	**38,319,596**
Dividend and reimbursement from reserves	15.5	–	(6,652,002)	–	–	–	(1,839,915)	(8,491,917)
Transaction costs		–	–	–	–	–	(321,634)	(321,634)
Employee stock option plan:								
Amortisation of services	15.2	–	–	768,967	–	–	–	768,967
Stock options exercised, lapsed or forfeited	15.2	–	–	(1,255,168)	–	–	1,255,168	–
Treasury shares:								
Purchase	15.4	–	–	–	–	(22,668,840)	–	(22,668,840)
Sale/remittance	15.4	–	(634,301)	–	–	7,341,965	–	6,707,664
Balance as at 31 December 2017		**3,065,634**	**35,299,313**	**1,482,727**	**(2,375,800)**	**(29,318,059)**	**286,994,485**	**295,148,300**

The notes on pages 16 to 107 are an integral part of these financial statements

Consolidated statement of changes in equity (continued)

in CHF	Notes	Ordinary shares	Share premium	Share option reserve	Other reserve	Treasury shares	Retained earnings	Total
Balance as at 1 January 2016		3,065,634	51,710,405	2,207,387	(2,419,403)	(13,915,807)	227,021,442	267,669,658
Net profit of the period		–	–	–	–	–	20,752,514	20,752,514
Investment securities carried at fair value (available-for-sale)	5/18	–	–	–	689,580	–	–	689,580
Remeasurement of defined benefit obligation	14b	–	–	–	822,000	–	–	822,000
Income tax effect		–	–	–	(272,084)	–	–	(272,084)
Currency translation differences	15.3	–	–	–	(330,543)	–	–	(330,543)
Other comprehensive income for the period		**–**	**–**	**–**	**908,953**	**–**	**20,752,514**	**21,661,467**
Dividend and reimbursement from reserves	15.5	–	(8,930,458)	–	–	–	–	(8,930,458)
Employee stock option plan:								
Amortisation of services	15.2	–	–	703,505	–	–	–	703,505
Stock options exercised, lapsed or forfeited	15.2	–	–	(941,964)	–	–	941,964	–
Treasury shares:								
Purchase	15.4	–	–	–	–	(901,728)	–	(901,728)
Sale/remittance	15.4	–	(194,331)	–	–	826,351	–	632,020
Balance as at 31 December 2016		**3,065,634**	**42,585,616**	**1,968,928**	**(1,510,450)**	**(13,991,184)**	**248,715,920**	**280,834,464**

The notes on pages 16 to 107 are an integral part of these financial statements

Consolidated statement of cash flows

in CHF	Notes	2017	2016
Cash flow from/(used in) operating activities:			
Fees and commission received		96,522,550	79,225,889
Fees and commission paid		(10,280,117)	(9,255,783)
Interest received		41,122,351	37,935,783
Interest paid		(17,590,437)	(10,690,418)
Net trading income received		88,439,962	69,332,880
Income tax paid/reimbursed		8,286,307	(732,366)
Payments to employees		(58,232,913)	(54,915,946)
Payments to suppliers		(56,251,408)	(49,248,733)
Cash flow from operating profit before changes in operating assets and liabilities		**92,016,295**	**61,651,306**
Net change in operating assets and liabilities:			
Treasury bills and other eligible bills (above 3 months)	1	23,069,950	(117,269,950)
Due from banks (above 3 months)	1	10,524,141	14,019,702
Derivative financial instruments (assets)		(30,874,144)	27,511,496
Loans		(52,487,020)	(20,921,969)
Derivative financial instruments (liabilities)		11,387,555	(9,956,982)
Due to customers		956,786,068	284,920,545
Net cash from operating activities		**1,010,422,845**	**239,954,148**
Cash flow from/(used in) investing activities:			
Purchase of property, plant and equipment and information technology systems	7/8	(20,108,710)	(24,647,938)
Proceeds from sale and reimbursement of investment securities	5	306,512,014	848,003,647
Purchase of investment securities	5	(145,268,182)	(621,623,765)
Net cash from investing activities		**141,135,122**	**201,731,944**
Cash flow from/(used in) financing activities:			
Purchase of treasury shares		(22,668,840)	(901,728)
Sale of treasury shares		5,428,368	–
Transaction costs		(321,634)	–
Dividend and reimbursement from reserves	15.5	(8,491,917)	(8,930,458)
Net cash used in financing activities		**(26,054,023)**	**(9,832,186)**
Net increase in cash and cash equivalents		**1,125,503,944**	**431,853,906**
Cash and cash equivalents as at 1 January	1	2,789,801,452	2,359,315,496
Exchange difference on cash and cash equivalents		11,870,594	(1,367,950)
Cash and cash equivalents as at 31 December [1]	1	**3,927,175,990**	**2,789,801,452**
Cash and cash equivalents:			
Cash and balances with central bank		3,517,110,596	2,284,650,001
Treasury bills and other eligible bills (less than 3 months)		165,650,000	160,284,606
Loans and advances to banks (less than 3 months)		415,399,549	377,671,324
Deposits from banks		(170,984,155)	(32,804,479)
Total as at 31 December [1]	1	**3,927,175,990**	**2,789,801,452**

[1] CHF 230.8 million and CHF 166.5 million of cash and cash equivalents were restricted as at 31 December 2017 and 31 December 2016, respectively. Refer to note 1 for more information.

The notes on pages 16 to 107 are an integral part of these financial statements

Notes to the consolidated financial statements

Section I: General information

Swissquote Group Holding Ltd (the "Company") and its consolidated subsidiaries (together the "Group") provide online financial services that mainly consist of the services offered by Swissquote Bank Ltd (the "Bank") through its financial web portal www.swissquote.ch. The foreign subsidiaries that are based in United Arab Emirates (Dubai) and Republic of China (Hong Kong) are responsible for introducing the Group services in their respective markets. The foreign subsidiary that is based in the United Kingdom (London) provides online foreign exchange trading for clients based in the European Union. The foreign subsidiary that is based in Malta (Mriehel) promotes the custody services to investment funds (institutional business) in the European Union.

The Group's headquarters are located in Gland (Canton of Vaud), Switzerland. The operations are located in Switzerland (Gland, Bern and Zurich), the United Arab Emirates (Dubai), the United Kingdom (London), Malta (Mriehel) and the Republic of China (Hong Kong). The Group employed 593 employees (full-time equivalent) at the end of December 2017 (31 December 2016: 550).

The parent company of the Group is Swissquote Group Holding Ltd, which is a limited liability company incorporated in Switzerland. The address of its registered office is: Chemin de la Crétaux 33, CH-1196 Gland. The shares of Swissquote Group Holding Ltd are listed on the Swiss Stock Exchange since 29 May 2000. The ticker is SQN, the security number is 1067586 and the ISIN number is CH0010675863.

The issued share capital as at 31 December 2017 consisted of 15,328,170 ordinary shares of CHF 0.20 nominal value each (2016: 15,328,170 ordinary shares of CHF 0.20 nominal value). There is also a conditional capital and an authorised capital. Details are provided in Note 15.1.

According to the information available to the Group, the shareholders with an interest in the Group above 3% (including stock options) are as follows:

	2017			2016		
	Shares	Options	Total	Shares	Options	Total
Marc Bürki	12.62%	0.10%	**12.72%**	12.57%	0.14%	**12.71%**
Paolo Buzzi	12.63%	0.09%	**12.72%**	12.57%	0.14%	**12.71%**
PostFinance AG	5.00%	–	**5.00%**	5.00%	–	**5.00%**
Mario Fontana	4.96%	0.01%	**4.97%**	4.95%	0.02%	**4.97%**
Basellandschaftliche Kantonalbank	4.77%	–	**4.77%**	4.77%	–	**4.77%**
Janus Henderson Group plc	3.00%	–	**3.00%**	–	–	**–**
Windel Investments Ltd (indirect holder: Georges Butros Mansour)	–	–	**–**	4.89%	1.37%	**6.26%**
UBS Fund Management (Switzerland) AG	–	–	**–**	3.22%	–	**3.22%**
Acadian Asset Management LLC	–	–	**–**	3.03%	–	**3.03%**
Treasury shares:						
Swissquote Group Holding Ltd (Note 15.4)			**6.94%**			**2.82%**

Except for the above-mentioned shareholders, no other shareholder registered in the share register owns 3% or more of the issued share capital as at 31 December 2017. All shares are freely tradable. SIX Swiss Exchange Regulations however provide that individual shareholdings exceeding 5% (save for, inter alia, certain investment funds) are deemed to be permanent investments and are to be excluded from the free float. In accordance with SIX Swiss Exchange Regulations, the free float as at 31 December 2017 is 69.75% (2016: 69.86%).

The consolidated financial statements were approved for publication by the Board of Directors on 27 February 2018.

Notes to the consolidated financial statements

Section II: Scope of operations of the Group and reportable segments

The current scope of the operations is the result of a historic development of which key milestones are summarised as follows:

1996

- The Swissquote financial platform is founded. For the first time, private investors can access the real-time prices of all securities traded on the Swiss Stock Exchange for free.

2000

- Swissquote Group Holding Ltd is listed on the Swiss Stock Exchange (symbol: SQN);
- Swissquote Bank Ltd is granted a banking licence.

2001

- Online trading of investment funds;
- Access to the Swiss Stock Exchange (at the time SWX and Virt-X) and to the US NYSE, NASDAQ and AMEX exchanges.

2002

- Takeover of Consors (Switzerland) AG.

2003

- Swissquote takes over the clients of Skandia Bank Switzerland.

2004

- EUWAX, the Stuttgart Stock Exchange trading platform, goes live;
- First off-exchange trading of Bank Vontobel derivative products.

2005

- Launch of the "Value at Risk" asset management tool, the first step towards comprehensive online wealth management;
- Off-exchange trading of all SMI securities;
- Launch of online bond trading.

2006

- Online trading by mobile phone;
- Online trading with the London Stock Exchange and direct trading with the Frankfurt Stock Exchange for derivatives.

2007

- Milan Stock Exchange is the 17th market to go online;
- Full electronic trading on the Eurex derivatives exchange.

2008

- A new Swissquote forex trading platform goes live;
- Swissquote launches savings accounts.

2010

- Launch of the "ePrivate Banking" magazine;
- New digital asset management service with Swissquote's Robo-Advisor;
- Takeover of Tradejet Ltd;
- Takeover of ACM Advanced Currency Markets Ltd, one of the largest currency traders.

2011

- Swissquote and Basellandschaftliche Kantonalbank offer online mortgages.

2013

- Takeover of MIG Bank Ltd, one of the leading forex brokers worldwide.
- Swiss DOTS, a new OTC trading service for the derivative products.

2014

- Strategic partnership between Swissquote and PostFinance.

2015

- Global partnership with Manchester United, one of the most popular football teams in the world.

2016

- January: First Swiss bank to launch an Apple TV application;
- February: Swissquote Quant Fund awarded best performing Swiss equity fund by the Thomson Reuters Lipper Fund Award.

2017

- First online bank to offer trading on five crypto-currencies: Bitcoin, Bitcoin cash, Ether, Litecoin and Ripple;
- Expansion into Swiss DOTS with Vontobel as new issuer to complement the existing offering from UBS, Goldman Sachs, Commerzbank and Deutsche Bank;
- Launch of the first virtual reality trading application.

Notes to the consolidated financial statements

Section II: Scope of operations of the Group and reportable segments

As of 31 December 2017, the Group's operations consisted of:

Providing online securities services (including custody services and cryptocurrencies trading) and Robo-Advisory services (ePrivate Banking) to:

- Self-directed private investors – by mean of tools to route the orders to stock exchanges and third-party brokers via the Internet, as well as private investors aiming at having comprehensive investment services (such as tools to assist them in their decision-making);
- Independent asset managers – by mean of tools that allow to process grouped orders on behalf of their clients and to allow such clients to have a real-time read access to their account – and to institutional investors;
- Investment funds and other institutional clients;
- Third party financial institutions under white-label agreements.

Offering access to over-the-counter leveraged foreign exchange trading (leveraged forex or eForex) through in-house technology platform to:

- Retail and institutional customers;
- Money managers;
- Third party financial institutions under white-label agreement.

Operating an online bank that accepts deposits in the form of current accounts and saving accounts from its customers mainly in CHF, USD, EUR and GBP. Nostro management activities consist in Lombard / margin loans and loans to Swiss municipalities, investments in debt securities and in other asset classes using the Robo-Advisory technology.

Selling advertising space and providing financial information against subscription on www.swissquote.ch and Swissquote ePrivate Banking magazine.

The Group is not involved in the following banking activities:

- Provide commercial lending, direct mortgages lending, retail borrowings, credit-related commitments such as guarantees and standby letters of credit;
- Provide trustee, corporate administration to third parties.

Notes to the consolidated financial statements

Section II: Scope of operations of the Group and reportable segments

Reportable segments

Sound management requires that relevant financial information is prepared in order for decision makers to define strategies and focus actions towards exploiting opportunities and/or countering adverse trends.

Relevant financial information generally requires business complexity to be broken down in various segments. Disclosure of relevant segmental information enables users of financial statements to evaluate the nature and the financial consequences of the business activities in which the Group is engaged and of the economic environment in which it operates.

IFRS 8 requires an entity to identify its operating segments and based thereon to determine its reportable segments, which may comprise one operating segment or an aggregation of operating segments, which meet certain quantitative thresholds set out in the standard. Operating segment is defined in IFRS 8 as a component of an entity that (1) engages in business activities from which it may earn revenues and incur expenses including revenues and expenses relating to transactions with other components of the same entity, (2) whose operating results are regularly reviewed to take decisions about resources to be allocated and assess its performance, and (3) for which discrete financial information is available.

IFRS 8 requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters (the "Management Approach"). The adoption of the Management Approach results in the disclosure of information for segments in substantially the same manner as it is reported internally.

The "chief operating decision maker", who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Executive Management.

The management information system of the Group is designed and constantly amended in order to reflect the development of the business model of the Group and hence to support the strategic and operating processes. The Group discloses its operating segments by the nature of the business activities as managed internally and presented to the Group Executive Management and the Board of Directors.

Historically, the Group acts as a leader in the online securities trading market in Switzerland and has progressively extended its activities by increasing the level of assistance to its customers (Robo-Advisory) and adding services such as Lombard loans and cryptocurrencies trading. In the securities trading segment, the Group provides securities trading services and related technology-based financial services to various types of customers.

Since 2010, the Group gained a critical mass in the leveraged forex segment (eForex) by both internal and external growth. In this segment, the Group offers to its clientele access to over-the-counter ("OTC") foreign exchange markets through technology platforms. The Group primarily operates what is referred to as an agency model to execute client trades. The Group revenues are mainly generated by adding a markup to the price provided by the market.

Beyond the consolidated results, segment contribution is based on segment revenue less directly incurred costs. Indirect fixed costs which represent the largest portion of the operating costs are analysed in major cost centres as the Group employs a centralised operating model. This approach is considered best by the Group in order to achieve transparency and accountability.

As defined in IFRS 8, the reported operating segments meet the following quantitative thresholds: (1) its reported revenue is ten percent or more of the combined revenue of all operating segments, (2) the absolute amount of its reported profit or loss is ten percent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss, (3) its assets are ten percent or more of the combined assets of all operating segments.

With due care to the above explanations, the Group has defined two operating segments and one cost centre:

- Securities trading;
- Leveraged forex (eForex);
- Platform and infrastructure operations, which are analysed in four operating perspectives: technology, operations, marketing and general & administrative (G&A).

Technology, operations, marketing and G&A do not qualify as reportable segments and thus have been aggregated in the cost centre platform and infrastructure operations. Technology, operations, marketing and G&A may include various type of expenses (such as payroll and production costs).

Notes to the consolidated financial statements

Section II: Scope of operations of the Group and reportable segments

Based thereon, the analysis of reportable segments and cost centres for 2017 and 2016 is as follows:

in CHFm	2017	2016
Operating income	128.1	101.6
Direct operating expenses	(20.0)	(14.4)
Direct marketing expenses	(4.4)	(3.6)
Securities trading – direct contribution margin	**103.7**	**83.6**
Operating income	67.1	52.8
Direct operating expenses	(18.8)	(18.4)
Direct marketing expenses	(5.4)	(4.4)
Leveraged forex – direct contribution margin	**42.9**	**30.0**
Operating expenses – technology	(35.3)	(28.5)
Operating expenses – operations	(21.5)	(22.9)
Operating expenses – marketing	(13.5)	(13.8)
Operating expenses – G&A	(20.5)	(19.9)
Platform and infrastructure operations (cost centre)	**(90.8)**	**(85.1)**
Provisions and impairment allowance	(2.5)	(1.2)
Negative interest rate expense (excl. foreign exchange swaps)	(7.5)	(4.1)
Operating profit	**45.8**	**23.2**
Income tax expense	(6.6)	(2.5)
Net profit	**39.2**	**20.7**

As at 31 December 2017:

- No other location (booking centre) than Switzerland represents more than 10% of revenues or assets;
- The Group does not have any client representing more than 10% of its revenues.

Breakdown of assets and liabilities is as follows:

in CHFm	31 December 2017	31 December 2016
Assets – securities trading	4,522.3	3,517.1
Assets – leveraged forex	483.8	361.7
Assets – platform and infrastructure operations	109.7	87.5
Total assets	**5,115.8**	**3,966.2**
Liabilities – securities trading	(4,418.4)	(3,380.1)
Liabilities – leveraged forex	(358.0)	(275.6)
Liabilities – platform and infrastructure operations	(44.2)	(29.7)
Total liabilities	**(4,820.6)**	**(3,685.4)**
Total equity	**295.2**	**280.8**

Notes to the consolidated financial statements

Section III: Adoption of new and revised international financial reporting standards

The consolidated financial statements for the year 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Additional information required by national regulations is included where appropriate.

a Standards, amendments and interpretations effective on or after 1 January 2017

In the current year, the Group has applied an amendment to IFRSs issued by IASB that is mandatory effective for the financial year that begins on or after 1 January 2017.

Standards/Interpretation	Content	Applicable for financial years beginning on/after
IAS 12 (amended)	Recognition of deferred tax assets for unrealised losses	1 January 2017

IAS 12 (amended)

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments had no impact on the Group's consolidated financial statements as the Group already assessed the sufficiency of future taxable profits in a way that is consistent with these amendments.

b Standards, amendments and interpretations issued, but not impacting the Group

The following standards, amendments and interpretations have been issued but have not impacted the accounting period:

Standards/Interpretation	Content	Applicable for financial years beginning on/after
IAS 7 (amended)	Disclosure initiative	1 January 2017
IFRS 12	Annual improvements 2014-2016	1 January 2017

c Standards and interpretations issued, but not yet effective

The following standards and interpretations have been issued, are mandatory for the accounting periods beginning after 1 January 2018 and are expected to be relevant to the Group:

Standards/Interpretation	Content	Applicable for financial years beginning on/after
IFRS 15	Revenue contract with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 16	Leases	1 January 2019

IFRS 15 "Revenue contract with customers"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue guidance, including IAS 18 "Revenue". IFRS 15 specifies how to account for revenue which arises as a result of contracts from customers. Moreover, certain contracts with customers are scoped out because they are covered by other IFRS standards (interest income and dividend income for example). The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Notes to the consolidated financial statements

Section III: Adoption of new and revised international financial reporting standards

c Standards and interpretations issued, but not yet effective (continued)

The Group recognises revenues from the two following major sources:

- Net fee and commission income that are earned from a diverse range of services the Group provides to its customers. Fees earned from providing transaction type services are recognised when the service has been completed and the fee is fixed or determinable. Fees earned from services that are provided over a certain period of time are recognised on an accrual basis;
- Net trading income that is recognised on online foreign exchange transactions done by clients and as well on foreign currency translations of monetary and liabilities denominated in other currencies than CHF.

The Group has specifically considered new IFRS 15 guidance on all major sources of revenues and has assessed that the way these revenues are recognised will continue to be appropriate with IFRS 15. When applicable and appropriate, the Group intends to use the full retrospective method of transition to IFRS 15.

Furthermore, banks will need to disclose under IFRS 15 more information about their contracts with customers than is currently required. Apart from providing more extensive disclosures on Group's revenue transactions, the Group does not anticipate that the application of IFRS 15 will have a significant impact on the equity and/or the operating profit of the Group.

IFRS 9 "Financial Instruments"

IFRS 9 replaces the existing guidance in IAS 39 "Financial Instruments". The standard contains guidance on the classification and measurement of financial assets and liabilities, the identification of impairment of financial assets and hedge accounting.

The classification and measurement of financial assets are based on the contractual cash flows from financial assets and on the business model in which they are held.

In the case of debt instruments (in particular investment securities), the following categories exist:

- Recognition in the statement of financial positions at amortised cost using the effective interest method;
- Recognition in the statement of financial positions at fair value, with changes being recognised in the statement of comprehensive income and transferred to the income statement if the debt instrument is sold;
- Recognition in the statement of financial positions at fair value, with changes in fair value being recognised in the income statement.

All equity instruments (in particular trading assets) are measured at fair value and, in principle, changes in their fair value are recorded in the income statement. However, management can make an irrevocable election to present changes in other comprehensive income, provided the instrument is not held for trading.

Financial assets measured at amortised cost or financial assets where changes in fair value are recognised in the statement of comprehensive income primarily fall within the scope of the new impairment model set up by IFRS 9. Upon initial recognition of these instruments, the discounted value of the expected credit losses resulting from possible default events within the next 12 months are recognised through the income statement. If there has been a significant increase in the risk of default since the initial recognition of the instrument, the discounted value of all expected credit losses over the remaining life of the instrument are recorded through the income statement.

The Group has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements. The estimated impact of the adoption of this standard is described in Note 25 and is based on assessments undertaken to date. IFRS 9 is expected to result in amendments to existing regulatory reporting requirements applicable to banks.

Notes to the consolidated financial statements

Section III: Adoption of new and revised international financial reporting standards

c Standards and interpretations issued, but not yet effective (continued)

IFRS 16 "Leases"

The new standard sets out the principles for the recognition, measurement, presentation and disclosures of the leases for both parties to a contract. The new standard introduces a new lessee accounting model that eliminates the classification of leases as either finance leases or operating leases. For all leases, the lessee recognises a leasing liability for its obligation to make future lease payments. At the same time, the lessee capitalises the right to use the underlying leased asset, which basically corresponds to the present value of future lease payments plus directly attributable costs. Exemptions apply in the case of short-term leases and low value lease assets. IFRS 16 will replace the previous standard IAS 17 and related interpretations and is to be applied for the first time to financial years beginning on or after 1 January 2019. In April 2017, the Basel Committee on Banking Supervision (BCBS) clarified that, for regulatory capital purposes, the underlying leased asset (right to use) must not be deducted from regulatory capital where the underlying leased asset is a tangible asset. In the meantime, the underlying leased asset will have a risk weight of 100% and must be included in the calculation of both the risk-based capital and the leverage ratio denominators. Based on the current analysis, the Group does not expect IFRS 16 to have any significant overall impact with the exception of an increase in assets and liabilities in line with the nominal value of its operating lease (see Note 22). Based on current BCBS guidance and subject to further guidance from FINMA, the Group expects a corresponding effet on risk-weighted assets and leverage ratio.

d Early adoption of standards

The Group did not early adopt new or amended standards in 2017.

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

The main accounting policies applied in the preparation of these consolidated financial statements are set out below:

A Basis of presentation

These consolidated financial statements are prepared in accordance with IFRS. The consolidated financial statements are prepared under the historical cost convention except for certain properties, financial assets and share-based payments that are measured at revalued amounts or fair values as explained in the accounting policies.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in section V.

B Consolidation

B1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has the control. The Group controls an entity when the Group is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

B2 Acquisition

The acquisition method is used to account for the business combinations by the Group. The cost of an acquisition is measured at the fair value of the given assets, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

B3 List of consolidated subsidiaries

			Interest as at 31 December	
Subsidiaries	**Office/Country**	**Status**	**2017**	**2016**
Swissquote Bank Ltd	Gland/Switzerland	Active	100%	100%
Swissquote Trade Ltd	Gland/Switzerland	Dormant	100%	100%
Swissquote MEA Ltd	Dubai/UAE	Active	100%	100%
Swissquote Financial Services (Malta) Ltd	Mriehel/Malta	Active	100%	100%
Swissquote Ltd	London/UK	Active	100%	100%
Swissquote Asia Ltd	Hong Kong/China	Active	100%	100%

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

C Foreign currency translation

C1 Functional and presentation currency

Items included in the financial statements of each of the consolidated subsidiaries are measured using the currency of the primary economic environment in which the consolidated subsidiary operates ("functional currency"). The consolidated financial statements are presented in CHF, which is the functional and presentation currency of Swissquote Group Holding Ltd and Swissquote Bank Ltd. Functional and presentation currencies of foreign subsidiaries are AED, GBP, HKD, EUR and USD.

	2017		2016	
Foreign currency translation	Closing rates	Average rates	Closing rates	Average rates
EUR	1.1692	1.1167	1.0719	1.0904
USD	0.9743	0.9806	1.0183	0.9885
GBP	1.3155	1.2764	1.2549	1.3286
HKD	0.1247	0.1258	0.1313	0.1274
JPY	0.0086	0.0088	0.0087	0.0091
CAD	0.7752	0.7572	0.7585	0.7478
NOK	0.1187	0.1191	0.1179	0.1179
SEK	0.1188	0.1157	0.1118	0.1151
DKK	0.1570	0.1501	0.1442	0.1465
AUD	0.7603	0.7542	0.7349	0.7340
AED	0.2652	0.2670	0.2773	0.2691

Average rates that are disclosed in the table are the average of monthly closing rates and do not reflect the effective average rates of transactions.

C2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

C3 Group companies

The results and financial positions of all group entities (none of which has the currency in a hyperinflationary economy) that have a functional currency different from the presentation currency are translated as follows:

- Assets and liabilities for each balance sheet item presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses of each income statement are translated at average exchange rates;
- All resulting foreign exchange differences are recognised in the statement of comprehensive income.

D Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

The Group discloses its operating segments by the nature of the business activities as managed internally and presented to the Group Executive Management and Board of Directors. The set-up of the Group's operations (i.e. integrated online brokerage services and forex trading platforms) implies that the Group operates in two reported operating segments and one cost centre:

- Securities trading;
- Leveraged forex (eForex);
- Platform and infrastructure operations (cost centre).

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

E Offsetting financial instruments
The Group presents separately recognised financial assets and recognised financial liabilities at their gross amounts. The Group does not offset assets and liabilities unless required by IFRS.

F Financial assets
Excluding items classified as cash and cash equivalents, the Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans, held-to-maturity investments and available-for-sale financial assets. The Group determines the classification of its investments at initial recognition and this designation cannot be changed subsequently.

F1 Financial assets at fair value through profit or loss
The Group designates certain financial assets upon initial recognition at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. Purchases and sales of financial assets at fair value through profit or loss are recognised on trade date (the date on which the Group commits to purchase or sell the assets). Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise.

Trading assets are such assets that the Group acquires principally for the purpose of selling them in the near future or holding them as part of a portfolio that is managed together for short-term profits or position taking. All changes in fair value are recognised as part of net trading income in the income statement.

Derivative financial instruments are also categorised as financial assets at fair value through profit or loss (unless designated as hedge accounting). All changes in fair value are recognised as part of net trading income in the income statement (except for foreign exchange swaps: net interest income).

Investment securities are such assets when the Group manages its performance on a fair value basis, in accordance with an investment strategy. All changes in fair value are recognised in net trading income. Interest income and expense are recognised respectively in net interest income.

F2 Loans
Loans are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers. Loans are recorded initially at fair value, together with any transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortised cost, less allowances for credit losses. Interest on loans is included in net interest income and recognised on effective interest rate method.

F3 Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Purchases and sales of held-to-maturity financial assets are recognised on trade date (the date on which the Group commits to purchase or sell the assets). Held-to-maturity investments are carried at amortised cost using the effective interest method.

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

F Financial assets (continued)

F4 Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Purchases and sales of available-for-sale financial assets are recognised on trade date (the date on which the Group commits to purchase or sell the assets).

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the statement of comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in the statement of comprehensive income should be recognised in income statement. However, interest calculated using the effective interest method is recognised in the income statement.

Interest earned whilst holding available-for-sale instruments is reported as interest income and is recognised by reference to the amortised cost basis using effective interest rate.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active or if the securities are not listed, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

G Impairment of financial assets

G1 Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated cash flows, such as changes in economic conditions that correlate defaults.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

G Impairment of financial assets (continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is non-collectable, it is written off against the related provision for loan impairment. Such loans are written off after sufficient objective evidences have been identified, such as:

- Significant financial difficulty of the issuer;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- The probability that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets.

A loan is considered impaired when management determines that it is probable that the Group will not be able to collect all amounts due based on the original contractual terms. Individual credit exposures are evaluated based on the borrower's overall financial condition, resources and payment record, and, when applicable, the realisable value of any collateral.

Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

G2 Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. In determining what is significant or prolonged, the Group's management exercises judgement. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement – is removed from the statement of comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed through the income statement.

The Group's risk management for the lending activity in the form of deposits or bonds to third party financial institutions is monitored based on independent external rating that must be equal to or above minimum ratings (set forth in the risk policy).

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

H Derivative financial instruments and hedging activities

Derivative financial instruments include those held for trading purposes and those used for risk management purposes. Derivatives held for trading arise from proprietary trading activity and from customer-based activity. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group may designate certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

a Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in net interest income. Effective changes in fair value of currency futures are reflected in net trading income. Any ineffectiveness is recorded in net trading income.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

b Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement (net trading income).

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects income statement. The gain or loss relating to the effective portion of foreign exchange swaps and currency options are recorded in line with the hedged item in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

I Intangible assets

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The customer relationships have a finite useful life (15 years) and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationships. Expected life is determined on a case-by-case basis on date of acquisition.

J Information technology systems

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life (3 to 10 years).

Costs associated with maintaining computer software programs are recognised as an expense when incurred. However, expenditure that enhances or extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software under the item "proprietary software". Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives but not exceeding a period of two to five years.

Computer software internally generated by the Group is recognised as an asset if the cost of development is reliably measurable and an analysis shows that future benefits from using the software application exceed the cost. Cost is defined as development costs incurred to make each computer software application ready for use. The cost of development consists primarily of direct remuneration and other directly attributable development costs. Expenses incurred in the planning phase are not capitalised, but expensed when incurred.

Hardware and telecom systems are recorded at cost. Depreciation is calculated on the straight-line method to write off the cost of these assets to their residual values over their estimated useful life, but not exceeding five years.

Information technology systems are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the highest of the asset's fair value less costs to sell and value in use.

The cost of acquisition and accumulated depreciation of an item are derecognised when no future economic benefits are expected from its use or disposal.

Assets	Depreciation method	
Software third party licences	Straightline	3 to 10 years
Proprietary software	Straightline	2 to 5 years
Hardware & telecom systems	Straightline	Maximum 5 years

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

K Property, plant and equipment

K1 Land and building

Land and building comprise offices for own use. Land and building are shown at fair value, based on regular valuations carried out by independent valuers (at least once every five years) or internally, less subsequent depreciation for buildings.

Subsequent costs are included in the asset's carrying amount or are recognised as separate assets, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The cost of acquisition and accumulated depreciation of an item is derecognised when no future economic benefits are expected from its use or disposal.

Increases in the carrying amount arising on revaluation of land and building are credited to other comprehensive income and shown as other reserve in equity. Decreases that offset previous increases of the same assets are charged against other reserve directly in equity. All other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserve to retained earnings.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement. When revalued assets are sold, the amounts included in other reserve are transferred to retained earnings.

Land is not depreciated. Depreciation on building is calculated on a straight-line basis and based on the estimated useful life (in general 30 years).

K2 Leasehold improvements and equipments

Leasehold improvements and equipments are stated at cost less accumulated depreciation on any impairment losses. Expenditure incurred in maintenance and repairs is recognised in the income statement as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Depreciation is calculated as follows:

Assets	Depreciation method	
Building	Straightline	Max 30 years
Leasehold improvements	Straightline	5 to 10 years [1]
Equipments	Straightline	5 to 10 years

[1] or duration of the lease if shorter

The residual values and useful lives are reviewed, and adjusted as appropriate, at each balance sheet date.

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

L Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of the allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Assets that have an indefinite useful life - for example, goodwill – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the highest of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

M Due to customers

Due to customers only include items classified as liabilities at amortised cost.

N Deferred income taxes

Deferred income taxes are provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rate and tax laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from the capitalisation of certain assets and related depreciation and amortisation as well as from remeasurement of defined benefit obligation.

Deferred tax related to fair value remeasurement of available-for-sale investments, which is charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently (in case of sale) recognised in the income statement together with the deferred gain or loss.

Deferred tax assets relating to tax losses carried forward are, if any, recognised to the extent that taxable profits are expected to be generated in the future and will be offset by the tax losses carried forward.

O Pension obligations

As of 31 December 2017, the Group operates various post-employment schemes, including defined benefit and defined contribution pension plans (2016: same situation).

Switzerland (defined benefit plan)

With regard to operations located in Switzerland, the pension plan has been set up in accordance with the Swiss defined contribution plans. However, it does not fulfil all of the conditions of a defined contribution pension plan according to IAS 19R and is therefore accounted for as a defined benefit plan.

The Group insures its staff with a collective foundation, which provides benefits on retirement or in the event of death and disability. The benefits provided by the plan are above the legal minimum (which is set out in Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans). These additional benefits can be reduced prospectively for active employees. The level of contributions to be paid by the employees and the relevant Group companies is determined in the plan's rules. The pension benefits are based on the contributions paid by the insured persons and the Group (individual savings accounts). As the supreme body of the collective foundation, the Board of Trustees is responsible for the general administration, for the drawing up of the rules and the regulations, for asset management supervision and for the relation with authorities. The administrative, accounting and actuarial management is entrusted to third party services providers. Swiss pension plans must ensure that they can meet their obligations in all times. Measures to eliminate any potential shortfall must be based on a regulatory principle.

For IFRS purposes, pension obligations and expenses are determined according to the projected unit credit method when qualifying as defined benefit plans. The corresponding calculations are made by third-party actuaries on a periodical basis. The potential liability recognised in the statement of financial positions in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan's assets, together with adjustments for unrecognised past-service costs. The present value of the defined benefit obligation is determined by discounting the estimated future outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Foreign locations (defined contribution plan)

The foreign entities of the Group operate defined contribution pension schemes. The assets of the scheme are held separately from those of the entities in an independently administered fund. The amount charged to the income statement represents the contributions that have been paid to the scheme in respect of the accounting period.

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

P Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, if it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance sheet date. Where a provision is measured using cash flow estimates to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

Q Share capital/transaction costs

Ordinary shares are classified as equity. Share premium includes any premium received on the issuing of new shares. Incremental costs directly attributable to the issue by Group entities of new shares or options (transaction costs) or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds. Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's shareholders.

R Employee Share and Option Plan (ESOP)

The equity-based compensation plan is called "Employee Share and Option Plan" ("ESOP"). The purpose of the plan is to furnish incentives to eligible employees of the Group to increase shareholder value by improving operations and profitability. Eligible employee shall mean any permanent employee of the Group who is employed by the Group at the date of grant and for a minimum of one full year of employment within the Group.

The Share Plan is made available to all eligible employees and to the members of the Board of Directors while the Option Plan is solely available to eligible employees (in particular members of the management).

For the Option Plan, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period (i.e. the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied). The total amount to be expensed is determined by reference to the fair value of the options granted (at grant date), excluding the impact of any non-market vesting conditions and the number of options anticipated to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. When shares are issued to employees exercising stock options, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. When treasury shares are delivered to employees exercising the stock options, the proceeds received are credited to treasury shares (acquisition cost) and share premium.

For the Share Plan, the Group has decided not to include any vesting condition. The fair value of the attributed shares is fully recognised as expense at the date of grant.

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

S Treasury shares

When the Group purchases its own shares, the consideration paid is deducted from total equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

T Fee and commission income/expense

Fee and commission income/expense are recognised on an accrual basis when the services have been provided to the customer, usually on a time-appropriate basis, net of sales tax and discount.

Cryptocurrencies trading revenues are recognised as fee and commission income as the customers are charged a percentage of the transaction amount designated in EUR or USD currency.

U Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method. Interest income includes coupons earned on fixed-income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. A foreign exchange swap is a simultaneous purchase and sale of identical amounts of one currency for another with two different value dates (normally spot to forward). The difference between the forward rate and the spot rate represents the interest differential between the two currencies at inception. The net economic return (interest margin) over the investment period is recognised in net interest income, as well as any subsequent changes in fair value that may occur.

In the context of negative interest rates environment, IAS 18 did not envisage the circumstance of negative interest rates. The Group decided to disclose separately the impact of negative interest expense on the face of the income statement.

Income which falls under the scope of IAS 18 "Revenue" cannot be netted off against related expenses. However, this does not preclude the Group from presenting interest income followed by interest expense and a subtotal such as "net interest income" on the face of the income statement.

V Net trading income

Net trading income is recognised on online foreign exchange transactions done by clients and also on foreign currency translation of monetary assets and liabilities denominated in other currencies than CHF. Revenue rebates payable to introducing brokers, that are not themselves trading counterparties, are charged to the income statement when the associated revenue is recognised and are disclosed as a deduction from net trading income. Changes in fair value and gains and losses realised on disposal of financial assets designated at fair value through profit or loss are recognised in net trading income.

W Leases

The leases entered into by the Group are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Notes to the consolidated financial statements

Section IV: Summary of significant accounting policies

X Off-balance sheet activities (fiduciary activity)

The Group commonly acts in a variety of arrangements as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of clients. These arrangements are subject to regulation (when applicable) as well as industry custom and practice. These assets are not included in the statement of financial positions because the contractual terms and economic substance do not meet the general IFRS definition for the recognition of an asset and liability.

Y Cash and cash equivalents

Cash and cash equivalents comprise balances with less than 90 days maturity including: cash and balances, amounts due from other banks and other short-term highly liquid investments. Cash and balances with central banks comprise of deposits with Swiss National Bank which are available on demand. All receivables from central banks with a maturity over 90 days are presented under "Due from banks".

In relation with the disclosure of the consolidated statement of cash flow, the Group assessed that the position due from banks (above three months) is to be included in the operating activities and not in the investing activities accordingly with market practice (2016 comparative figures have been updated accordingly).

Z Comparatives

When required, comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes to the consolidated financial statements

Section V: Critical accounting judgements and key sources of estimation uncertainty

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the application of these accounting standards requires the use of judgement, based on estimates and assumptions that may involve significant uncertainty at the time they are made. Using different assumptions could cause the reported results to differ as well as changes in the assumptions may have a significant impact on the financial statements in the period changes occur.

This section is included to assist the reader of the consolidated financial statements in understanding the uncertainty inherent in the estimates and assumptions used but does not intend to suggest that other estimates and assumptions would be more appropriate. As at 31 December 2017, Management believes the assumptions that have been made are appropriate under the circumstances and that the consolidated financial statements are fairly presented in all material aspects.

In addition, the process of applying the Group's accounting policies may require the use of key assumptions concerning the future, and/or other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustments to the carrying amount of assets and liabilities within the next financial year. Key assumptions are discussed below.

A Impairment test in respect of goodwill

As at 31 December 2017, the carrying amount of goodwill amounted CHF 39.0 million (2016: 39.0 million).

Under IFRS standards, goodwill is not amortised, but is reviewed for potential impairment on an annual basis or when indicators of impairment exist. The Group tests annually whether goodwill has suffered any impairment.

The impairment test is performed for each segment for which goodwill is allocated and compares the recoverable amount (based on its value-in-use) to the carrying amount of the goodwill. An impairment charge is recognised if the carrying amount exceeds the recoverable amount. The impairment test is based on assumptions.

The recoverable amounts are determined using a discounted cash flow (DCF) model, which incorporates assumptions (such as growth rate and the amount and timing of expected future cash flows for example) relevant to the banking business and its regulatory environment. The recoverable amount is the sum of the discounted earnings from the first five forecasted years and the terminal value. The terminal value, reflecting all periods beyond the fifth year is calculated on the basis of the forecast of the fifth year earnings.

Valuation parameters used for the impairment test model are linked to external market information, where applicable (see Note 6). The discount rate is determined by applying a capital-asset-pricing model-based approach, as well as considering quantitative and qualitative inputs. Key assumptions used to determine the recoverable amounts are tested for sensitivity by applying a reasonably possible change to those assumptions.

Goodwill is allocated to cash-generating units for purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination, identified according to business segment. Reportable segment leveraged forex (previously eForex) is considered as one cash-generating unit.

Circumstances that could trigger an impairment test include (but are not limited to): a significant adverse change in business climate or legal factor, an adverse action or assessment by a regulator, additional regulatory or legislative changes, unanticipated competition and loss of key personnel.

If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of the goodwill may become impaired in the future, giving rise to losses in the income statement. Recognition of any impairment of goodwill would reduce IFRS equity and net profit. It would not impact cash flows nor regulatory capital ratios, as goodwill is required to be deducted from eligible capital under Basel III framework.

B Impairment allowance for credit losses

An allowance for credit loss is recognised if there is objective evidence that the Group will be unable to collect all amounts due. Allowances are evaluated at both a counterparty-specific level and collectively. Allowances for credit losses represent management's best estimate of credit losses incurred at the balance sheet date due (among others) to the credit deterioration of the counterparty.

In January 2015, the Swiss National Bank removed the 1.20 floor on EUR/CHF which led to a sudden and extreme strengthening of the CHF against all major currencies. This event of unprecendented magnitude left many clients with the negative account balance (see Note 4).

Notes to the consolidated financial statements

Section V: Critical accounting judgements and key sources of estimation uncertainty

B Impairment allowance for credit losses (continued)
During 2017, the Group pursued its strategy to recover the negative balances. The Group has clustered the negative balances in accordance with recovery strategies. The assumptions used for estimating the potential recovery are reviewed regularly with actual past experience. Based on amounts collected or for which commitments were made by clients with negative balances, the estimated recoverable amount was CHF 2.3 million as at 31 December 2017 (2016: CHF 3.5 million).

C Employee benefits
As at 31 December 2017, the defined benefit obligation amounted CHF 43.5 million (2016: CHF 39.2 million) which resulted in a net liability of CHF 7.2 million (2016: CHF 5.7 million) after deduction of the fair value of plan's assets.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations (see Note 14).

The assumptions used in determining the net cost (or income) for pension include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated cash outflows expected to be required to settle the pension obligations. In determining appropriate discount rate, the Group considers the interest rates of high-quality maturity approximating the terms of the related pension obligations.

Other key assumptions include life expectancy, turnover, expected salary increases, pension rates and interest credits on retirement saving account balances. Life expectancy is determined by reference to mortality tables. The assumption for salary increases reflects the long-term expectations for salary growth and takes into account inflation, seniority and other relevant factors of the labour market.

D Holdings in cryptocurrencies
A cryptocurrency is an open-source software-based online system where payments are recorded in a public ledger using its own unit of account (such as bitcoin, ether or ripple). There is no consensus among legal scholars as to the legal characterisation of cryptocurrencies and numerous regulators are still undecided about how to treat cryptocurrencies. As a result, there is no clear guidance in IFRS on how to account for cryptocurrencies either. IAS 8.10 provides that in the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy. In making the judgement required by IAS 8.10, management may as well consider accepted industry practices, legal opinions and other accounting literature to the extent these do not conflict with the requirements of IFRS.

Since 2017, the Group offers cryptocurrencies trading services to its clients. In that context, the Group keeps the holdings in cryptocurrencies acquired by its clients in custody either directly or with a third party custodian. The Group holds all cryptocurrencies credited to the client accounts solely as nominee (fiduciary basis) on behalf of its clients, which remain the legal and beneficial owner of such holdings. The Group itself has no direct claim to the cryptocurrencies, as they are assets belonging to its clients. When analysing the contractual terms and economic substance of the arrangements in place, the Group determined that (i) it must not record these holdings on its statement of financial positions because they would not fall within the bankruptcy estate of the Group and (ii) the general IFRS definitions of an asset and liability were not met.

The Group acknowledges that this determination involves significant judgement and that the analysis is not straightforward. The contractual arrangements should be considered in conjunction with applicable laws, regulation and established custom and practice. As of today, FINMA has not yet established specific rules that would be relevant to the application of the recognition criteria and in case of bankruptcy (for example rules on the use of separate client bank accounts and/or restrictions on commingling of funds). Based on the above choice and pursuant to IAS 1.7, the Group must provide narrative descriptions and disclosures about the items that do not qualify for recognition on the statement of financial positions.

Should the holdings in cryptocurrencies meet the IFRS definition of recognition of an asset and liability, this would result in a gross-up of the statement of financial positions of less than 3.0% but not impact the income statement.

Notes to the consolidated financial statements

Section VI: Financial risk management

A Introduction

The Group is exposed to a variety of financial risks that require the analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Risks arise from all Group business activities and cannot be completely eliminated. Prudent risk-taking is in line with the strategic priorities and is fundamental to the Group business as provider of online financial services.

Risk management plays an important role in the Group business' planning process and is highly supported by the Executive Management and the Board of Directors.

A1 Financial risk factors

The Group activities expose it to a variety of financial risks:

- Credit risk;
- Liquidity risk;
- Market risks (including foreign exchange risk and interest rate risk);
- Operational risk.

A variety of methodologies and measures are applied to quantify the risks of the Group and risk concentrations.

A2 Risk governance and risk organisation

The Group risk management policies and systems are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in the markets, products, emerging best practices and legislative and regulatory developments. As a general rule, risk limits are set by the Board of Directors. The Executive Management is responsible for supervising and directing the risk profile and recommending risk limits to the Board of Directors. The Chief Risk Officer is the executive accountable for enabling the governance of significant risks (risk management).

The objectives of risk management are to protect the Group financial strength and reputation, while ensuring that capital is well deployed to support business activities. These business activities are constrained by the capital that is available to cover risk-weighted assets resulting inter alia from the risks underlying the activities and the size of the balance sheet assets. These constraints represent a link between the strategy, the risks generated by the activities and the balance sheet and capital resources that are available to absorb those risks. The Group risk management organisation reflects the specific nature of the various risks in order to ensure that risks are managed within limits set in a transparent and timely manner. The Board of Directors is responsible for the strategic direction, supervision and control of the Group activities as well as the definition of the overall tolerance for risk. The Audit & Risk Committee is responsible for assisting the Board of Directors in its responsibilities by monitoring Group's approach with respect to financial reporting, internal controls, accounting, compliance and internal audit.

The Board of Directors provides written principles for the overall risk management, as well as written policies covering the following main risk areas:

- Asset and liability management and treasury policies (covering inter alia currency and maturity mismatching risks);
- Credit risks (including margining of collateral risks);
- Liquidity risks;
- Market risks (comprising the scope of assets considered for investment and provisions on market, interest rate and liquidity risks);
- Capital management policies;
- Operational risks.

Furthermore, once a year, the Board of Directors organises a conference dedicated to an in-depth review of risk and of the risk management process (the "Annual Conference on Risks"). Selected members of the senior management, the external auditors and the internal auditors provide the Board of Directors with their own risk assessments and their recommendations with respect to the risk management and internal control.

Notes to the consolidated financial statements

Section VI: Financial risk management

B Financial assets and liabilities categorisation

IFRS 7 requires presenting all the financial assets and liabilities of the Group by category and by class of instruments.

in CHF	Amortised cost		Fair value			
Classes of financial assets	Loans and advances	Held-to-maturity	Fair value through profit & loss	Available-for-sale	Total	Fair value
Cash and balances with central bank	3,517,110,596	–	–	–	3,517,110,596	3,517,110,596
Treasury bills and other eligible bills	259,850,000	–	–	–	259,850,000	259,850,000
Due from banks	425,399,549	–	–	–	425,399,549	425,399,549
Derivative financial instruments	–	–	72,390,700	–	72,390,700	72,390,700
Trading assets	–	–	8,251,045	–	8,251,045	8,251,045
Loans	278,589,147	–	–	–	278,589,147	278,589,147
Investment securities	–	76,901,842	2,197,997	305,784,470	384,884,309	391,344,396
Other assets	21,217,357	–	–	–	21,217,357	21,217,357
Total financial assets	**4,502,166,649**	**76,901,842**	**82,839,742**	**305,784,470**	**4,967,692,703**	**4,974,152,790**
Deferred income tax assets					1,297,620	
Intangible assets					40,288,690	
Information technology systems					44,937,871	
Property, plant and equipment					61,572,383	
Total non financial assets					**148,096,564**	
Total assets as at 31 December 2017					**5,115,789,267**	

in CHF					
Classes of financial liabilities	Fair value through profit & loss	Other liabilities	Total	Fair value
Deposits from banks	–	170,984,155	170,984,155	170,984,155
Derivative financial instruments	24,111,177	–	24,111,177	24,111,177
Due to customers	–	4,566,383,437	4,566,383,437	4,566,383,437
Other liabilities	–	50,280,159	50,280,159	50,280,159
Current income tax liabilities	–	5,310,652	5,310,652	5,310,652
Total financial liabilities	**24,111,177**	**4,792,958,403**	**4,817,069,580**	**4,817,069,580**
Deferred tax liabilities			1,558,476	
Provisions			2,012,911	
Total non financial liabilities			**3,571,387**	
Total liabilities as at 31 December 2017			**4,820,640,967**	
Net balance as at 31 December 2017			**295,148,300**	

B Financial assets and liabilities categorisation (continued)

in CHF	Amortised cost		Fair value			
Classes of financial assets	Loans and advances	Held–to–maturity	Fair value through profit & loss	Available–for–sale	Total	Fair value
Cash and balances with central bank	2,284,650,001	–	–	–	2,284,650,001	2,284,650,001
Treasury bills and other eligible bills	258,790,000	18,764,556	–	–	277,554,556	277,554,556
Due from banks	398,214,374	–	–	–	398,214,374	398,214,374
Derivative financial instruments	–	–	41,516,556	–	41,516,556	41,516,556
Trading assets	–	–	6,942,709	–	6,942,709	6,942,709
Loans	226,350,929	–	–	–	226,350,929	226,350,929
Investment securities	–	85,712,776	2,612,443	466,199,667	554,524,886	563,491,537
Other assets	30,373,132	–	–	–	30,373,132	30,373,132
Total financial assets	**3,198,378,436**	**104,477,332**	**51,071,708**	**466,199,667**	**3,820,127,143**	**3,829,093,794**
Deferred income tax assets					1,026,000	
Intangible assets					40,465,911	
Information technology systems					40,729,830	
Property, plant and equipment					63,911,608	
Total non-financial assets					**146,133,349**	
Total assets as at 31 December 2016					**3,966,260,492**	

in CHF				
Classes of financial liabilities	Fair value through profit & loss	Other liabilities	Total	Fair value
Deposits from banks	–	32,804,479	32,804,479	32,804,479
Derivative financial instruments	12,723,622	–	12,723,622	12,723,622
Due to customers	–	3,600,244,732	3,600,244,732	3,600,244,732
Other liabilities	–	35,732,333	35,732,333	35,732,333
Current income tax liabilities	–	379,204	379,204	379,204
Total financial liabilities	**12,723,622**	**3,669,160,748**	**3,681,884,370**	**3,681,884,370**
Deferred tax liabilities			1,209,728	
Provisions			2,331,930	
Total non-financial liabilities			**3,541,658**	
Total liabilities as at 31 December 2016			**3,685,426,028**	
Net balance as at 31 December 2016			**280,834,464**	

C Fair value of financial assets and liabilities

The fair value of financial instruments traded in an active market, such as trading available-for-sale securities, is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debts.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of other assets and other liabilities is assumed to approximate their fair value.

Fair value hierarchy

The levels of the fair value hierarchy are defined as follows:

– Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments and trading assets on stock and other exchanges and exchange traded derivatives such as futures. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.

– Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). These inputs include: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current or price quotations vary substantially either over time or among market makers, or in which little information is publicly available, inputs other than quoted prices that are observable for the asset or the liability or (3) inputs that are derived principally from or corroborated by observable market data by correlation or other means. This level includes the majority of the OTC derivative contracts and investment securities. The sources of input parameters such as LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

– Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). These inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available in the circumstances. This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The fair value of financial instruments traded in active markets is based on quoted prices at the balance sheet date. An active market is one in which quoted prices are readily and regularly available from a stock exchange, a dealer, a broker, an industry group, a pricing service or a regulatory agency, those prices represent actual and regularly occurring market transactions on an arm's length basis and in which transactions take place with sufficient frequency and volume. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (i.e. over-the-counter derivatives and investment securities) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to measure at fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Section VI: Financial risk management

C Fair value of financial assets and liabilities (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value:

in CHF	Level 1	Level 2	Level 3	Fair value	Carrying amount
As at 31 December 2017					
Financial assets measured at fair value					
Derivative financial instruments	46,848,682	25,542,018	–	72,390,700	72,390,700
Trading assets	8,251,045	–	–	8,251,045	8,251,045
Investment securities	40,431,948	267,550,519	–	307,982,467	307,982,467
Total	**95,531,675**	**293,092,537**	**–**	**388,624,212**	**388,624,212**
Financial assets not measured at fair value					
Cash and balances with central bank					3,517,110,596
Treasury bills and other eligible bills					259,850,000
Due from banks					425,399,549
Loans					278,589,147
Investments securities	48,682,752	34,679,177	–	83,361,929	76,901,842
Other assets					21,217,357
Total financial assets	**48,682,752**	**34,679,177**	**–**	**83,361,929**	**4,967,692,703**
Financial liabilities measured at fair value					
Derivative financial instruments	6,831,666	17,279,511	–	24,111,177	24,111,177
Total	**6,831,666**	**17,279,511**	**–**	**24,111,177**	**24,111,177**
Financial liabilities not measured at fair value					
Deposits from banks					170,984,155
Due to customers					4,566,383,437
Other liabilities					50,280,159
Current income tax liabilities					5,310,652
Total financial liabilities					**4,817,069,580**

Financial assets measured at fair value

Investment securities measured at fair value comprise of financial assets at fair value through profit or loss (31 December 2017: CHF 2.2 million, out of which CHF 2.2 million classified as level 2) and financial assets designated available-for-sale (31 December 2017: CHF 305.8 million, out of which CHF 265.4 million classified as level 2).

Financial assets and liabilities not measured at fair value

Investment securities not measured at fair value are all classified as held-to-maturity (31 December 2017: CHF 83.4 million, out of which CHF 48.7 million classified as level 2 and CHF 34.7 million as level 1). For all other financial assets and liabilities not measured at fair value, the carrying amount is assessed to be a reasonable approximation of fair value.

Notes to the consolidated financial statements

Section VI: Financial risk management

C Fair value of financial assets and liabilities (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value:

in CHF	Level 1	Level 2	Level 3	Fair value	Carrying amount
As at 31 December 2016					
Financial assets measured at fair value					
Derivative financial instruments	27,080,310	14,436,246	–	41,516,556	41,516,556
Trading assets	6,942,709	–	–	6,942,709	6,942,709
Investment securities	69,378,996	399,433,114	–	468,812,110	468,812,110
Total	**103,402,015**	**413,869,360**	**–**	**517,271,375**	**517,271,375**
Financial assets not measured at fair value					
Cash and balances with central bank					2,284,650,001
Treasury bills and other eligible bills					277,554,556
Due from banks					398,214,374
Loans					226,350,929
Investments securities	56,532,445	38,146,982	–	94,679,427	85,712,776
Other assets					30,373,132
Total financial assets	**56,532,445**	**38,146,982**	**–**	**94,679,427**	**3,820,127,143**
Financial liabilities measured at fair value					
Derivative financial instruments	6,068,408	6,655,214	–	12,723,622	12,723,622
Total	**6,068,408**	**6,655,214**	**–**	**12,723,622**	**12,723,622**
Financial liabilities not measured at fair value					
Deposits from banks					32,804,479
Due to customers					3,600,244,732
Other liabilities					35,732,333
Current income tax liabilities					379,204
Total financial liabilities					**3,681,884,370**

Financial assets measured at fair value

Investment securities measured at fair value comprise of financial assets at fair value through profit or loss (31 December 2016: CHF 2.6 million, out of which CHF 2.6 million classified as level 2) and financial assets designated available-for-sale (31 December 2016: CHF 466.2 million, out of which CHF 396.8 million classified as level 2).

Financial assets and liabilities not measured at fair value

Investment securities not measured at fair value are all classified as held-to-maturity (31 December 2016: CHF 94.7 million, out of which CHF 38.2 million classified as level 2 and CHF 56.5 million as level 1). For all other financial assets and liabilities not measured at fair value, the carrying amount is assessed to be a reasonable approximation of fair value.

C Fair value of financial assets and liabilities (continued)

Classification within the fair value hierarchy

Investment securities are generally classified as level 1 or level 2. Although market data is readily available, there is often insufficient third-party transaction data to justify an active market and corresponding level 1 classification.

Derivative financial instruments include, inter alia, currency forwards which are valued using foreign exchange spot rates observed in the market. As the foreign exchange market is actively tradable, these currency forwards are generally classified as level 1. Other derivative financial instruments, such as precious-metals forwards, are typically classified as level 2.

Trading assets are predominantly exchange-traded investment fund units with readily available quoted prices in liquid markets and therefore are classified as level 1.

D Capital management (including disclosures required by Swiss capital regulation)

D1 Capital management framework

The Group's objectives when managing capital, which is a broader concept than "equity" on the face of the statement of financial positions, are:

- Comply with regulatory capital requirements defined in the Swiss Federal Law on Banks and Savings Banks, the Implementing Ordinance on Banks and Savings Banks, the Swiss Capital Adequacy Ordinance (CAO) and the FINMA circulars that it refers to;
- Safeguard the Group's ability to continue as going concern so that it can continue to provide returns to the shareholders and demonstrate its financial strength and creditworthiness to its business partners and clients;
- Maintain a capital basis and capital ratios deemed adequate to support the growth of its business activities and to absorb the stresses that the Group calculates annually using scenarios for credit, market and operational risks;
- Anticipate future business and regulatory developments.

The Group and Swissquote Bank Ltd are both subject to the regulation of the Swiss Financial Market Supervisory Authority (FINMA). The capital levels of the Group are subject to quantitative and qualitative judgements by FINMA about the components of capital, risk weightings and other factors.

Within FINMA framework, Swiss Banks are classified in five supervisory categories according to their size and risk impact. The higher the category to which the bank belongs, the greater are its additional capital requirements and its required disclosures.

As at 31 December 2017, Swissquote Group is classified in the supervisory category 4 (category 1 being the one with the highest requirements). Banks included in supervisory category 4 are obliged to hold 8.0% of total capital ratio and an additional 3.2%, known as "capital conservation buffer" (total: 11.2%), as well as a variable "anti-cyclical buffer" (up to 2.5%). This "anti-cyclical buffer" has been activated, without impact for the Group since it is limited to mortgage loans business in Switzerland. Banks included in category 4 are not required, under conditions, to publish the exhaustive range of disclosures set in FINMA circulars (partial disclosure).

The capital ratio of 10.5% is defined by FINMA as a ratio below which immediate and extensive actions would be taken under supervisory law.

Under Basel III, a number of different approaches exist to calculate the capital adequacy requirements. The Swissquote Group and Swissquote Bank Ltd apply:

	31 December 2017	31 December 2016
Credit risk	International Standard Approach – AS-BRI	International Standard Approach – AS-BRI
Market risk	Standardised Approach	Standardised Approach
Operational risk	Basic Indicator Approach	Basic Indicator Approach

Other foreign subsidiaries of the Group are as well subject to locally applicable capital requirement regulations.

Notes to the consolidated financial statements

Section VI: Financial risk management

D2 Risk-weighted assets

The balance sheet positions, off-balance sheet exposures and the size of business activities are translated into risk-weighted assets ("RWA") that are categorised as market, credit, operational and non-counterparty risk.

Market risk reflects the capital requirements relating to potential changes in the fair values of financial instruments in response to market movements inherent in both the balance sheet and the off-balance-sheet items.

Credit risk reflects the capital requirements for the possibility of a loss incurred as the result of a counterparty failing to meet its obligations.

Operational risk reflects the capital requirements for the risk of loss resulting from inadequate internal processes, people and systems or from external events.

Non-counterparty risk reflects the capital requirements relating to premises and equipment.

Together, all these constraints create a link between the Group strategy, the risks that the business activities generate, the balance sheet and capital resources that are available.

	Risk-weighted assets		Required capital	
in CHF	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Credit risk:				
Sovereign	14,626,500	33,727,200	1,170,120	2,698,176
Banks	139,223,500	162,691,771	11,137,880	13,015,342
Corporates	86,946,820	165,068,925	6,955,746	13,205,514
Other institutions	135,914,000	140,133,827	10,873,120	11,210,706
Others	116,892,180	64,871,717	9,351,374	5,189,737
Non-counterparty risk	106,510,254	104,641,438	8,520,820	8,371,315
Market risk	63,841,000	22,810,000	5,107,280	1,824,800
Operational risk	302,889,179	276,447,879	24,231,134	22,115,830
Total	**966,843,433**	**970,392,757**	**77,347,474**	**77,631,420**

Total risk-weighted assets are determined by multiplying the capital requirements by 12.5 (which is the reciprocal of the minimum capital ratio of 8.0% required by Basel III).

D3 Eligible capital and capital ratios

To determine the total eligible capital under Basel III, additional deductions are made in the form of general adjustments from the total equity calculated in accordance with IFRS. These items are deducted in full and in particular comprise of intangible assets (goodwill).

in CHF	31 December 2017	31 December 2016
Eligible capital		
Ordinary shares	3,065,634	3,065,634
Share premium	35,299,313	42,585,616
Share option reserve	1,482,727	1,968,928
Other reserve	(2,375,800)	(1,510,450)
Treasury shares	(29,318,059)	(13,991,184)
Retained earnings	286,994,485	248,715,920
Subtotal	**295,148,300**	**280,834,464**
General adjustments		
Intangible assets	(40,288,690)	(40,465,911)
Others	(2,880,984)	(2,803,654)
Total common equity tier 1 capital	**251,978,626**	**237,564,899**
Total tier 2 capital	194,730	–
Total eligible capital	**252,173,356**	**237,564,899**

	Capital ratios		Minimum requirements		
	31 December 2017	31 December 2016	Basel III minimum requirement	Capital conserva-tion buffer	Total minimum requirement
Common equity tier 1 ratio (CET1)	26.1%	24.5%	4.5%	2.9%	7.4%
+ Additional tier 1 capital ratio (AT1)	–	–	1.5%	0.1%	1.6%
+ Tier 2 capital ratio (T2)	–	–	2.0%	0.2%	2.2%
Capital ratio (%)	**26.1%**	**24.5%**	**8.0%**	**3.2%**	**11.2%**

The Group as well as the applicable subsidiaries comply with the minimum capital requirements as at 31 December 2017 and has done so at all times during 2017 and 2016.

Additional metrics requested by FINMA:
CET1 available to cover BSIII minimum capital after deduction of AT1 (1.5%) and T2 (2.0%) filled by CET 1 (26.1%): 22.6%
CET1 available to cover total minimum capital after deduction of AT1 (1.6%) and T2 (2.2%) filled by CET 1 (26.1%): 22.3%
Capital ratio available to meet CET1 and T1 capital targets after deduction of T2 minimum requirement (2.2%): 23.9%

D4 Leverage ratio

The FINMA Circular 2015/3 "Leverage ratio" clarifies the calculation of the leverage ratio as per guidelines set forth in the Basel III minimum standards.

in CHF thousand, except where indicated	31 December 2017	31 December 2016
Tier 1 capital	251,979	237,565
Total leverage ratio exposure	5,373,551	3,967,962
Leverage ratio (%)	**4.7%**	**6.0%**

Total leverage ratio exposure corresponds to total assets adjusted by tier 1 capital deductions and off-balance-sheet items.

D5 Liquidity coverage ratio

The Liquidity Ordinance (LiqO), and the Circular FINMA 15/2 "Liquidity Risks Banks" outline the qualitative and quantitative liquidity requirements for banks. The qualitative part includes the definition of liquidity risk tolerance and strategy, the measurement of liquidity risks, stress testing and contingency funding planning. The requirements apply to all banks, but are tiered according to the scope of operations, complexity and general risk profile of its business activities.

The Liquidity Coverage Ratio (LCR) comprises two components: (1) the value of specifically defined high-quality liquid assets in stressed conditions and (2) the total net cash outflows calculated according to parameters.

The FINMA Circular 2016/1 "Disclosure – banks" requires to publicly disclose the LCR on a quarterly basis, calculated based on the three months average of the LCR components.

in CHF thousand, except where indicated	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Liquidity Coverage Ratio (LCR)				
Cash outflows	682,139	846,082	888,038	1,008,287
Cash inflows	(294,067)	(369,269)	(373,658)	(348,033)
Net cash outflows	388,072	476,813	514,380	660,254
Total high-quality liquid assets (HQLA)	2,394,235	2,855,847	3,087,280	3,354,400
Liquidity coverage ratio (LCR in %)	**617%**	**599%**	**600%**	**508%**

During 2017, the LCR was mainly influenced by the mix of weightings to be applied to customer cash balances (due to customers and deposits from banks) when determining the cash outflows and the methodology applied to the determination of net cash outflows for foreign exchange swaps.

The structural liquidity ratio (Net Stable Funding Ratio, hereafter "NSFR") will be applied in Switzerland as a minimum requirement (minimum ratio: 100%) starting from 1 January 2018. As at 31 December 2017, the NSFR ratio reported to Swiss National Bank was 366% (2016: 285%).

Complementing the short-term liquidity (LCR) and structural liquidity (NSFR) ratios, observation ratios form part of the new liquidity regulations set out in Basel III. Observation ratios are used as liquidity monitoring tools and contrary to the LCR and NSFR ratios, no minimum requirements apply to the various observation ratios. The first reporting was submitted in May 2017.

Notes to the consolidated financial statements

Section VI: Financial risk management

E Compliance with depositor protection rules

The Swiss Federal Law on Banks and Savings Banks states that in the event of a bank collapsing, deposits up to CHF 100,000 per depositor will be treated as "preferential debt", thus taking priority over the claims of other creditors. This preferential status means that these "privileged deposits" will be paid out of the insolvent bank's assets and will therefore take priority over claims by other (non-preferential) creditors. In order to secure these privileged deposits, banks are required to hold 125% of total privileged deposits in adequate eligible assets. In Switzerland, the Group (standalone basis) met those requirements as at 31 December 2017, with a coverage of 198% (31 December 2016: 163%).

F Credit risk

Credit risk is defined as the possibility of a loss being incurred as the result of a borrower or counterparty failing to meet its financial obligations. In the event of a default, the Group could incur a loss equal to the amount owed by the debtor, less any recoveries resulting from foreclosure, liquidation of collateral or the restructuring of the debtor company.

Credit exposures arise principally in lending activities that lead to loans, and investing activities that bring debt securities and other bills to the Group's asset portfolio.

Credit risk management is a structured process to assess, monitor and manage risk on a constant basis. This requires careful consideration of proposed extensions of credit, the setting of specific limits, monitoring during the life of the exposure and standardised approach to recognising credit impairments.

F1 Credit risk measurement

(I) Loans

Loans are principally in the form of:

- Lombard loans and other margin loans (securities trading);
- Leveraged forex credit lines;
- Other loan receivables (public authorities).

These credit limits are principally used by clients for leveraging their securities trading or their leveraged forex operations. The Group operates real-time mark-to-market trading platforms with customers' accounts being simultaneously updated with individual profits and losses. Credit risk arises when client's assets deposited with the Group are not sufficient to cover trading losses incurred.

Lombard loans and other margin loans: for Lombard loans, the maximum amount of margin (and hence of credit to a client) is based on the aggregate margin determined on each item of the customer's portfolio. The margin rate for securities is based on the type of security (mainly listed shares and bonds), and various other features such as liquidity, volatility and external rating. The amount of maximum margin is remeasured at each transaction of the customer, and in case of inactivity of the client at several times per business day. Lombard loans are monitored using a real-time system comparing the fair value of the collateral with the actual credit granted to each customer. Margin loans may be granted by the Group in the field of options and futures. Margin requirements are calculated for each customer throughout the trading day. Customers are alerted in their account when approaching margin breaches and if a customer's equity falls below the required level, positions are liquidated to bring the account into margin compliance. By permitting customers to exercise leverage with option and future positions, the Group is subject to risks inherent in extending credit, especially during periods of rapidly declining markets in which the value of the collateral held could fall below the amount of a customer's indebtness.

Leveraged forex credit lines: open positions of clients are authorised to a maximum leverage of their equity (margin deposit adjusted by unrealised gains and losses). With the aim to ensure the financial losses do not exceed the credit line, the Group has set up a system for the automatic closing-out of open positions. The automatic system shall apply (in normal market conditions) as soon as the used margin of the open positions reaches the credit line by a specific percentage.

Other loan receivables (public authorities): in the absence of debt security, investing activities could be performed in the form of a loan receivable, in particular to Swiss public authorities. The credit risk associated are limited through internal regulation and prescribed limits. Limits apply at a counterparty level. Compliance with prescribed limits is monitored at a counterparty level. Compliance with prescribed limits is monitored on an ongoing basis and also verified before the conclusion of each transaction.

Notes to the consolidated financial statements

Section VI: Financial risk management

F1 Credit risk measurement (continued)

(II) Due from banks

Due from banks comprises:

- Interbank deposits;
- Collateral deposits;
- Receivables from banks.

Interbank deposits: these deposits are made in order to gain an interest margin on the assets deposited by clients at the Group in the form of current account or term deposits.

Collateral deposits: these exposures result from amounts that are pledged in favour of third party financial institutions (such as stock exchanges) in order to secure the settlement of the transactions carried out by the Group's clients.

Receivables from banks: the Group also faces credit risk in the context of its white-label operations from third party banks which benefit from the trading venues of the Group. These exposures may be mitigated by collateral agreements (deposits recognised as deposits from banks) as well as other means. However, all credit exposure cannot be always totally eliminated on an intraday basis.

The limit for each counterparty – which absolute maximum is defined inter alia by reference to Group eligible capital (equity) in accordance with Swiss banking regulation (Capital Adequacy Ordinance in particular) – is based on a set of cumulative factors that include the external rating of the counterparty, the domicile of the counterparty and the duration of the financial instrument.

(III) Investment securities and treasury bills and other eligible bills

Investment securities comprise debt securities. Treasury bills and other eligible bills comprise of commercial papers and short-term debt instruments with a maturity below 12 months. Internal regulations define the procedures for the approval, management and review of the Group's exposure.

(IV) Derivative financial instruments

Derivatives contracts are entered into the normal course of business (clientele activity), as well as for assets and liabilities activities and for own risk management need, including mitigation of interest rate, foreign exchange and credit risk. Derivatives are either privately negotiated OTC contracts or standard contracts transacted through regulated exchanges. The replacement values correspond to the fair values. Positive replacement values constitute an asset, while negative replacement values a liability.

F2 Risk limit control and mitigation policies

The Group carefully manages its exposure to credit risk. The Group structures the levels of credit risk it undertakes by setting limits on the amount of risk accepted in relation to a borrower, or groups of borrowers with respect to their credit rating, as well as the level of security margin required which depends on the types of securities and portfolio profiles.

Counterparty credit risks are monitored on a revolving basis and are subject to a monthly or more frequent review.

The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

To avoid credit risk concentrations, the Group establishes limits and controls that constrain risk concentrations with regard to sector and country exposure.

Notes to the consolidated financial statements

Section VI: Financial risk management

F3 Impairment and provisioning policies
Impairment provisions are provided for losses that have been incurred at the balance sheet date based on objective evidence.

Objective evidence of impairment is principally based on:
- Downgrading;
- Delinquency in the contractual payment of principal or interest;
- Breach of loan covenants and conditions;
- Initiation of bankruptcy proceeding.

The Group reviews individual financial assets that are above materiality thresholds at least monthly or more regularly if necessary. Impairment allowances on individual assessed accounts are determined by an evaluation of the incurred loss at the balance sheet date on a case-by-case basis, and are applied to all significant accounts. The assessment normally encompasses collaterals held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

F4 Maximum exposure to credit risk (excluding collateral held or credit enhancement)

	Maximum exposure	
	2017	2016
in CHF		
Credit risk exposure relating to on-balance sheet assets are as follows:		
Cash and balances with central bank	3,517,110,596	2,284,650,001
Treasury bills and other eligible bills	259,850,000	277,554,556
Due from banks	425,399,549	398,214,374
Derivative financial instruments	72,390,700	41,516,556
Loans	278,589,147	226,350,929
Investment securities	384,884,309	554,524,886
Others (trading assets and other assets)	29,468,402	37,315,841
Total credit exposure on financial assets (A)	**4,967,692,703**	**3,820,127,143**
Non-financial assets (no counterparty exposure)	148,096,564	146,133,349
Total assets as at 31 December	**5,115,789,267**	**3,966,260,492**
Credit risk exposure relating to off-balance sheet assets are as follows:		
Operating lease commitments	10,722,586	3,515,240
Loan commitments (depositor protection contribution – Art. 37H BA)	26,030,000	24,936,000
Total credit exposure off-balance sheet (B)	**36,752,586**	**28,451,240**
Total credit exposure (A) + (B) as at 31 December	**5,004,445,289**	**3,848,578,383**

As at 31 December 2017, 70.3% of total credit exposure is related to Swiss National Bank (2016: 59.4%).

	2017	2016
in CHF		
Collateral at fair value to support loans	950,047,129	698,293,642
Cash deposits to support derivative financial instruments	328,879,809	226,090,181
Total as at 31 December	**1,278,926,938**	**924,383,823**

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F5 Due from banks and loans

	31 December 2017		31 December 2016	
	Loans	Due from banks	Loans	Due from banks
in CHF				
Neither past due nor impaired	276,256,198	425,399,549	222,890,130	398,214,374
Past due but not impaired	2,332,949	–	3,460,799	–
Impaired	19,477,182	418,339	19,001,387	437,248
Gross balance	**298,066,329**	**425,817,888**	**245,352,316**	**398,651,622**
Impairment allowance	(19,477,182)	(418,339)	(19,001,387)	(437,248)
Net balance	**278,589,147**	**425,399,549**	**226,350,929**	**398,214,374**

Loans are spread over 19,339 distinct customers (2016: 15,612), 76.4% of them are domiciled in Switzerland (2016: 79.3%). The largest balance as at 31 December 2017 is CHF 15,605,416 (2016: CHF 10,831,620).

Due from banks are spread over 40 distinct counterparties (2016: 31). The largest balance as at 31 December 2017 is related to cash collateral pledged in favour of EUREX Exchange (leading derivatives exchange) and amounts CHF 81,401,217 (2016: CHF 50,858,375).

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F5 Due from banks and loans (continued)

Due from banks are further analysed as follows (based on contractual maturity):

in CHF	External rating	Sight	0–3 months	3–12 months	Gross amount
Investment grade	From AAA to AA-	150,444,639	17,538,450	10,000,000	177,983,089
	From A+ to A-	145,750,463	10,000,000	–	155,750,463
	From BBB+ to BBB-	57,438,517	–	–	57,438,517
Speculative grade	From BB+ to BB-	2,552,809	–	–	2,552,809
	From B+ to B-	–	–	–	–
	From CCC+ to CCC-	–	–	–	–
	From CC+ to C-	–	–	–	–
Other	Unrated	11,674,671	20,000,000	–	31,674,671
Total as at 31 December 2017		**367,861,099**	**47,538,450**	**10,000,000**	**425,399,549**

Unrated counterparties mainly relate to banks domiciled in Switzerland (2017: CHF 21.1 million; 2016: CHF 41.5 million).

No credit limits were exceeded during 2017 and 2016.

At year-end, up to CHF 230.8 million (2016: CHF 166.5 million) of the exposure is explained by amounts pledged in favour of third parties mainly in order to secure the settlement of client transactions (collateral deposits).

in CHF	External rating	Sight	0–3 months	3–12 months	Gross amount
Investment grade	From AAA to AA-	142,880,111	10,000,000	–	152,880,111
	From A+ to A-	122,089,606	–	5,359,550	127,449,156
	From BBB+ to BBB-	66,318,804	–	5,000,000	71,318,804
Speculative grade	From BB+ to BB-	2,138,004	–	–	2,138,004
	From B+ to B-	867,092	–	–	867,092
	From CCC+ to CCC-	–	–	–	–
	From CC+ to C-	–	–	–	–
Other	Unrated	2,658,607	30,719,100	10,183,500	43,561,207
Total as at 31 December 2016		**336,952,224**	**40,719,100**	**20,543,050**	**398,214,374**

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F6 Investment securities, treasury bills and other eligible bills

Investment securities (CHF 384.9 million), treasury bills and other eligible bills (CHF 259.9 million) are analysed as follows:

in CHF	External rating	Less than 1 year	1–2 years	2–5 years	Over 5 years	Gross amount
Investment grade	From AAA to AA-	112,903,446	68,472,088	–	22,427,383	203,802,917
	From A+ to A-	112,301,708	33,556,241	3,966,029	–	149,823,978
	From BBB+ to BBB-	71,333,146	33,446,179	1,727,230	–	106,506,555
Speculative grade	From BB+ to BB-	2,435,083	8,647,897	–	–	11,082,980
	From B+ to B-	–	–	–	–	–
	From CCC+ to CCC-	–	–	–	–	–
	From CC+ to C-	–	–	–	–	–
Other	Unrated	170,500,821	–	–	3,017,058	173,517,879
Total as at 31 December 2017		**469,474,204**	**144,122,405**	**5,693,259**	**25,444,441**	**644,734,309**

Cash and balances with central bank	3,517,110,596
Other assets than cash and balances with central bank, investment securities and treasury bills and other eligible bills	953,944,362
Total assets as at 31 December 2017	**5,115,789,267**

As at 31 December 2017, the balance of CHF 11.1 million identified as speculative grade mainly consists of bonds issued by European sovereign governments (CHF 3.8 million), European corporates (CHF 1.2 million), European banks (CHF 1.5 million) and South African government (CHF 4.6 million). The balance identified as unrated mainly consists of loans to Swiss municipalities (CHF 169.4 million) which are classified as treasury bills and other elligible bills when the maturity is below 12 months.

None of the above investment securities and treasury bills and other eligible bills are past due or impaired.

As at 31 December 2017, no investment securities are pledged in favour of third parties in connection with repo transactions (2016: none).

in CHF	External rating	Less than 1 year	1–2 years	2–5 years	Over 5 years	Gross amount
Investment grade	From AAA to AA-	58,778,485	88,512,993	31,221,159	26,190,896	204,703,533
	From A+ to A-	51,293,569	77,217,075	4,254,309	–	132,764,953
	From BBB+ to BBB-	96,726,084	84,123,440	2,754,465	112,675	183,716,664
Speculative grade	From BB+ to BB-	38,551,449	5,064,724	5,196	–	43,621,369
	From B+ to B-	–	–	–	–	–
	From CCC+ to CCC-	–	–	–	–	–
	From CC+ to C-	–	–	–	–	–
Other	Unrated	266,165,822	1,107,101	–	–	267,272,923
Total as at 31 December 2016		**511,515,409**	**256,025,333**	**38,235,129**	**26,303,571**	**832,079,442**

Cash and balances with central bank	2,284,650,001
Other assets than cash and balances with central bank, investment securities and treasury bills and other eligible bills	849,531,049
Total assets as at 31 December 2016	**3,966,260,492**

None of the above investment securities and treasury bills and other eligible bills are past due or impaired.

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F7 Geographical concentration of financial assets

The Group has credit exposures outside Switzerland:

– Through its deposits with financial institutions domiciled outside Switzerland (due from banks);

– Through debt instruments issued by foreign corporations, financial institutions and governments (investment securities, treasury bills and other eligible bills and other assets);

– To clients domiciled outside of Switzerland to whom the Group has granted credit facilities such as Lombard loans (loans as well as derivative financial instruments).

The geographical distribution based on the domicile of the counterparties is analysed below:

in CHF	Switzerland	Europe	North America	Middle East & Asia	Others	Total
Cash and balances with central bank	3,517,110,596	–	–	–	–	3,517,110,596
Treasury bills and other eligible bills	259,850,000	–	–	–	–	259,850,000
Due from banks	144,269,904	230,320,353	43,160,776	7,648,516		425,399,549
Derivative financial instruments	11,427,041	19,371,915	1,644,792	39,178,145	768,807	72,390,700
Trading assets	8,251,045	–	–	–	–	8,251,045
Loans	220,469,068	23,160,886	2,777,266	29,387,281	2,794,646	278,589,147
Investment securities	69,724,482	148,228,905	102,855,642	46,985,801	17,089,479	384,884,309
Other assets	18,815,813	1,343,590	627,301	349,958	80,695	21,217,357
Total financial assets as at 31 December 2017	**4,249,917,949**	**422,425,649**	**151,065,777**	**123,549,701**	**20,733,627**	**4,967,692,703**

in CHF	Switzerland	Europe	North America	Middle East & Asia	Others	Total
Cash and balances with central bank	2,284,650,001	–	–	–	–	2,284,650,001
Treasury bills and other eligible bills	258,790,000	13,424,875	5,339,681	–	–	277,554,556
Due from banks	183,278,183	152,066,430	57,237,264	5,632,497	–	398,214,374
Derivative financial instruments	9,641,355	12,151,587	1,059,381	18,129,746	534,487	41,516,556
Trading assets	6,942,709	–	–	–	–	6,942,709
Loans	182,755,399	21,955,680	1,832,087	15,431,185	4,376,578	226,350,929
Investment securities	97,455,331	240,664,497	133,000,962	56,872,204	26,531,892	554,524,886
Other assets	25,906,452	3,134,347	903,255	299,754	129,324	30,373,132
Total financial assets as at 31 December 2016	**3,049,419,430**	**443,397,416**	**199,372,630**	**96,365,386**	**31,572,281**	**3,820,127,143**

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F8 Industry sector concentration of assets

The industry sector concentration is analysed below:

in CHF	Cash and treasury bills	Derivative financial instruments	Due from banks and loans	Investment securities	Total at 31 December 2017	Total at 31 December 2016
Banks	–	3,899,420	425,399,549	180,144,058	609,443,027	642,970,295
Central Banks	3,517,110,596	–	–	–	3,517,110,596	2,284,650,001
Sovereign and municipalities	259,850,000	–	27,540,000	98,239,220	385,629,220	391,004,952
Subtotal	**3,776,960,596**	**3,899,420**	**452,939,549**	**278,383,278**	**4,512,182,843**	**3,318,625,248**
Automobiles & parts	–	–	–	9,500,921	9,500,921	26,746,647
Basic resources	–	–	–	1,680,896	1,680,896	2,954,401
Chemicals	–	–	–	6,531,907	6,531,907	8,580,826
Constructions & materials	–	–	–	362,344	362,344	3,686,822
Food & beverages	–	–	–	6,555,938	6,555,938	21,380,301
Health care	–	–	–	8,278,954	8,278,954	12,648,645
Individuals	–	68,491,280	251,049,147	–	319,540,427	258,629,112
Industrials goods	–	–	–	15,468,468	15,468,468	30,245,021
Insurance	–	–	–	1,406,556	1,406,556	3,531,049
Media	–	–	–	1,189,621	1,189,621	2,241,835
Oil & gas	–	–	–	13,681,039	13,681,039	16,805,414
Private households	–	–	–	8,766,321	8,766,321	8,030,569
Retail	–	–	–	–	–	3,657,644
Supranational	–	–	–	9,888,809	9,888,809	9,846,964
Technology	–	–	–	588,240	588,240	4,379,326
Telecommunications	–	–	–	11,063,094	11,063,094	30,632,927
Travel & leisure	–	–	–	–	–	869,405
Utilities	–	–	–	11,537,923	11,537,923	19,319,146
Subtotal	**–**	**68,491,280**	**251,049,147**	**106,501,031**	**426,041,458**	**464,186,054**
Other assets with no industry sector concentration					177,564,966	183,449,190
Total assets					**5,115,789,267**	**3,966,260,492**

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F9 Offsetting

Offsetting and related rights to set off are risk management tools that the Group use among others to reduce counterparty credit risk. The following table presents the recognised financial instruments that are subject to enforceable master netting agreements or other similar agreements but not offset.

in CHF	Gross amounts of recognised financial assets	Presented in statement of financial positions	Related amounts not set off in statement of financial positions	Net credit exposure
Derivative financial instruments (assets)				
Foreign exchange swaps	3,124,688	3,124,688	–	3,124,688
Currency options	29,672	29,672	–	29,672
Interest rate futures	3,958	3,958	–	3,958
Currency forwards, precious-metals forwards and CFD derivatives	69,232,382	69,232,382	328,879,809	–
Balance as at 31 December 2017	**72,390,700**	**72,390,700**	**328,879,809**	**3,158,318**
Foreign exchange swaps	1,804,507	1,804,507	–	1,804,507
Currency options	61,877	61,877	–	61,877
Interest rate futures	1,554	1,554	–	1,554
Currency forwards, precious-metals forwards and CFD derivatives	39,648,618	39,648,618	226,090,181	–
Balance as at 31 December 2016	**41,516,556**	**41,516,556**	**226,090,181**	**1,867,938**

in CHF	Gross amounts of recognised financial liabilities	Presented in statement of financial positions
Derivative financial instruments (liabilities)		
Foreign exchange swaps	12,182,517	12,182,517
Currency options	29,672	29,672
Interest rate futures	–	–
Currency forwards, precious-metals forwards and CFD derivatives	11,898,988	11,898,988
Balance as at 31 December 2017	**24,111,177**	**24,111,177**
Foreign exchange swaps	3,920,689	3,920,689
Currency options	61,877	61,877
Interest rate futures	3,405	3,405
Currency forwards, precious-metals forwards and CFD derivatives	8,737,651	8,737,651
Balance as at 31 December 2016	**12,723,622**	**12,723,622**

Currency forwards, precious-metals forwards and CFD derivatives recognised as derivative financial instruments correspond to open positions from leveraged forex (eForex) clients that are authorised to trade with a maximum leverage of their equity (margin deposit being recognised in due to customers).

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G Liquidity risk

Liquidity is the ability of the Group to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposits into medium- and long-term loans makes banks inherently vulnerable to liquidity risk.

G1 Liquidity risk management process

Liquidity and funding policy is designed to ensure that funding is available to meet all obligations in times of stress, whether caused by market events or issues specific to the Group. The objective of the Group's liquidity risk management is achieved through a conservative asset and liability management strategy, which comprises of:

- The maturity analysis of current investments in order to ensure the regular stream of expiries;
- The measurement of known and unknown cash flows;
- Measures ensuring ability to borrow funds through various instruments.

G2 Non-derivative cash flows

The table below presents the balances payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

in CHF	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2017						
Non-derivative financial liabilities						
Deposits from banks	170,984,155	–	–	–	–	170,984,155
Due to customers	4,565,243,720	–	802,727	336,990	–	4,566,383,437
Other liabilities	50,280,159	–	–	–	–	50,280,159
Current income tax liabilities	5,310,652	–	–	–	–	5,310,652
Total non-derivative financial liabilities (contractual maturity dates) – (A)	**4,791,818,686**	**–**	**802,727**	**336,990**	**–**	**4,792,958,403**
Derivative financial instruments						24,111,177
Non financial liabilities						3,571,387
Total liabilities						**4,820,640,967**
Commitments (B)	–	–	28,040,933	5,111,893	3,599,760	36,752,586
Total maturity grouping (A) + (B)	**4,791,818,686**	**–**	**28,843,660**	**5,448,883**	**3,599,760**	**4,829,710,989**
Total non-derivative financial assets (expected maturity dates)	(4,312,226,259)	(114,114,146)	(267,459,113)	(177,355,664)	(25,444,441)	(4,896,599,623)
Net balance	**479,592,427**	**(114,114,146)**	**(238,615,453)**	**(171,906,781)**	**(21,844,681)**	**(66,888,634)**

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G2 Non-derivative cash flows (continued)

in CHF	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2016						
Non-derivative financial liabilities						
Deposits from banks	32,804,479	–	–	–	–	32,804,479
Due to customers	3,600,244,732	–	–	–	–	3,600,244,732
Other liabilities	35,732,333	–	–	–	–	35,732,333
Current income tax liabilities	379,204	–	–	–	–	379,204
Total non-derivative financial liabilities (contractual maturity dates) – (A)	**3,669,160,748**	**–**	**–**	**–**	**–**	**3,669,160,748**
Derivative financial instruments						12,723,622
Non financial liabilities						3,541,658
Total liabilities						**3,685,426,028**
Commitments (B)	–	–	26,781,797	1,669,443	–	28,451,240
Total maturity grouping (A) + (B)	**3,669,160,748**	**–**	**26,781,797**	**1,669,443**	**–**	**3,697,611,988**
Total non-derivative financial assets (expected maturity dates)	(3,023,980,407)	(159,700,947)	(269,391,200)	(300,484,631)	(26,079,402)	(3,779,636,587)
Net balance	**645,180,341**	**(159,700,947)**	**(242,609,403)**	**(298,815,188)**	**(26,079,402)**	**(82,024,599)**

G3 Derivative cash flows

Derivatives held are settled on a net basis and are disclosed on a fair value basis.

in CHF	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2017						
Assets						
Derivatives held for trading						
Foreign exchange swaps	2,355,152	522,905	246,631	–	–	3,124,688
Currency options	11,063	1,082	17,527	–	–	29,672
Currency forwards	47,355,660	1,273,811	273,328	22,790	–	48,925,589
Precious-metals forwards	16,334,341	–	–	–	–	16,334,341
CFD derivatives	3,972,452	–	–	–	–	3,972,452
Derivatives held for hedging						
Interest rate futures	–	–	–	–	3,958	3,958
Total	**70,028,668**	**1,797,798**	**537,486**	**22,790**	**3,958**	**72,390,700**
Liabilities						
Derivatives held for trading						
Foreign exchange swaps	5,213,447	6,957,284	11,786	–	–	12,182,517
Currency options	11,063	1,082	17,527	–	–	29,672
Currency forwards	7,540,449	1,134,068	482,660	22,335	–	9,179,512
Precious-metals forwards	2,097,709	–	–	–	–	2,097,709
CFD derivatives	621,767	–	–	–	–	621,767
Derivatives held for hedging						
Interest rate futures	–	–	–	–	–	–
Total	**15,484,435**	**8,092,434**	**511,973**	**22,335**	**–**	**24,111,177**

Currency forwards, precious-metals forwards and CFD derivatives (indices and commodities) are mainly related to open transactions of leveraged forex (eForex) clientele as at 31 December 2017. Those transactions have to be classified in category “up to 1 month”.

G3 Derivative cash flows (continued)

Derivatives held are settled on a net basis and are disclosed on a fair value basis.

in CHF	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2016						
Assets						
Derivatives held for trading						
Foreign exchange swaps	1,373,288	60,733	358,214	12,272	–	1,804,507
Currency options	25,119	1,634	35,124	–	–	61,877
Currency forwards	28,532,428	383,312	580,928	23,476	–	29,520,144
Precious-metals forwards	7,069,525	–	–	–	–	7,069,525
CFD derivatives	3,058,949	–	–	–	–	3,058,949
Derivatives held for hedging						
Interest rate futures	–	–	–	–	1,554	1,554
Total	**40,059,309**	**445,679**	**974,266**	**35,748**	**1,554**	**41,516,556**
Liabilities						
Derivatives held for trading						
Foreign exchange swaps	3,305,765	297,180	317,744	–	–	3,920,689
Currency options	25,119	1,634	35,124	–	–	61,877
Currency forwards	6,671,675	368,364	595,077	34,289	–	7,669,405
Precious-metals forwards	802,994	–	–	–	–	802,994
CFD derivatives	265,252	–	–	–	–	265,252
Derivatives held for hedging						
Interest rate futures	–	–	–	2,355	1,050	3,405
Total	**11,070,805**	**667,178**	**947,945**	**36,644**	**1,050**	**12,723,622**

Currency forwards, precious-metals forwards and CFD derivatives (indices and commodities) are mainly related to open transactions of leveraged forex (eForex) clientele as at 31 December 2016. Those transactions have to be classified in category "up to 1 month".

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G4 Off-balance sheet cash flows

The table below summarises the future cash outflow commitments as at 31 December:

in CHF	No later than 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2017				
Loan commitments	26,030,000	–	–	26,030,000
Operating lease commitments	2,010,933	5,111,893	3,599,760	10,722,586
Total	**28,040,933**	**5,111,893**	**3,599,760**	**36,752,586**
As at 31 December 2016				
Loan commitments	24,936,000	–	–	24,936,000
Operating lease commitments	1,845,797	1,669,443	–	3,515,240
Total	**26,781,797**	**1,669,443**	**–**	**28,451,240**

Loan commitments are related to the payment obligation to the client deposit protection scheme (art. 37H Banking Act).

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H Market risk

Market risk is the risk that fair values or future cash flows of financial instruments will fluctuate because of changes in market conditions. The Group does not enter into proprietary trading positions based on expectations of future market improvements.

In the context of its activities, market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements as well as changes in the level of volatility of market rates or prices such as:

- Foreign exchange risk;
- Interest rate risk;
- Equity market risk;
- Issuer credit risk;
- Market liquidity risk.

Single transactions may also be exposed to a number of different market risks.

The Group devotes significant resources to ensure that market risks are comprehensively captured, accurately modelled and reported and effectively managed. Trading and non-trading portfolios are managed at various organisational levels. The Group uses market risk measurement and management methods designed to meet or exceed industry standards.

H1 Foreign exchange risk

The Group is exposed to two main sources of foreign exchange risk.

Transactional foreign exchange risk

Foreign exchange risk represents exposures to changes in the value of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include for example foreign investments, foreign currency denominated loans and future cash flows in foreign currencies. The Board sets limits on the level of exposure by currency and in aggregate which are monitored daily.

Leveraged forex (eForex) business

Foreign exchange risk arises from leveraged forex activities and clients trading foreign currencies and foreign designated securities.

The Group predominantly operates an agency model to execute client trades as it is considered as fundamental in the core business model philosophy. However, all client exposures are not immediately hedged and the Group may have a residual net position in any of the foreign currency pairs in which the Group offers leveraged forex. The Group has set up foreign exchange limits with the aim to optimise the efficiency of the operations and does not take own positions outside this scope. These limits are defined with reference to the expected volatility and liquidity of the corresponding foreign currency pairs. The real-time systems target to maximise the level of internal hedging arising from the client base (internalisation of the transaction flow) and monitor the foreign exchange exposure against the defined limits. If exposure exceeds these limits, hedging is undertaken to adjust the exposure within the limit.

Notes to the consolidated financial statements

Section VI: Financial risk management

H1 Foreign exchange risk (continued)

The table below summarises the Group's exposure to foreign currency risk as at 31 December. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

in CHF	CHF	USD	EUR	Others	Total
As at 31 December 2017					
Assets					
Cash and balances with central bank	3,517,030,774	33,061	30,741	16,020	3,517,110,596
Treasury bills and other eligible bills	259,850,000	–	–	–	259,850,000
Due from banks	327,344,051	4,181,766	43,629,544	50,244,188	425,399,549
Derivative financial instruments	7,468,871	44,182,898	1,014,238	19,724,693	72,390,700
Trading assets	858,959	247,987	7,144,099	–	8,251,045
Loans	126,657,211	57,630,275	88,284,275	6,017,386	278,589,147
Investment securities	83,947,445	214,024,843	86,552,719	359,302	384,884,309
Other assets	12,522,758	4,059,459	1,109,942	3,525,198	21,217,357
Total financial assets	**4,335,680,069**	**324,360,289**	**227,765,558**	**79,886,787**	**4,967,692,703**
Liabilities					
Deposits from banks	15,370,849	52,508,494	86,777,836	16,326,976	170,984,155
Derivative financial instruments	15,552,671	6,525,405	111,038	1,922,063	24,111,177
Due to customers	2,303,897,603	1,083,412,534	978,450,738	200,622,562	4,566,383,437
Other liabilities	44,893,617	2,550,427	592,059	2,244,056	50,280,159
Current income tax liabilities	5,310,652	–	–	–	5,310,652
Total financial liabilities	**2,385,025,392**	**1,144,996,860**	**1,065,931,671**	**221,115,657**	**4,817,069,580**
Net on-balance sheet financial position	**1,950,654,677**	**(820,636,571)**	**(838,166,113)**	**(141,228,870)**	**150,623,123**
Off-balance sheet notional position and credit commitments	(1,763,603,353)	819,818,591	838,715,585	141,821,763	36,752,586
Net exposure	**187,051,324**	**(817,980)**	**549,472**	**592,893**	**187,375,709**

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Section VI: Financial risk management

H1 Foreign exchange risk (continued)

The table below summarises the Group's exposure to foreign currency risk as at 31 December. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

in CHF	CHF	USD	EUR	Others	Total
As at 31 December 2016					
Assets					
Cash and balances with central bank	2,284,605,363	10,432	27,537	6,669	2,284,650,001
Treasury bills and other eligible bills	258,790,000	–	18,764,556	–	277,554,556
Due from banks	249,763,432	12,380,321	91,627,945	44,442,676	398,214,374
Derivative financial instruments	5,471,145	23,900,986	1,611,550	10,532,875	41,516,556
Trading assets	728,784	183,094	6,030,831	–	6,942,709
Loans	109,862,146	45,240,654	64,623,687	6,624,442	226,350,929
Investment securities	119,288,913	284,264,480	150,330,388	641,105	554,524,886
Other assets	24,125,174	2,811,327	2,797,340	639,291	30,373,132
Total financial assets	**3,052,634,957**	**368,791,294**	**335,813,834**	**62,887,058**	**3,820,127,143**
Liabilities					
Deposits from banks	7,410,857	8,508,520	12,506,504	4,378,598	32,804,479
Derivative financial instruments	6,329,669	4,334,200	59,259	2,000,494	12,723,622
Due to customers	1,936,302,691	763,540,563	746,619,813	153,781,665	3,600,244,732
Other liabilities	32,914,386	1,045,353	325,842	1,446,752	35,732,333
Current income tax liabilities	349,008	–	–	30,196	379,204
Total financial liabilities	**1,983,306,611**	**777,428,636**	**759,511,418**	**161,637,705**	**3,681,884,370**
Net on-balance sheet financial position	**1,069,328,346**	**(408,637,342)**	**(423,697,584)**	**(98,750,647)**	**138,242,773**
Off-balance sheet notional position and credit commitments	(903,748,635)	410,095,681	425,210,809	96,893,385	(28,451,240)
Net exposure	**165,579,711**	**1,458,339**	**1,513,225**	**(1,857,262)**	**166,694,013**

Notes to the consolidated financial statements

Section VI: Financial risk management

H2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

in CHF	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest-bearing	Total
As at 31 December 2017						
Assets						
Cash and balances with central bank	3,517,110,596	–	–	–	–	3,517,110,596
Treasury bills and other eligible bills	165,650,000	94,200,000	–	–	–	259,850,000
Due from banks	415,399,549	10,000,000	–	–	–	425,399,549
Derivative financial instruments	71,826,466	537,486	22,790	3,958	–	72,390,700
Trading assets	–	–	–	–	8,251,045	8,251,045
Loans	251,049,147	–	27,540,000	–	–	278,589,147
Investment securities	165,470,033	114,943,739	79,026,096	25,444,441	–	384,884,309
Other assets	19,891,869	1,325,488	–	–	–	21,217,357
Total financial assets	**4,606,397,660**	**221,006,713**	**106,588,886**	**25,448,399**	**8,251,045**	**4,967,692,703**
Liabilities						
Deposits from banks	170,984,155	–	–	–	–	170,984,155
Derivative financial instruments	23,576,869	511,973	22,335	–	–	24,111,177
Due to customers	4,565,243,720	802,727	336,990	–	–	4,566,383,437
Other liabilities	50,280,159	–	–	–	–	50,280,159
Current income tax liabilities	5,310,652	–	–	–	–	5,310,652
Total financial liabilities	**4,815,395,555**	**1,314,700**	**359,325**	**–**	**–**	**4,817,069,580**
Net on-balance sheet	**(208,997,895)**	**219,692,013**	**106,229,561**	**25,448,399**	**8,251,045**	**150,623,123**
Off-balance sheet	–	–	–	–	–	–
Net exposure	**(208,997,895)**	**219,692,013**	**106,229,561**	**25,448,399**	**8,251,045**	**150,623,123**

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Section VI: Financial risk management

H2 Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

in CHF	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest-bearing	Total
As at 31 December 2016						
Assets						
Cash and balances with central bank	2,284,650,001	–	–	–	–	2,284,650,001
Treasury bills and other eligible bills	160,284,606	117,269,950	–	–	–	277,554,556
Due from banks	377,671,324	20,543,050	–	–	–	398,214,374
Derivative financial instruments	40,504,988	974,266	35,748	1,554	–	41,516,556
Trading assets	–	–	–	–	6,942,709	6,942,709
Loans	220,350,929	–	6,000,000	–	–	226,350,929
Investment securities	250,791,724	131,733,075	145,920,685	26,079,402	–	554,524,886
Other assets	26,166,544	1,748,100	1,761,011	697,477	–	30,373,132
Total financial assets	**3,360,420,116**	**272,268,441**	**153,717,444**	**26,778,433**	**6,942,709**	**3,820,127,143**
Liabilities						
Deposits from banks	32,804,479	–	–	–	–	32,804,479
Derivative financial instruments	11,737,983	947,945	36,644	1,050	–	12,723,622
Due to customers	3,600,244,732	–	–	–	–	3,600,244,732
Other liabilities	35,732,333	–	–	–	–	35,732,333
Current income tax liabilities	379,204	–	–	–	–	379,204
Total financial liabilities	**3,680,898,731**	**947,945**	**36,644**	**1,050**	**–**	**3,681,884,370**
Net on-balance sheet	**(320,478,615)**	**271,320,496**	**153,680,800**	**26,777,383**	**6,942,709**	**138,242,773**
Off-balance sheet	–	–	–	–	–	–
Net exposure	**(320,478,615)**	**271,320,496**	**153,680,800**	**26,777,383**	**6,942,709**	**138,242,773**

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Section VI: Financial risk management

H3 Sensitivity analysis on foreign exchange rate risk and interest rate risk

a Analysis of sensitivity to foreign exchange risk

A sensitivity analysis has been performed on the basis of a 5.0% variation of CHF currency against all others as this is considered as reasonably possible.

		Sensitivity analysis (cumulated impact)[1]			
		+ 5% EUR + 5% USD + 5% others		– 5% EUR – 5% USD – 5% others	
in CHF thousand As at 31 December 2017	Carrying amount	Profit/(loss)	Other movements in equity	Profit/(loss)	Other movements in equity
Financial assets					
Cash and balances with central bank	3,517,111	4	–	(4)	–
Treasury bills and other eligible bills	259,850	–	–	–	–
Due from banks	425,400	4,903	–	(4,903)	–
Loans	278,589	7,597	–	(7,597)	–
Investment securities	384,884	15,047	–	(15,047)	–
Other (derivatives, trading assets and other assets)	101,859	4,051	–	(4,051)	–
Total impact on financial assets		**31,602**	**–**	**(31,602)**	**–**
Financial liabilities					
Deposits from banks	170,984	(7,781)	–	7,781	–
Due to customers	4,566,383	(113,124)	–	113,124	–
Others (derivatives and other liabilities)	74,391	(697)	–	697	–
Total impact on financial liabilities		**(121,602)**	**–**	**121,602**	**–**
Total impact on-balance sheet positions		**(90,000)**	**–**	**90,000**	**–**
Impact on off-balance-sheet positions		90,018	–	(90,018)	–
Net impact before income tax expense		**18**	**–**	**(18)**	**–**
Income tax expense		(3)	–	3	–
Net impact after income tax expense		**15**	**–**	**(15)**	**–**
31 December 2016		121	–	(121)	–

[1] without cumulating the impact of the sensitivity analysis, the maximum net impact after income tax expense will not exceed CHF 0.1m for any of the currencies (2016: CHF 0.1m).

The sensitivity analysis assumes normal market conditions in particular with regard to liquidity, which may affect execution prices.

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Section VI: Financial risk management

H3 Sensitivity analysis on foreign exchange rate risk and interest rate risk (continued)

b Analysis of sensitivity to interest rate risk

An interest rate risk sensitivity analysis has been performed on the basis of 1.0% variation in interest rate (100 basis points) as this is considered as reasonably possible and it is in accordance with the reporting of the interest rate risk prescribed by FINMA circular 2008/6. The analysis includes the impacts of variation in profitability (interest income) for the assumed change in interest rates as well as the fluctuations in the net present value of positions brought about by interest rates.

		Sensitivity analysis			
		+ 100 basis points		– 100 basis points	
in CHF thousand As at 31 December 2017	Carrying amount	Income statement (profitability effect)	Equity (net present value effect)	Income statement (profitability effect)	Equity (net present value effect)
Financial assets					
Cash and balances with central bank	3,517,111	19,269	–	(25,692)	–
Treasury bills and other eligible bills	259,850	2,624	–	(3,499)	–
Due from banks	425,400	4,425	–	(2,575)	–
Loans	278,589	1,378	–	(604)	–
Investment securities	384,884	969	(1,055)	(1,029)	1,076
Total impact on financial assets		**28,665**	**(1,055)**	**(33,399)**	**1,076**
Financial liabilities					
Deposits from banks	170,984	(98)	–	–	–
Due to customers	4,566,383	(7,667)	–	934	–
Total impact on financial liabilities		**(7,765)**	**–**	**934**	**–**
Net impact before income tax expense		**20,900**	**(1,055)**	**(32,465)**	**1,076**
Income tax expense		(3,762)	–	5,844	–
Net impact after income tax expense		**17,138**	**(1,055)**	**(26,621)**	**1,076**
31 December 2016		10,625	(2,122)	(25,460)	2,173

The results of the sensitivity analysis may be dependent on the negative interest environment and related decisions made by the Group with regard to their repercussion on client accounts conditions.

H4 Equity market risk

Equity market risk arises from trading assets, investment securities (FVTPL) and contract-for-differences (derivative financial instruments) offered to clients.

Trading assets are mainly related to units in investment funds that are invested in stocks included in major stock exchange indices (Swiss Performance Index and DJ Euro Stoxx).

Contract-for-differences (derivative financial instruments) are based on underlying stock indices on world stock markets. As not all of these products can be processed on agency model trades, the Group uses future contracts to hedge CFD positions on a net basis.

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Section VI: Financial risk management

H5 Issuer credit risk

Issuer credit risk represents exposure to changes in the creditworthiness of individual issuers or groups of issuers. The Group investment securities portfolio is exposed to issuer credit risk where the value of an asset may be adversely impacted by changes in the levels of credit spreads.

H6 Market liquidity risk

Market liquidity risk represents the risk that the level of expected market activity changes dramatically and, in certain cases, may even cease to exist. This situation resulting in the inability for a market participant to liquidate a position in a timely manner at a reasonable price. The effects of market liquidity risk can result into a price impact of trading activity (bid-ask spreads) and/or a postponed trading execution. This exposes the Group to the risk that it will not be able to transact business and execute trades in an orderly manner which may impact the results and/or client account balances. This impact could be exacerbated if expected hedging, pricing correlations or risk management systems are compromised by the disproportionate demand or lack of demand for certain instruments.

I Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events, including cyber risk and data confidentiality.

Operational risk is an inevitable consequence of being in business and managing this risk is a core element of the Group activities, implemented through a conceptual framework and an effective risk function. In September 2016, FINMA issued the Circular 2017/1 on corporate governance, risk management and internal controls at banks. The circular sets out the duties and responsibilities and defines requirements for the design of a relevant risk management framework and an internal control framework. At the same time, FINMA introduced new principles on IT and cyber risks in the Circular 2008/21 on operational risk.

Operational risk includes, among other things, technology risk as the Group is heavily dependent on technology to supply its services to clients and to run its internal processes. Technology risk is managed under the supervision of the Chief Technology Officer with independent oversight of the Chief Risk Officer. Information security is managed by a dedicated information security team. The Group undertakes regular penetration tests to detect vulnerabilities and receives advice on emerging threats from external experts.

I1 Fiduciary activities

The Group provides fiduciary capacities that result in the holding or placing of assets on behalf of clients. These services are mainly rendered through its web portal and therefore the Group is exposed to the operational risks associated with the use of this technology. At the balance sheet date, the Group clients' financial assets under custody, excluding cash portion, amount to CHF 18.6 billion (2016: CHF 14.4 billion).

I2 Cryptocurrencies trading services

Transactions on cryptocurrencies are settled through processes that are dependent on a peer-to-peer network. A cryptocurrency, or some fraction of it, is a chain of digital signatures stored in a public ledger called the blockchain. Possession and control over a particular cryptocurrency holding is synonymous with having knowledge of one or more private keys that are linked to one or more public addresses.

These particular characteristics make cryptocurrencies a target for cyberattacks because the stolen data has instant value and transactions are not reversible. These vulnerabilities are managed by the Group for the cryptocurrencies it holds in direct custody through effective security encompassing not only cybersecurity but as well the establishment of recognised security standards for offline (cold) cryptocurrencies storage and multi-signature wallets. Cold storage involves placing the private keys in an offline media, such as disconnected computer memory. Multi-signature wallets involves assigning cryptocurrencies to public addresses that are linked to multiple private key, each separately stored, subset of which are needed to effectuate any transfer. To access the cryptocurrencies network, the Group considered Bitstamp.net as an intermediary to be its principal market and third party custodian. The Group considers Bitstamp.net an appropriate counterparty for the cryptocurrencies services offered to customers.

Notes to the consolidated financial statements

Section VII: Other notes to the consolidated financial statements

Notes to the consolidated financial statements

Section VII: Other notes to the consolidated financial statements

1 Cash and cash equivalents

in CHF	2017	2016
Cash and balances with central bank	3,517,110,596	2,284,650,001
Treasury bills and other eligible bills	259,850,000	277,554,556
Due from banks	425,399,549	398,214,374
Deposits from banks	(170,984,155)	(32,804,479)
Total net	**4,031,375,990**	**2,927,614,452**
Less: treasury bills and other eligible bills (above 3 months)	(94,200,000)	(117,269,950)
Less: due from banks (above 3 months)	(10,000,000)	(20,543,050)
Cash and cash equivalents as at 31 December	**3,927,175,990**	**2,789,801,452**

Cash and balances with central bank comprise of CHF 3.5 billion deposits with Swiss National Bank (2016 : CHF 2.3 billion). Since 2015, a negative 0.75% interest rate is applied to Swiss National Bank deposit account balances that exceed a given exemption threshold.

Treasury bills and other eligible bills comprise of CHF 259.9 million of short-term receivables (below 12 months) from Swiss municipalities (2016: 258.8 million).

Part of "Due from banks" are pledged (2017: CHF 230.8 million – 2016: CHF 166.5 million) in favour of third parties mainly in order to secure the settlement of client transactions.

As at 31 December 2017, "Deposits from banks" (above 3 months) of CHF 10.0 million relates to deposits made by third-party banks which benefit from trading venues of the Group.

Notes to the consolidated financial statements

Section VII: Other notes to the consolidated financial statements

2 Derivative financial instruments

in CHF	Fair Value		Contract notional amount
	Assets	Liabilities	
Derivatives held for trading			
Foreign exchange swaps	3,124,688	(12,182,517)	2,015,610,553
Currency options	29,672	(29,672)	1,185,081
Currency forwards	48,925,589	(9,179,512)	3,426,840,955
Precious-metals forwards	16,334,341	(2,097,709)	785,732,121
CFD derivatives (indices and commodities)	3,972,452	(621,767)	111,244,069
Total derivatives held for trading	**72,386,742**	**(24,111,177)**	**6,340,612,779**
Derivatives held for hedging			
Derivatives designated as fair value hedge:			
Interest rate futures	3,958	–	2,417,202
Total derivatives held for hedging	**3,958**	**–**	**2,417,202**
Total as at 31 December 2017	**72,390,700**	**(24,111,177)**	**6,343,029,981**

Currency forwards, precious-metals forwards and CFD derivatives are related to clients' transactions. Foreign exchange swaps, currency options and interest rate futures are related to the Group's own transactions.

in CHF	Fair Value		Contract notional amount
	Assets	Liabilities	
Derivatives held for trading			
Foreign exchange swaps	1,804,507	(3,920,689)	1,045,754,219
Currency options	61,877	(61,877)	2,844,651
Currency forwards	29,520,144	(7,669,405)	1,585,262,745
Precious-metals forwards	7,069,525	(802,994)	161,935,960
CFD derivatives (indices and commodities)	3,058,949	(265,252)	88,778,756
Total derivatives held for trading	**41,515,002**	**(12,720,217)**	**2,884,576,331**
Derivatives held for hedging			
Derivatives designated as fair value hedge:			
Interest rate futures	1,554	(3,405)	9,269,444
Total derivatives held for hedging	**1,554**	**(3,405)**	**9,269,444**
Total as at 31 December 2016	**41,516,556**	**(12,723,622)**	**2,893,845,775**

Currency forwards, precious-metals forwards and CFD derivatives are related to clients' transactions. Foreign exchange swaps, currency options and interest rate futures are related to the Group's own transactions.

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Section VII: Other notes to the consolidated financial statements

3 Trading assets

Trading assets mainly comprise of units in investment funds principally invested in stocks and included in major stock indices, respectively DJ Euro Stoxx and Swiss Performance Index.

in CHF	2017	2016
European equities investment funds	7,396,906	6,243,173
Swiss equities investment funds	606,067	516,442
Other trading assets	248,072	183,094
Total as at 31 December	**8,251,045**	**6,942,709**

4 Due from banks and loans

in CHF	2017	2016
Due from banks	425,817,888	398,651,622
Impairment allowance	(418,339)	(437,248)
Total due from banks	**425,399,549**	**398,214,374**
Loans	298,066,329	245,352,316
Impairment allowance	(19,477,182)	(19,001,387)
Total loans as at 31 December	**278,589,147**	**226,350,929**

Loans mainly consist of advances covered by the pledging of the customers portfolio consisting of cash and securities (Lombard loans). As at 31 December 2017, loans include a balance of CHF 27.5 million (2016: CHF 6 million) related to loans to Swiss municipalities with maturity above 12 months.

As at 31 December 2017, the balance of CHF 19.5 million includes an impairment allowance of CHF 19.2 million (2016: CHF 18.6 million) related to the removal of the 1.20 floor on EUR/CHF by Swiss National Bank in 2015 (see section V - Critical accounting judgements and key sources of estimation uncertainty).

Reference is made to Note 25 for the estimated impact of the adoption of IFRS 9.

5 Investment securities

Investment securities mainly consist of listed bonds and OTC-traded bonds.

in CHF	Fair value through P&L	Available-for-sale	Held-to-maturity	Total
As at 1 January 2017	2,612,443	466,199,667	85,712,776	554,524,886
Exchange differences	(78,670)	(2,811,823)	536,182	(2,354,311)
Additions	2,603,500	142,664,682	–	145,268,182
Premium/(discount)	–	(5,390,939)	(326,049)	(5,716,988)
Disposals (sale and redemption)	(2,655,852)	(294,835,095)	(9,021,067)	(306,512,014)
Gains/(losses) from changes in fair value	(283,424)	(42,022)	–	(325,446)
As at 31 December 2017	**2,197,997**	**305,784,470**	**76,901,842**	**384,884,309**

Reference is made to Note 25 for the estimated impact of the adoption of IFRS 9.

in CHF	Fair value through P&L	Available-for-sale	Held-to-maturity	Total
As at 1 January 2016	24,352,895	651,239,983	113,253,093	788,845,971
Exchange differences	169,097	2,164,410	34,479	2,367,986
Additions	5,978,914	615,644,851	–	621,623,765
Premium/(discount)	–	(10,366,719)	(522,674)	(10,889,393)
Disposals (sale and redemption)	(27,605,280)	(793,346,245)	(27,052,122)	(848,003,647)
Gains/(losses) from changes in fair value	(283,183)	863,387	–	580,204
As at 31 December 2016	**2,612,443**	**466,199,667**	**85,712,776**	**554,524,886**

5 Investment securities (continued)

in CHF	2017			Recognition as per IAS 39		
	Carrying value	Fair value	Unrealised gains/ (losses)	Comprehensive income	Income statement	Not recognised
Fair value through profit & loss	2,197,997	2,197,997	(454,598)	–	(454,598)	–
Available-for-sale	305,784,470	305,784,470	527,724	527,724	–	–
Held-to-maturity	76,901,842	83,361,929	6,460,087	–	–	6,460,087
Total as at 31 December	**384,884,309**	**391,344,396**	**6,533,213**	**572,724**	**(454,598)**	**6,460,087**

During the period under review, CHF 151,342 of unrealised gains arising from changes in fair value of available-for-sale assets have been recognised in the statement of comprehensive income (2016: unrealised gains of CHF 527,279). The cumulated balance recorded in comprehensive income represents unrealised gains of CHF 527,724 (2016: unrealised gains of CHF 740,030), gross of deferred tax impact.

in CHF	2016			Recognition as per IAS 39		
	Carrying value	Fair value	Unrealised gains/ (losses)	Comprehensive income	Income statement	Not recognised
Fair value through profit & loss	2,612,443	2,612,443	(178,869)	–	(178,869)	–
Available-for-sale	466,199,667	466,199,667	740,030	740,030	–	–
Held-to-maturity	85,712,776	94,679,427	8,966,651	–	–	8,966,651
Total as at 31 December	**554,524,886**	**563,491,537**	**9,527,812**	**740,030**	**(178,869)**	**8,966,651**

5 Investment securities (continued)

Unrealised gains/(losses) incurred in investment securities are analysed as follows:

in CHF	Unrealised gains/(losses) as at 31 December 2017	Change versus 2016
Fair value through profit & loss	(454,598)	(275,729)
Available-for-sale	527,724	(212,306)
Held-to-maturity	6,460,087	(2,506,564)
Total	**6,533,213**	**(2,994,599)**

in CHF	Unrealised gains/(losses) as at 31 December 2016	Change versus 2015
Fair value through profit & loss	(178,869)	3,979,575
Available-for-sale	740,030	689,580
Held-to-maturity	8,966,651	(2,030,124)
Total	**9,527,812**	**2,639,031**

6 Intangible assets

	Goodwill	Customer relationships	Total
in CHF			
Gross value			
As at 1 January 2016	38,989,066	3,300,000	42,289,066
Addition	–	–	–
As at 31 December 2016	38,989,066	3,300,000	42,289,066
Addition	–	–	–
As at 31 December 2017	**38,989,066**	**3,300,000**	**42,289,066**
Accumulated depreciation			
As at 1 January 2016	–	(1,645,933)	(1,645,933)
Depreciation/amortisation	–	(177,222)	(177,222)
As at 31 December 2016	–	(1,823,155)	(1,823,155)
Depreciation/amortisation	–	(177,221)	(177,221)
As at 31 December 2017	**–**	**(2,000,376)**	**(2,000,376)**
Net book value as at 31 December 2017	**38,989,066**	**1,299,624**	**40,288,690**
Net book value as at 31 December 2016	38,989,066	1,476,845	40,465,911

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6 Intangible assets (continued)

The Group performed impairment tests of goodwill at the end of the financial year 2017 and 2016. For the purpose of impairment testing, goodwill has been allocated to the relevant cash-generating unit which is expected to benefit from the synergies of the corresponding business combination.

The impairment tests are based on calculations of value in use. Cash flow projections are based on actual operating results and cash flow projections based on financial budgets. Cash beyond the considered period are extrapolated using estimated long-term growth rates (if applicable). Future cash flows are discounted based on the weighted average cost of capital (WACC), taking into account risks that are specific to the cash-generating unit tested for impairment and historical industry average. As at 31 December 2017, the discount rates used were based on observable market long-term Swiss government bonds plus a risk premium.

Key elements used for value-in-use calculations of intangible assets are:

Type	Goodwill
Date of acquisition	2010, 2013
Business acquired	ACM Advanced Currency Markets Ltd MIG Bank Ltd
Carrying amount	CHF 38,989,066
Depreciation method	Indefinite useful life
Reportable segment	Leveraged forex (eForex)
Basis for recoverable amount	Value in use
Cash flow projections	5 years + terminal value
Long-term growth rate	1%
Discount rate	7.65% (2016: 7.45%)
Main assumptions	Transaction volume Revenue margin (CHF per million of volume) Net revenues Operating costs

The Group has determined the values assigned to each of the above key elements based on past performance and expectations of market development and industry trends. The Group recognised that the speed of technological change, the implementation of new regulations and the possibility of new entrants can have an impact on growth rate assumptions.

As at 31 December 2017, the estimated recoverable amount exceeds the carrying amount (2016: same).

Sensitivity analysis:

The Group has considered and assessed reasonably possible changes for key assumptions and has not identified instances that could cause the carrying amount to exceed the recoverable amount.

When performing sensitivity analysis, the Group has identified that a permanent change in the revenue assumption of –12% (without any adjustment in the forecasted expenses) could cause the carrying amount to exceed the recoverable amount.

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7 Information technology systems

in CHF	Software third party licences	Proprietary software	Hardware & telecom systems	Total
Gross value				
As at 1 January 2016	5,699,168	56,717,659	6,212,000	68,628,827
Addition	1,195,397	16,058,734	2,071,325	19,325,456
Other changes	(1,848,685)	(6,854,511)	(836,902)	(9,540,098)
As at 31 December 2016	**5,045,880**	**65,921,882**	**7,446,423**	**78,414,185**
Addition	707,705	17,220,968	1,851,309	19,779,982
Other changes	(699,901)	(6,807,472)	(1,088,526)	(8,595,899)
As at 31 December 2017	**5,053,684**	**76,335,378**	**8,209,206**	**89,598,268**
Accumulated depreciation				
As at 1 January 2016	(2,987,535)	(26,209,089)	(4,375,054)	(33,571,678)
Amortisation/depreciation	(903,847)	(11,541,531)	(1,207,397)	(13,652,775)
Other changes	1,848,685	6,854,511	836,902	9,540,098
As at 31 December 2016	**(2,042,697)**	**(30,896,109)**	**(4,745,549)**	**(37,684,355)**
Amortisation/depreciation	(907,554)	(13,171,124)	(1,493,263)	(15,571,941)
Other changes	699,901	6,807,472	1,088,526	8,595,899
As at 31 December 2017	**(2,250,350)**	**(37,259,761)**	**(5,150,286)**	**(44,660,397)**
Net book value as at 31 December 2017	**2,803,334**	**39,075,617**	**3,058,920**	**44,937,871**
Net book value as at 31 December 2016	3,003,183	35,025,773	2,700,874	40,729,830

Proprietary software comprises of software development costs and purchased software in connection with the design and improvements of the products, services and systems of the Group. As at 31 December 2017, additions to information technology systems include an amount of CHF 10.1 million (2016: CHF 9.8 million) representing own costs capitalised according to IAS 38.

Other changes of CHF 8.6 million are related to fully depreciated items which are derecognised because no future economic benefits are expected from their use.

8 Property, plant and equipment

in CHF	Land and building	Leasehold improvements	Equipments	Total
Gross value				
As at 1 January 2016	67,800,825	2,571,445	3,385,500	73,757,770
Addition	5,174,683	2,055	145,745	5,322,483
Other changes	–	(249,410)	(32,087)	(281,497)
As at 31 December 2016	**72,975,508**	**2,324,090**	**3,499,158**	**78,798,756**
Addition	31,256	104,469	193,004	328,729
Revaluation of land and building	126,918	–	–	126,918
Other changes	–	(16,413)	(1,127,745)	(1,144,158)
As at 31 December 2017	**73,133,682**	**2,412,146**	**2,564,417**	**78,110,245**
Accumulated depreciation				
As at 1 January 2016	(8,277,288)	(1,764,360)	(2,211,392)	(12,253,040)
Amortisation/depreciation	(2,305,490)	(209,119)	(400,996)	(2,915,605)
Other changes	–	249,410	32,087	281,497
As at 31 December 2016	**(10,582,778)**	**(1,724,069)**	**(2,580,301)**	**(14,887,148)**
Amortisation/depreciation	(2,261,314)	(184,418)	(349,140)	(2,794,872)
Other changes	–	16,413	1,127,745	1,144,158
As at 31 December 2017	**(12,844,092)**	**(1,892,074)**	**(1,801,696)**	**(16,537,862)**
Net book value as at 31 December 2017	**60,289,590**	**520,072**	**762,721**	**61,572,383**
Net book value as at 31 December 2016	62,392,730	600,021	918,857	63,911,608

Other changes of CHF 1.1 million are related to fully depreciated items which are derecognised because no future economic benefits are expected from their use.

Land and building are stated at their revalued amount, being the fair value at date of revaluation, less any subsequent depreciation. The fair value is based on regular appraisals by independent qualified valuers (last independent qualified valuation performed in 2013) or internally. As of 31 December 2017, the fair value was determined based on comparable market prices, vacancy rates and discount rate, which resulted in a level 2 fair value. There has been no changes in valuation technique. As at 31 December 2017, the other reserve in equity includes a revaluation surplus of CHF 1,403,208 (2016: CHF 1,276,290) gross of applicable deferred taxes, which cannot be freely distributed.

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9 Other assets

in CHF	2017	2016
Accrued income and other receivables	12,896,530	24,138,226
Others	8,320,827	6,234,906
Total as at 31 December	**21,217,357**	**30,373,132**

10 Due to customers

in CHF	2017	2016
Securities trading accounts	3,879,893,690	2,992,624,367
Saving accounts	357,609,938	381,530,184
Leveraged forex accounts	328,879,809	226,090,181
Total as at 31 December	**4,566,383,437**	**3,600,244,732**

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11 Other liabilities

	2017	2016
in CHF		
Accrued expenses	26,216,380	17,628,442
Account payables	6,480,555	3,864,061
Social security, pension plan and other social charges	10,009,186	7,950,272
Withholding tax to be paid and other taxes	6,450,949	5,345,189
Deferred revenues	1,123,089	944,369
Total as at 31 December	**50,280,159**	**35,732,333**

12 Taxation

a Deferred income tax assets

	Sources		
	Tax losses carried forward	Pension plan liability	Total
in CHF			
Balance as at 1 January 2016	**1,049,083**	**1,155,880**	**2,204,963**
In connection with remeasurement of defined benefit obligation	–	(98,640)	(98,640)
In connection with losses in Switzerland	(1,049,083)	–	(1,049,083)
In connection with change in tax rate	–	(31,240)	(31,240)
Balance as at 31 December 2016	**–**	**1,026,000**	**1,026,000**
In connection with remeasurement of defined benefit obligation	–	271,620	271,620
In connection with losses in Switzerland	–	–	–
In connection with change in tax rate	–	–	–
Balance as at 31 December 2017	**–**	**1,297,620**	**1,297,620**

12 Taxation (continued)

b Deferred tax liabilities

in CHF	Sources: Revaluation reserve	Sources: Temporary differences	Total
Balance as at 1 January 2016	238,666	1,211,269	1,449,935
Change in tax rate	(8,934)	(21,292)	(30,226)
Depreciation of fair-valued assets at date of acquisition of subsidiaries	–	(20,966)	(20,966)
Differences in the capitalisation, depreciation and other accounting policies	–	(189,015)	(189,015)
Balance as at 31 December 2016	**229,732**	**979,996**	**1,209,728**
Revaluation of land & building	22,845	–	22,845
Depreciation of fair-valued assets at date of acquisition of subsidiaries	–	(31,900)	(31,900)
Differences in the capitalisation, depreciation and other accounting policies	–	357,803	357,803
Balance as at 31 December 2017	**252,577**	**1,305,899**	**1,558,476**

in CHF	2017	2016
Revaluation of land & building	252,577	229,732
Fair valued assets at date of acquisition of subsidiaries (business combination)	636,413	668,313
Differences in the capitalisation, depreciations and other accounting policies [1]	669,486	311,683
Total as at 31 December	**1,558,476**	**1,209,728**

[1] Differences in the capitalisation, depreciation and other accounting policies come from the differences between IFRS and the accounting rules set out for banks by FINMA (ARB-FINMA).

In 2017, the average tax rate was 18.0% (2016: 18.0%). The average tax rate may vary depending on the profit mix accross the various jurisdictions.

The Swiss Federal Council started a consultation process for the so-designated "Tax Proposal 17" which aims to reform the corporate tax laws in Switzerland. According to the timetable, the Parliament should discuss and pass the new tax reform law in its 2018 summer and fall sessions. Accordingly, the new law may enter into force earliest at the beginning of 2019. In the meantime, the Canton of Vaud has confirmed its intention to introduce a reduced corporate tax rate regardless the current corporate tax reform under way at the federal level. The Canton of Vaud will implement in the coming months a cantonal package, including a reduction in the corporate income tax rate to 13.79%.

This new ordinary tax should also be applicable in the long run to companies that have enjoyed privileged status so far (such as holding status). Until a federal tax reform is implemented, however, these companies will remain subject to a tax rate comparable to that applicable today.

As of 31 December 2017, the Group has evaluated the impact on deferred tax assets and liabilities of the potential new ordinary tax rates. Should the reduction to 13.79% be confirmed in 2018, the corresponding adjustments shall be less than CHF 0.1 million (net).

12 Taxation (continued)

c Current income tax liabilities

in CHF	2017	2016
Related to parent company	333,722	246,980
Related to Swissquote Bank Ltd	4,976,930	102,028
Related to other subsidiaries	–	30,196
Total as at 31 December	**5,310,652**	**379,204**

As at 31 December 2017, unrecognised tax loss carryforwards represented an equivalent amount of CHF 1.5 million (2016: CHF 5.2 million). The level of recognised tax assets depends on assumptions regarding available future taxable profits that are eligible for offset in the same jurisdictions and the ability of the consolidated subsidiary to take benefit of the underlying losses. The amount of unrecognised tax loss carryforwards is subject to foreign exchange differences.

d Income tax expense

in CHF	2017	2016
Current-year income tax expense	6,298,109	1,518,854
Change in deferred income tax assets	(65,160)	1,178,963
Change in deferred tax liabilities	364,118	(240,207)
Total	**6,597,067**	**2,457,610**

Changes in deferred income tax assets and deferred tax liabilities may impact the income statement or statement of comprehensive income.

in CHF	2017	2016
Reconciliation of taxes		
Operating profit	45,782,013	23,210,124
Income tax expense computed at average tax rate in Switzerland (18.0%)	8,240,762	4,177,822
Increase/(decrease) in income taxes resulting from:		
Lower taxed income	(746,327)	(489,746)
Tax effect of losses not recognised in foreign locations	(686,487)	(362,067)
Non-deductible tax expenses	428,785	306,086
Non taxable income	(49,666)	(15,216)
Additional taxable income	(90,000)	(180,000)
Remeasurement of deferred tax – change in tax rate	–	20,731
Tax provision release	(500,000)	(1,000,000)
Total	**6,597,067**	**2,457,610**

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12 Taxation (continued)

d Income tax expense

In 2017, the average tax rate was 18.0% (2016: 18.0%). The average tax rate may vary depending on the profit mix across the various jurisdictions. The Group met specific conditions that make Swissquote Bank Ltd eligible to a preferred tax rate at a Swiss cantonal level for a period maximum up to 2019 (reduction of 25% on ordinary tax rate). These conditions have been met during the full period.

During 2017, pending tax filings reached final resolution with relevant tax authorities and the Group estimated that an amount of CHF 0.5 million (2016: CHF 1.0 million) could be released in the income statement.

13 Provisions

in CHF	2017	2016
Balance as at 1 January	**2,331,930**	**3,749,841**
Increase	785,556	410,970
Used/reversed:		
Acquisition of subsidiaries	(1,104,575)	(1,427,838)
Other provisions	–	(401,043)
Balance as at 31 December	**2,012,911**	**2,331,930**
Acquisition of subsidiaries	194,000	1,253,891
Other provisions	1,818,911	1,078,039
Total as at 31 December	**2,012,911**	**2,331,930**

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14 Pension
a Pension plan

The Group operates a defined benefit plan in Switzerland and defined contribution plans in foreign locations. All plan assets are held in trusts that are governed by local regulations and practice in each country. As at 31 December 2017, the level of benefits provided to staff located in foreign locations is not relevant for financial reporting purposes of the Group.

In Switzerland, the Group manages a tailored pension scheme through a collective foundation, which is organised under Swiss law. The main features are the following:

- This pension plan is accounted as a defined benefit plan under IAS 19R;
- The fund assets are held independently of the Group assets in separated trustee funds;
- Decisions with respect to the funds (levels of the benefits and of the contributions, as well as investment strategy) are made by a Board of Trustees in which the employees and the Group are each represented at parity;
- The pension's benefits are determined based on the contributions paid by the employees and the Group. However, in accordance with Swiss law the part of the employees' saving accounts corresponding to the minimum required by law shall be remunerated at a minimal interest rate set by the Swiss Government. In 2017, the rate was 1.00% per annum (2016: 1.00% per annum).

The main actuarial assumptions used for the calculation of the pension cost and the projected benefit obligations are as follows:

	2017	2016
Discount rate	0.85%	0.80%
Rate of future increase in compensations	1.25%	1.00%
Interest rate credited on savings accounts	1.00%	1.00%
Pension indexation	0.00%	0.00%
Inflation rate	1.00%	0.75%
Mortality tables	BVG 2015	BVG 2015
Retirement age	65 (male)/64 (female)	65 (male)/64 (female)
Turnover	15% on average	19% on average

Demographic assumptions (e.g. probability of death, disability or termination) are based on the technical principles set out in the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) 2015 (cohort life tables), which draw on observations of large insurance portfolios in Switzerland over a period of several years, and are adapted to reflect conditions specific to the group or empirical values where necessary.

Pension obligations and costs are presented as negative amounts.

14 Pension (continued)

b Defined benefit pension plans

in CHF thousand	Defined benefit obligation	Fair value of plan assets	Total
Total as at 1 January 2017	**(39,220)**	**33,520**	**(5,700)**
Service cost	(2,910)	–	(2,910)
Plan amendments	–	–	–
Interest income on plan assets/(interest cost on defined benefit obligation)	(302)	276	(26)
Administrative expense	–	(131)	(131)
Actuarial gain/(loss) of other long-term employee benefits	–	–	–
Pension cost recognised in income statement	**(3,212)**	**145**	**(3,067)**
Actuarial gain/(loss)	(1,682)	–	(1,682)
Return on plan assets (excluding interest income)	–	535	535
Pension cost recognised in other comprehensive income	**(1,682)**	**535**	**(1,147)**
Employees' contributions	(2,375)	2,375	–
Employer's contribution	–	2,705	2,705
Benefit payments	3,033	(3,033)	–
Total as at 31 December 2017	**(43,456)**	**36,247**	**(7,209)**
Of which active employees	(42,424)		
Of which pensioners	(1,032)		

in CHF thousand	Defined benefit obligation	Fair value of plan assets	Total
Total as at 1 January 2016	**(38,463)**	**31,340**	**(7,123)**
Service cost	(3,063)	–	(3,063)
Plan amendments	1,275	–	1,275
Interest income on plan assets/(interest cost on defined benefit obligation)	(390)	340	(50)
Administrative expense	–	(127)	(127)
Actuarial gain/(loss) of other long-term employee benefits	–	–	–
Pension cost recognised in income statement	**(2,178)**	**213**	**(1,965)**
Actuarial gain/(loss)	1,112	–	1,112
Return on plan assets (excluding interest income)	–	(290)	(290)
Pension cost recognised in other comprehensive income	**1,112**	**(290)**	**822**
Employees' contributions	(2,245)	2,245	–
Employer's contribution	–	2,566	2,566
Benefit payments	2,554	(2,554)	–
Total as at 31 December 2016	**(39,220)**	**33,520**	**(5,700)**
Of which active employees	(37,696)		
Of which pensioners	(1,524)		

14 Pension (continued)

b Defined benefit pension plans (continued)

Actuarial gains and losses arise from changes in demographic and financial assumptions as well as from experience. Benefit payments include vested benefits paid respectively deposited in the event of employees exiting or entering the plans.

c Categories of plan assets (fair value)

in CHF thousand	2017	2016
Cash	4,020	4,226
Qualified insurance policies	359	952
Debt instruments (listed)	23,861	21,051
Equity instruments (listed)	6,805	6,517
Real estate (listed)	777	371
Commodities (listed)	425	403
Total as at 31 December	**36,247**	**33,520**

Debt instruments may include instruments such as convertible bonds and perpetual callable bonds.

d Other disclosures (risks, sensitivity analysis, duration and estimate of contributions)

Through its defined benefit plan, the Group is exposed to a number of risks. As an example, the defined benefit obligation is calculated using a discount rate set with reference to market yields. A decrease in market yield will increase plan liabilities, although this will partially be offset by an increase in the fair value of the plan assets. As at 31 December 2017, the discount rate is based on an average duration of 20.7 years, which corresponds to the modified duration calculated based on the future expected benefit payments.

Further, the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any change in these assumptions will impact the carrying amount of defined benefit obligation.

As at 31 December 2017, the actuarial analysis established that an increase or a decrease of 0.25% in discount rate would lead to a maximum change of CHF 2.0 million (2016: CHF 1.5 million) in the defined benefit obligation. Other assumptions of changes do not impact the defined benefit obligation to the same extent. As an example (among others), an increase or decrease of 0.25% in interest rate credited on savings account would lead to an increase or a decrease of CHF 0.5 million (2016: CHF 0.4 million).

The estimates of employer's contribution and employees' contributions for 2018 are expected to be close to the respective contributions identified in 2017 (excluding the impact of potential new plan participants).

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15 Equity

15.1 Share capital

a Number of shares in 2017

	1 January	Change	Increase	Utilisation	31 December
Issued shares					
Ordinary share capital					
Number of shares	15,328,170	–	–	–	15,328,170
Nominal value per share (CHF)	0.2	–	–	–	0.2
Total nominal value (CHF)	**3,065,634**	**–**	**–**	**–**	**3,065,634**
Unissued shares					
Conditional capital					
Number of conditional shares	960,000	–	–	–	960,000
Nominal value per share (CHF)	0.2	–	–	–	0.2
Total nominal value (CHF)	**192,000**	**–**	**–**	**–**	**192,000**
Authorised capital					
Number of authorised shares	1,810,200	–	–	–	1,810,200
Total nominal value (CHF)	**0.2**	**–**	**–**	**–**	**0.2**
Authorised capital (CHF)	362,040	–	–	–	362,040

b Number of shares in 2016

	1 January	Change	Increase	Utilisation	31 December
Issued shares					
Ordinary share capital					
Number of shares	15,328,170	–	–	–	15,328,170
Nominal value per share (CHF)	0.2	–	–	–	0.2
Total nominal value (CHF)	**3,065,634**	**–**	**–**	**–**	**3,065,634**
Unissued shares					
Conditional capital					
Number of conditional shares	960,000	–	–	–	960,000
Nominal value per share (CHF)	0.2	–	–	–	0.2
Total nominal value (CHF)	**192,000**	**–**	**–**	**–**	**192,000**
Authorised capital					
Number of authorised shares	1,810,200	–	–	–	1,810,200
Total nominal value (CHF)	**0.2**	**–**	**–**	**–**	**0.2**
Authorised capital (CHF)	362,040	–	–	–	362,040

15 Equity (continued)

15.2 Share option reserve (employee stock options plan)

a Components of share option reserve

in CHF	Share option reserve components: Value of services to be reclassified to retained earnings when lapsed, forfeited or exercised	Share option reserve components: Value of services to be amortised through income statement over the vesting period	2017	2016
Balance as at 1 January	2,683,890	(714,962)	1,968,928	2,207,387
Stock options lapsed, forfeited or exercised	(1,255,168)	–	(1,255,168)	(941,964)
Fair value of current-year allocation	1,073,160	(1,073,160)	–	–
Amortisation of services	–	768,967	768,967	703,505
Balance as at 31 December	**2,501,882**	**(1,019,155)**	**1,482,727**	**1,968,928**

The fair value of stock options granted during 2017 was CHF 1,073,160 when the Group recognised a share option expense of CHF 768,967 in its income statement.

Allocation in CHF	Tranche	Value of services to be reclassified to retained earnings when lapsed, forfeited or exercised	Value of services to be amortised through income statement over the vesting period	2017	2016
14	3/3	–	–	–	183,888
15	2/3	–	–	–	302,613
15	3/3	210,069	–	210,069	311,806
16	1/3	–	–	–	230,709
16	2/3	142,701	–	142,701	234,537
16	3/3	213,889	–	213,889	169,021
17	1/3	66,973	–	66,973	150,558
17	2/3	97,408	–	97,408	132,895
17	3/3	176,020	(34,690)	141,330	89,240
18	1/3	117,536	–	117,536	88,811
18	2/3	204,250	(60,435)	143,815	45,024
18	3/3	202,970	(107,694)	95,276	29,826
19	1/3	353,653	(216,068)	137,585	–
19	2/3	359,085	(289,236)	69,849	–
19	3/3	357,328	(311,032)	46,296	–
As at 31 December		**2,501,882**	**(1,019,155)**	**1,482,727**	**1,968,928**

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15 Equity (continued)

15.2 Share option reserve (employee stock options plan) (continued)

b Employee stock option plan – historical allocations

The Group operates a Stock Option Plan under which it makes options in common stock available to the Group's employees and directors at the discretion of the Board. Since the creation of the Plan in 1999, a total of 19 allocation schemes have been offered. Optionees whose work contract is terminated lose their rights to options outstanding unless the Board resolves otherwise.

The terms and maturities of the non-lapsed allocations as at 31 December 2017 are summarised below.

				Exercise period		Analysis of status		
Allocation	Tranche	Strike price (CHF)	Number options	Start	End	In the money	In exercise period	In the money & exercise period
15	3/3	33.24	50,613	August 16	July 18	50,613	50,613	50,613
16	2/3	30.71	26,394	October 16	September 18	26,394	26,394	26,394
	3/3	30.71	39,628	October 17	September 19	39,628	39,628	39,628
17	1/3	25.66	17,542	August 16	July 18	17,542	17,542	17,542
	2/3	25.66	24,865	August 17	July 19	24,865	24,865	24,865
	3/3	25.66	44,661	August 18	July 20	44,661	–	–
18	1/3	25.95	29,433	August 17	July 19	29,433	29,433	29,433
	2/3	25.95	50,445	August 18	July 20	50,445	–	–
	3/3	25.95	50,374	August 19	July 21	50,374	–	–
19	1/3	34.02	68,076	August 18	July 20	68,076	–	–
	2/3	34.02	68,076	August 19	July 21	68,076	–	–
	3/3	34.02	67,987	August 20	July 22	67,987	–	–
		Total	**538,094**			**538,094**	**188,475**	**188,475**

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Section VII: Other notes to the consolidated financial statements

15 Equity (continued)

15.2 Share option reserve (employee stock options plan) (continued)

c Nineteenth allocation

The fair value of the options is determined based on Black-Scholes valuation model. The table below summarises the most significant inputs into the model that are the spot price at grant, the strike price, the expected life of the options and the volatility. The volatility is measured over a period of three years. Other inputs into the model are the risk free interest rate and the dividend yield (respectively –0.14% and 1.0% for the 2017 allocation). One option grants the right to acquire one share.

Date of grant	11.08.2017
Strike price (CHF)	34.02
Number of equal tranches	3
Start of exercise period (years from date of grant)	
Tranche 1	1
Tranche 2	2
Tranche 3	3
Max. duration of exercise period (years) for each tranche	2
Duration used for the calculation of the value of the option	1

Data on options granted and option price:	
Total number of options initially granted	204,729
Of which granted to Executive Management	23,600
Of which granted to other employees	181,129
Spot price at grant (CHF)	32.40
Volatility	31.02%
Fair value per option (average of all tranches) (CHF)	5.24
Of which:	
Tranche 1	5.19
Tranche 2	5.27
Tranche 3	5.26

Options are conditional on the employee completing at least one year service after the grant date (vesting period).

15 Equity (continued)

15.2 Share option reserve (employee stock options plan) (continued)

d Movement in stock options granted

The movements in options granted, exercised, forfeited and lapsed are reported below:

	Allocation							
	14th	15th	16th	17th	18th	19th	Total	Conditional shares available for exercise
Strike price (CHF)	32.2	33.24	30.71	25.66	25.95	34.02		
Share price as at 31 December 2017 (CHF)	38.15	38.15	38.15	38.15	38.15	38.15		
Balance as at 1 January 2016	114,170	233,940	136,467	151,246	–	–	635,823	960,000
Increase of conditional capital								–
Grants	–	–	–	–	163,949	–	163,949	
Exercises covered by:								
The issue of new shares	–	–	–	–	–	–	–	
Treasury shares	–	–	–	(8,628)	–	–	(8,628)	
Lapsed/forfeited	(58,365)	(83,804)	(6,372)	(6,844)	(590)	–	(155,975)	
Balance as at 31 December 2016	**55,805**	**150,136**	**130,095**	**135,774**	**163,359**	**–**	**635,169**	**960,000**
Balance as at 1 January 2017	55,805	150,136	130,095	135,774	163,359		635,169	
Grants	–	–	–	–	–	204,729	204,729	960,000
Exercises covered by:								
The issue of new shares								
Treasury shares	(38,790)	(21,904)	(57,503)	(43,036)	(22,390)	–	(183,623)	
Lapsed/forfeited	(17,015)	(77,619)	(6,570)	(5,670)	(10,717)	(590)	(118,181)	
Balance as at 31 December 2017	**–**	**50,613**	**66,022**	**87,068**	**130,252**	**204,139**	**538,094**	**960,000**
Conditional shares available for exercise								960,000
Less outstanding stock options								(538,094)
Intermediary balance (including conditional shares)								**421,906**
Number of treasury shares available as at 31 December 2017								1,063,775
Balance shares available for future grants								**1,485,681**

During 2017, the 210,000 stock options part of the consideration paid for the acquisition of MIG Bank Ltd have expired (strike price: CHF 47.50).

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15 Equity (continued)

15.2 Share option reserve (employee stock options plan) (continued)

e Movement (fair value) in stock options

in CHF	Allocation 14th	15th	16th	17th	18th	19th	Total
Balance as at 1 January 2016	370,338	935,329	733,386	588,689	–	–	2,627,742
Grants	–	–	–	–	659,706	–	659,706
Exercises: new shares	–	–	–	–	–	–	–
Exercises: treasury shares	–	–	–	(32,941)	–	–	(32,941)
Lapsed/forfeited	(186,450)	(320,910)	(34,244)	(26,639)	(2,374)	–	(570,617)
Balance as at 31 December 2016	**183,888**	**614,419**	**699,142**	**529,109**	**657,332**	**–**	**2,683,890**
Balance as at 1 January 2017	183,888	614,419	699,142	529,109	657,332	–	2,683,890
Grants						1,073,160	1,073,160
Exercises: new shares	–	–	–	–	–	–	–
Exercises: treasury shares	(127,820)	(90,912)	(307,401)	(166,451)	(89,411)	–	(781,995)
Lapsed/forfeited	(56,068)	(313,438)	(35,151)	(22,257)	(43,165)	(3,094)	(473,173)
Balance as at 31 December 2017	**–**	**210,069**	**356,590**	**340,401**	**524,756**	**1,070,066**	**2,501,882**

f Strike value of stock options outstanding and movements

in CHF	Allocation 14th	15th	16th	17th	18th	19th	Total
Balance as at 1 January 2016	3,676,274	7,776,166	4,190,901	3,880,972	–	–	19,524,313
Grants	–	–	–	–	4,254,477	–	4,254,477
Exercises: new shares	–	–	–	–	–	–	–
Exercises: treasury shares	–	–	–	(221,394)	–	–	(221,394)
Lapsed/forfeited	(1,879,353)	(2,785,645)	(195,684)	(175,617)	(15,311)	–	(5,051,610)
Balance as at 31 December 2016	**1,796,921**	**4,990,521**	**3,995,217**	**3,483,961**	**4,239,166**	**–**	**18,505,786**
Balance as at 1 January 2017	1,796,921	4,990,521	3,995,217	3,483,961	4,239,166	–	18,505,786
Grants	–	–	–	–	–	6,964,881	6,964,881
Exercises: new shares	–	–	–	–	–	–	–
Exercises: treasury shares	(1,249,038)	(728,089)	(1,765,917)	(1,104,304)	(581,021)	–	(5,428,369)
Lapsed/forfeited	(547,883)	(2,580,056)	(201,765)	(145,492)	(278,106)	(20,072)	(3,773,374)
Balance as at 31 December 2017	**–**	**1,682,376**	**2,027,535**	**2,234,165**	**3,380,039**	**6,944,809**	**16,268,924**

15 Equity (continued)

15.3 Other reserve

in CHF	Available-for-sale financial assets	Defined benefit obligation	Revaluation reserve	Currency translation differences	Total
Balance as at 1 January 2016	43,586	(3,625,419)	1,037,624	124,806	(2,419,403)
Revaluation of available-for-sale – gross	689,580	–	–	–	689,580
Revaluation of available-for-sale – tax	(124,124)	–	–	–	(124,124)
Remeasurement of defined benefit obligation – gross	–	822,000	–	–	822,000
Remeasurement of defined benefit obligation – tax	–	(147,960)	–	–	(147,960)
Currency translation differences	–	–	–	(330,543)	(330,543)
Balance as at 31 December 2016	**609,042**	**(2,951,379)**	**1,037,624**	**(205,737)**	**(1,510,450)**
Balance as at 1 January 2017	609,042	(2,951,379)	1,037,624	(205,737)	(1,510,450)
Revaluation of available-for-sale – gross	(212,306)	–	–	–	(212,306)
Revaluation of available-for-sale – tax	38,215	–	–	–	38,215
Remeasurement of defined benefit obligation – gross	–	(1,147,000)	–	–	(1,147,000)
Remeasurement of defined benefit obligation – tax	–	206,460	–	–	206,460
Revaluation of land and building – gross	–	–	126,918	–	126,918
Revaluation of land and building – tax	–	–	(22,845)	–	(22,845)
Currency translation differences	–	–	–	145,208	145,208
Balance as at 31 December 2017	**434,951**	**(3,891,919)**	**1,141,697**	**(60,529)**	**(2,375,800)**

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Section VII: Other notes to the consolidated financial statements

15 Equity (continued)

15.4 Treasury shares

	2017	2016
Beginning of the year (shares)	**432,744**	**421,388**
Purchase	**852,728**	**36,650**
Unit price ranging from CHF	23.82 to 38.55	22.77 to 28.50
Sale	**(19,479)**	**–**
Unit price ranging from CHF	34,93 to 38.42	–
Remittance to optionees/grant of shares	**(202,218)**	**(25,294)**
Unit price ranging from CHF	24.35 to 33.24	23.95 to 25.66
End of the period – 31 December (shares)	**1,063,775**	**432,744**
Total cost (CHF)	**29,318,059**	**13,991,184**
% of the issued shares	6.94%	2.82%

As at 31 December 2017, remaining balance of 1,063,775 is primarily held for the purpose of covering employees share and option plans. During 2017, the Group granted and allocated for free a total of 18,595 shares (2016: 16,666) to employees (blocked for a 5-year period) and Board members (blocked for a 3-year period).

15.5 Retained earnings (dividend and other payout)

Under Swiss law, dividends can only be paid out of the distributable reserves that are determined on a non-consolidated basis. Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

in CHF	2017	2016	2015	2014	2013
Dividend per share	0.86 [1]	0.13	–	–	0.60
Other payout per share	0.04 [1]	0.47	0.60	0.60	–

[1] Proposal of the Board of Directors

In 2017, CHF 6,652,002 (2016: 8,930,458) were reimbursed from share premium (reserves from capital contributions) and CHF 1,839,915 (2016: 0) from retained earnings.

16 Net fee and commission income

in CHF	2017	2016
Brokerage and related income	72,764,656	56,294,412
Custody fees	9,378,580	8,398,687
Other commission income	11,191,115	11,787,049
Advertising and subscription fees	2,793,607	2,517,123
Total fee and commission income	**96,127,958**	**78,997,271**
Fee and commission expenses	(10,923,893)	(9,454,113)
Total net fee and commission income	**85,204,065**	**69,543,158**

The Group offers various pricing schemes to its white-label partners which establish in general a minimum floor fee. When applicable, the difference with such minimum fee is included in other commission income.

Fee and commission income include an amount of CHF 5.6 million relating to the cryptocurrencies service that was initiated on 14 July 2017.

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17 Net interest income

in CHF	Activities excluding foreign exchange swaps	Foreign exchange swaps	2017	2016
Interest income				
Cash and short-term funds	268,116	–	268,116	265,808
Investment securities	7,507,686	–	7,507,686	8,885,442
Foreign exchange swaps	–	18,598,423	18,598,423	8,350,195
Loans	5,535,865	–	5,535,865	4,818,400
Subtotal	**13,311,667**	**18,598,423**	**31,910,090**	**22,319,845**
Negative interest rate expense				
Central banks and stock exchanges	(5,729,757)	(10,387,071)	(16,116,828)	(8,338,888)
Treasury bills and loans	(1,161,367)	–	(1,161,367)	(1,213,144)
Banks	(622,738)	–	(622,738)	(421,400)
Subtotal	**(7,513,862)**	**(10,387,071)**	**(17,900,933)**	**(9,973,432)**
Interest expense				
Banks	(187,781)	–	(187,781)	(28,738)
Foreign exchange swaps	–	(613,900)	(613,900)	(272,557)
Customers – securities trading accounts	(536,504)	–	(536,504)	(369,199)
Customers – saving accounts & leveraged forex accounts	(436,345)	–	(436,345)	(374,207)
Subtotal	**(1,160,630)**	**(613,900)**	**(1,774,530)**	**(1,044,701)**
Net interest income	**4,637,175**	**7,597,452**	**12,234,627**	**11,301,712**

18 Net trading income

in CHF	2017	2016
Foreign exchange revenues		
From leveraged forex (eForex)	66,675,733	52,821,691
From other foreign exchange income	22,197,870	16,437,687
Unrealised fair value gains/losses		
From trading assets	1,659,387	40,020
From others	(338,760)	(283,183)
Realised gains/losses	**122,767**	**384,230**
Net trading income	**90,316,997**	**69,400,445**

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Section VII: Other notes to the consolidated financial statements

19 Operating expenses

in CHF	2017	2016
Payroll and related expenses	64,645,074	57,047,716
Other operating expenses	35,830,182	32,334,697
Marketing expenses	20,425,604	19,669,005
Depreciation and amortisation	18,544,033	16,745,601
Provisions and impairment allowance	2,528,783	1,238,172
Total	**141,973,676**	**127,035,191**

Payroll and related expenses consist of:

in CHF	2017	2016
Wages and salaries	66,490,909	60,092,532
Social security costs	5,147,439	4,726,041
Pension costs (defined benefit and defined contribution)	3,136,698	2,010,155
Subtotal	**74,775,046**	**66,828,728**
Less: capitalised costs	(10,129,972)	(9,781,012)
Total	**64,645,074**	**57,047,716**
Average headcount (FTE)	577	532

With the development of international activities of the Group, wages and salaries comprise of a balance of CHF 6.8 million which is not subject to Swiss social security (2016: CHF 5.9 million).

For pension costs, reference is made to Note 14 as defined benefit costs are influenced by the result of actuarial analysis.

The capitalised costs relate to internally generated computer softwares (Note 7).

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20 Earnings per share

Basic

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased and held as treasury shares.

	2017	2016
Weighted average number of ordinary shares in issue	14,341,106	14,892,473
Net profit (CHF)	39,184,946	20,752,514
Earnings per share (CHF)	**2.73**	**1.39**

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share options are the only type of dilutive potential ordinary shares: a calculation is performed to determine the number of shares that could have been acquired at fair value (determined at the average annual market share price of the Group's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2017	2016
Weighted average number of ordinary shares	14,341,106	14,892,473
Adjustments for share options	23,215	–
Weighted average number of ordinary shares for diluted earnings per share options	14,364,321	14,892,473
Net profit (CHF)	39,184,946	20,752,514
Diluted earnings per share (CHF)	**2.73**	**1.39**

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21 Related-party transactions

Related-party transactions are defined as transactions and balances with members of the Board of Directors and of the Executive Management and their close family members as well as with shareholders with an interest in the Group of more than 5%.

in CHF	2017	2016
Key management compensation		
Short term employee benefits	3,731,917	2,393,929
Post-employment benefits	379,161	257,671
Total	**4,111,078**	**2,651,600**
Of which:		
Share-based payment (market value)	**270,887**	**219,290**
Loans	10,071,294	9,833,044
Due to customers	2,592,092	2,797,423
Interest income	92,296	48,536
Interest expenses	3,163	1,199

Related-party transactions are made on an arm's-length basis.

On 15 March 2017, the Group acquired 750,000 treasury shares from Windel Investments Ltd. These shares were initially transferred as part of the consideration for the acquisition of MIG Bank Ltd in 2013.

22 Off-balance-sheet commitments

in CHF	2017	2016
Irrevocable commitments		
Operating lease commitments	10,722,586	3,515,240
Loan commitments	26,030,000	24,936,000
Total	**36,752,586**	**28,451,240**

Loan commitments

Swiss banking law and the deposit insurance scheme require Swiss banks and securities dealers to jointly guarantee an amount up to CHF 6 billion for privileged deposits in the event a Swiss bank or a securities dealer becomes insolvent. As per FINMA guidelines, the payment obligation of the Group has to be recognised for as an irrevocable commitment under the off-balance-sheet transactions.

Other off-balance-sheet items

Reference is made to Note 23.

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23 Client assets

Assets under management (FINMA definition)

Assets under management are calculated and reported in accordance with the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA) concerning accounting standards for banks. According to FINMA, assets under management compose of assets for which the strict condition of having either a discretionary management mandate or an investment advisory agreement signed by the client with the Group itself is fulfilled.

in CHF	2017	2016
Assets with management/investment advisory mandate	132,916,398	91,704,597
Assets in self-managed collective investments instruments	35,931,460	24,224,619
Total as at 31 December	**168,847,858**	**115,929,216**
Out of which double counts	–	–

in CHF	2017	2016
Change attributable to net new money	36,397,721	40,721,283
Change attributable to market value	16,520,921	9,411,423
Total change in assets under management	**52,918,642**	**50,132,706**

Client assets

Client assets is a broader term than assets under management under FINMA definition and comprises of all bankable assets that are managed or deposited with the Group, including assets that are not held for custody but for which the technology of the Group gives clients access to asset classes and stock markets and/or for which services are provided by Swissquote's Robo-Advisor.

in CHF	2017	2016
Trading assets (including fiduciary placements and cryptocurrencies)	22,979,079,035	17,457,335,958
Saving assets	600,609,043	758,060,808
eForex assets	328,879,809	226,090,181
Robo-Advisory (ePrivate Banking) assets	203,110,068	115,929,216
Total client assets as at 31 December	**24,111,677,955**	**18,557,416,163**
Assets not deposited with the Group	(871,666,438)	(693,883,474)
Total assets under custody as at 31 December	**23,240,011,517**	**17,863,532,689**

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24 Disclosure of shareholdings of the Board of Directors and Executive Management

In compliance with Art. 663c of Swiss Code of Obligations, the following table summarises all shareholdings held by each member of the Board of Directors, the Executive Management and closely related persons:

			Number of stock options				
	Number of shares 2017	Number of shares 2016	2018	2019	2020	2021	2022
Participations							
Mario Fontana, Chairman of the Board	516,752	595,815	1,000	–	–	–	–
Mario Fontana, closely related persons [1]	244,011	164,011	–	–	–	–	–
Markus Dennler, member of the Board	29,534	28,909	667	–	–	–	–
Martin Naville, member of the Board	8,990	8,365	667	–	–	–	–
Jean-Christophe Pernollet, member of the Board	2,868	2,243	–	–	–	–	–
Beat Oberlin, member of the Board	3,424	1,699	–	–	–	–	–
Marc Bürki, CEO	1,934,692	1,926,300	4,240	1,574	4,720	3,147	1,574
Paolo Buzzi, CTO	1,936,240	1,926,275	2,667	1,574	4,720	3,147	1,574
Michael Ploog, CFO	68,050	67,950	5,813	4,720	4,720	3,147	1,574
Morgan Lavanchy, CLO	340	–	2,907	2,360	3,147	2,359	1,574
Gilles Chantrier, CRO	340	–	2,907	2,360	3,147	2,359	1,574
Closely related persons [2]	154,810	163,090	67	–	–	–	–
Former members	–	4,143	667	–	–	–	–
Total	**4,900,051**	**4,888,800**	**21,602**	**12,588**	**20,454**	**14,159**	**7,870**

[1] Mario Fontana, Chairman of the Board, retains full control of the social rights attached to the shares.

[2] The data reported in the table above is based on the Company's best knowledge of the number of shares owned by close relatives of the members of the Board and members of the Executive Management. Close relatives consist of spouse, children, father and mother as well as sisters and brothers. As at 31 December 2017 and 31 December 2016, closely related persons are mainly related to Marc Bürki (CEO), Paolo Buzzi (CTO) and Michael Ploog (CFO).

25 Estimated impact of the adoption of IFRS 9 "Financial Instruments"

Classification of financial assets and liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for financial assets compared to IAS 39.

The following table provides a reconciliation between line items in the statement of financial positions and categories of financial instruments:

in CHF	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9 [1]	Change
As at 31 December 2017					
Cash and balances with central bank	Loans and advances	Amortised cost	3,517,110,596	3,517,110,596	–
Treasury bills and other eligible bills	Loans and advances	Amortised cost	259,850,000	259,850,000	–
Due from banks	Loans and advances	Amortised cost	425,399,549	425,399,549	–
Derivative financial instruments	FVTPL	FVTPL	72,390,700	72,390,700	–
Trading assets	FVTPL	FVTPL	8,251,045	8,251,045	–
Loans	Loans and advances	Amortised cost	278,589,147	278,589,147	–
Investment securities	Held-to-maturity	Amortised cost	76,901,842	76,901,842	–
Investment securities	Available-for-sale	FVOCI	304,111,145	304,111,145	–
Investment securities	Available-for-sale	FVOCI equities	1,673,325	1,673,325	–
Investment securities	FVTPL	FVTPL	2,197,997	2,197,997	–
Other assets	Loans and advances	Amortised cost	21,217,357	21,217,357	–
Total financial assets			**4,967,692,703**	**4,967,692,703**	**–**

[1] Amounts excluding the impact of impairment loss allowance

IFRS 9 did not result in new measurements of financial assets and liabilities. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (ECL) model. Under IFRS 9, loss allowances will be measured on either the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date;
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECLs measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL applies if it has not.

The Group has identified that impairment losses are likely to increase and become more volatile for the assets in the scope of IFRS 9 impairment model.

25 Estimated impact of the adoption of IFRS 9 "Financial Instruments" (continued)

Based on the impairment methodology set by IFRS 9, the Group has estimated that application of IFRS 9 as at 1 January 2018 results in additional impairment losses as follows:

in CHF	Impairment loss allowance recognised as at 1 January 2018 gross of tax
Cash and balances with central bank	–
Treasury bills and other eligible bills	–
Due from banks	387,728
Derivative financial instruments	–
Trading assets	–
Loans	56,627
Investment securities	595,351
Other assets	–
Total impairment allowance (deducted from respective carrying amounts)	**1,039,706**
Less: income tax effect	(187,141)
Total impairment allowance, net of tax (deducted from equity)	852,565

The following comments provide further details about the main components of the estimated impact as at 1 January 2018:

Investment securities

As at 1 January 2018, the Group made some key presumptions to determine whether the 12-month ECL or the lifetime ECL had to be used as a basis for calculation of the impairment allowance. The Group has assumed that credit risk had not increased significantly if an investment security was identified as "low credit risk". An example of investment security that had a low credit risk is one that has an external "investment grade" rating. The method that the Group used for ECL is mainly based on a combination of the following factors: probability of default (PD), loss given default (LGD), exposure at default (EAD) and discounting. Probabilities of default (PD) are based on historical data and quantitative estimates supplied by third parties. Loss given defaults (LGD) parameters are estimated through the use of the standard supervisory rules set by Basel Committee on Banking Supervision (e.g. 45% for unsecured transactions and 75% for subordinated exposures). The starting point is the use of a 45% LGD value for most unsecured transactions, with a higher LGD (75%) applied to subordinated exposures. The Group plans to monitor changes in credit risk by tracking market indicators (such as published external ratings, CDS prices, credit component in bond yields and stock prices) as well as a number of fundamental indicators.

Due from banks

The deposits are held with banks and financial institutions counterparties which are generally rated as "investment grade". The estimated impairment was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group used a similar approach for assessment of ECLs for "Due from banks" than those used for "Investment securities".

Loans

Because most of the loans are essentially composed of Lombard and other secured exposures to clients, the Group considered a simplified approach for the handling of the margin loans as appropriate. This approach is driven by the fact that those types of portfolios are subject to specific risk monitoring processes, such as daily monitoring, haircuts to reflect collateral risk, margin calls, closeout processes and stress testing to simulate market events. For Lombard loans, the Group has determined that a significant increase in credit risk has no effect. ECL on these positions is expected to be low. The period over which the Group is exposed to credit risk is limited to the period needed to execute any credit risk mitigation actions. If margin calls are not satisfied, the position will be closed out immediately with any shortfall generally classified as a stage 3 position.

25 Estimated impact of the adoption of IFRS 9 "Financial Instruments" (continued)

The estimated impact on Group's equity is assessed as follows:

in CHF	As reported as at 31 December 2017	Estimated adjustment due to adoption of IFRS 9	Estimated adjusted opening balance as at 1 January 2018
Ordinary shares	3,065,634	–	3,065,634
Share premium	35,299,313	–	35,299,313
Share option reserve	1,482,727	–	1,482,727
Other reserve	(2,375,800)	–	(2,375,800)
Treasury shares	(29,318,059)	–	(29,318,059)
Retained earnings	286,994,485	(852,566)	286,141,919
Total equity	**295,148,300**	**(852,566)**	**294,295,734**

Hedge accounting

The Group will not adopt the optional IFRS 9 hedge accounting requirements pending completion of the IASB's project on macro hedge accounting strategies.

Disclosures

IFRS 9 will require additional disclosures, in particular for ECLs.

Transition

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to the classification and measurement changes (including impairment). Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings as at 1 January 2018.

Impact on regulatory capital

The Basel Committee on Banking Supervision (BCBS) has issued a consultative document on an interim approach and transitional adjustments for the regulatory treatment of IFRS 9 impairment allowance provisions. BCBS considers it may be appropriate to introduce the following transitional adjustments to add back IFRS 9 accounting provisions to Tier 2 capital, up to a maximum of 1.25% of risk-weighted assets and to implement a transitional model to spread the impact on day 1 on CET 1 capital over a specified number of years (from three to five years).

FINMA initiated the revision of several bank-related circulars and held a consultation on the matter until the end of January 2018. Key changes of the revised FINMA circular 2013/1 include a straight-line amortisation of the transition impact until 2022. The mechanics of the transitional arrangement would consist of including back the transition impact in the CET 1 capital as follows:

- 90% until 30 June 2018,
- 80% until 31 December 2018,
- 70% until 30 June 2019,
- 60% until 31 December 2019,
- 50% until 30 June 2020,
- 40% until 31 December 2020,
- 30% until 30 June 2021,
- 20% until 31 December 2021,
- 10% until 30 June 2022 and 0% afterwards.

Based on this interim guidance, the Group expects the impact on capital ratio to be as follows:

	As reported as at 31 December 2017	Estimated adjustment due to adoption of IFRS 9	Transitional measures	Estimated ratio as at 1 January 2018
Total capital ratio	26.1%	(0.1%)	0.1%	26.1%

Report of the statutory auditor to the General Meeting of Swissquote Group Holding Ltd Gland

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Swissquote Group Holding Ltd and its subsidiaries (the Group), which comprise the consolidated statement of financial positions as at 31 December 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 10 to 107) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

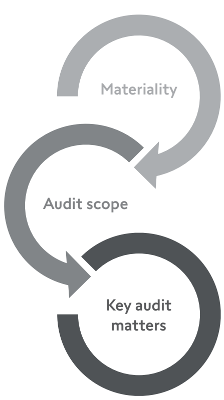
Basis for opinion

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

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

Our audit approach

Overview



Overall Group materiality: CHF 2'289'000 which represents 5% of profit before tax as of 31 December 2017

We concluded full scope audit work at Swissquote Group Holding Ltd and Swissquote Bank Ltd both in Gland

Our audit scope therefore addressed 99.8% of the Group's total assets and 98.8% of the Group's operating income

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

- Impairment allowance for credit losses on Loans
- Goodwill impairment assessment
- Holdings in cryptocurrencies

Audit scope

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

As Swissquote Bank Ltd and Swissquote Group Holding Ltd contributed to 99.8% of the Group's total assets and 98.8% of the Group's operating income, we, as group auditors, carried out full scope audit on those two entities. In addition, we performed analytical procedures on other group entities to ensure that any potential risk is identified and addressed. We, at group level, audited the consolidation which includes the consolidation adjustments, amongst others employee stock options plan, goodwill, tax, equity and intercompany eliminations. We finally validated the compliance of the consolidated financial statements with IFRS and Swiss law.

Materiality

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

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

Overall Group materiality	CHF 2'289'000
How we determined it	5% of profit before tax, rounded
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit & Risk Committee that we would report to them misstatements above CHF 228'900 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Impairment allowance for credit losses on Loans

Key audit matter	How our audit addressed the key audit matter
Beside the Lombard loans, Leverage Forex credit lines and Loans to municipalities granted in the normal course of business (see section F1 of the Consolidated Financial Statements), the Loans as shown on the face of the balance sheet (CHF 278.6 million) also include amounts due from clients who went into an unarranged overdraft. All of those overdrafts are linked to the Swiss National Bank decision taken on 15 January 2015 to remove the 1.20 floor on EUR/CHF which led to a sudden and extreme strengthening of the CHF against all major currencies. This event of unprecedented magnitude left many clients with a negative account balance. Since then, the Group seeks to recover the residual negative balances by different means. In order to assess the foreseeable recovery of such residual balances, the Group has clustered the negative balances based on different recovery strategies. The assumptions used for estimating the potential recovery are reviewed regularly by Executive Management and the Board of Directors to reduce any differences between the loss estimated and actual loss experience. We report the audit of the negative account balances as a key audit matter because the parameters to determine the level of the impairment allowance for those exposures	We tested the controls over identification of impaired loans and the calculation of allowances for credit losses. In relation to the negative balances and related provisions, we performed the following procedures: • We inspected the legal and financial assessment performed by the Group. We assessed the assumptions used by the management to determine the recoverable amounts and compared them with actual amounts recoverable on settled cases; • We tested a sample of the data used in the provision calculation to supporting evidence and we assessed the calculation methodology; • We examined for a sample of clients the correspondence exchanged with the Group (when applicable); • We obtained and analysed the lawyer's letters who assessed the legal position of the Group and the status of the pending lawsuits. We concluded that management's accounting for the loan impairment allowance is in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

are subject to judgement and because of their size. At 31 December 2017, the Group assessed that the amount of negative balances recoverable, and therefore not impaired, was CHF 2.3 million.

See Consolidated Financial Statements 2017, Section V: Critical accounting policies and key sources of uncertainty on pages 37-38 and Note 4 on page 75.

Goodwill impairment assessment

Key audit matter	How our audit addressed the key audit matter
The goodwill impairment assessment is considered a key audit matter due to the size of goodwill balance (CHF 39 million) as well as considerable judgment with respect to assumptions about calculations of the value in use including the future results of the business and the discount rate applied to future cash flow forecast. *See Consolidated Financial Statements 2017, Section V: Critical accounting judgement and key sources of estimation uncertainty on page 37 and Note 6 on pages 79-80.*	We performed the following procedures: • We evaluated the cash flow forecasts included in the discounted cash flow model (used to determine the value in use of the goodwill) and the process by which they were developed (including verifying the mathematical accuracy of the underlying calculations). We also compared the forecasts to the latest budget approved by the Board of Directors. We found that the forecasts used in the value in use calculations were consistent with the Board approved budget, and that the key assumptions were subject to oversight by the members of the Board; • We compared the current year actual results (2017) with the figures included in the prior year forecast (2016) to consider whether any forecasts included assumptions that, with hindsight, had been optimistic. We found that actual performance was higher than forecast performance; • We challenged management's assumptions on the revenue and discount rate by comparing the cost income ratio and the discount rate with comparable institutions which are active in the foreign exchange business. We found the assumptions to be consistent and in line with our expectations and the discount rate used by management (7.65%) consistent with market data and comparable business; • We re-performed sensitivity analyses around the key assumptions (growth rate and discount rate) to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired. We found that significant headroom remained between the stress-tested value in use calculations and the carrying value in the financial statements. In particular, we noted that significant headroom remained even when a zero terminal growth rate was assumed in conjunction with no revenue growth for the first 5 years. We concluded that valuation and recognition of the goodwill was in accordance with IAS 36 "Impairment of assets".

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Holdings in cryptocurrencies

Key audit matter	How our audit addressed the key audit matter
During 2017, the Group launched a new trading service by offering to its clients the opportunity to trade in cryptocurrencies. At the end of 2017, the offer covered five cryptocurrencies which clients can trade against EUR and USD currencies. The accounting rules surrounding the clients' holdings in cryptocurrencies have been a key area of audit focus for the current financial statements. The key element to consider in the current regulatory and accounting framework relating to cryptocurrencies, and which involves significant judgement, is to determine whether the cryptocurrencies owned by the clients are segregated from the Group's assets and therefore should not be included in the statement of financial positions as at 31 December 2017. Management's assessment of this matter considered the following items: • the nature of the contractual relationship between the Group and its clients including the Group's external counsel's legal opinion; • the current regulatory and accounting framework; • the Groups' own internal organisation to be able to segregate the client's investments in cryptocurrencies from the Group's own assets. Based on the above, Management has come to the conclusion that the clients' holdings in cryptocurrencies are not to be included in the statement of financial positions as at 31 December 2017. *See Consolidated Financial Statements 2017, Section V: Critical accounting judgement and key sources of estimation uncertainty on page 38.*	We performed the following procedures: • We inspected the legal assessment performed by the Group taking into account the Group's external counsel's legal analysis as well as the current regulatory guidance including the contractual relationship between the Group and its clients that supports Management's conclusion; • We took into consideration the current regulatory and accounting framework; it is important to note that the rules surrounding accounting for cryptocurrencies might be subject to clarification in the future by the relevant authorities and therefore might evolve; • We controlled the Group's internal ledger which allows the reconciliation between the cryptocurrencies held by the Group on behalf of the clients and the individual holdings of each client as reflected in their account statement; • We ensured that the Group performed a daily reconciliation between the transactions in cryptocurrencies carried out in the market and the orders executed on behalf of the individual clients to assess whether each transaction could be attributed to the relevant client. Based on the above, and on the current regulatory and accounting framework, we concur with Management's conclusion that the clients' holdings in cryptocurrencies are not to be included in the statement of financial positions as at 31 December 2017.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Swissquote Group Holding Ltd and our auditor's reports thereon.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers Ltd

Beresford Caloia	Alain Lattafi
Audit expert	Audit expert
Auditor in charge	

Lausanne, 27 February 2018

Statutory financial statements
Content

Statutory financial statements of Swissquote Group Holding Ltd

Statutory balance sheet

in CHF	Notes	31 December 2017	31 December 2016
Assets			
Cash and banks		256,642	249,632
Receivable from subsidiaries	1	20,229,208	31,803,214
Total current assets		**20,485,850**	**32,052,846**
Investment in subsidiaries	2	139,775,956	99,775,956
Subordinated loan to subsidiaries	2	–	40,000,000
Total non-current assets		**139,775,956**	**139,775,956**
Total assets		**160,261,806**	**171,828,802**
Liabilities and equity			
Accrued expenses and deferred income		–	765,197
Income tax payable		353,693	266,951
Total short-term liabilities		**353,693**	**1,032,148**
Total liabilities		**353,693**	**1,032,148**
Equity			
Share capital	3	3,065,634	3,065,634
Legal capital reserves			
Reserves from capital contributions	4	931,356	7,583,358
Other capital reserves	4	6,109,093	6,109,093
Retained earnings	5	165,555,536	156,629,897
Net profit		13,564,553	11,399,855
Treasury shares	6	(29,318,059)	(13,991,183)
Total equity		**159,908,113**	**170,796,654**
Total liabilities and equity		**160,261,806**	**171,828,802**

The notes on pages 116 to 120 are an integral part of these financial statements

Statutory income statement

in CHF	2017	2016
Royalties	8,953,318	7,372,920
Dividend received from subsidiaries	7,187,500	7,187,500
Interest income	298,211	287,745
Other revenues	1,856,459	659,706
Operating expenses	(4,243,077)	(3,766,678)
Operating profit	**14,052,411**	**11,741,193**
Income tax expense	(487,858)	(341,338)
Net profit	**13,564,553**	**11,399,855**

The notes on pages 116 to 120 are an integral part of these financial statements

Notes to the statutory financial statements

General information

Swissquote Group Holding Ltd (the "Company") was formed on 12 August 1999 and is registered in the Canton of Vaud, Switzerland, with headquarters in Gland. Swissquote Group Holding Ltd is the parent company of a financial group that is active in online financial services, the main operating subsidiary being Swissquote Bank Ltd. As at 31 December 2017, the Company did not employ more than 10 full-time equivalents (2016: no changes).

The shares of Swissquote Group Holding Ltd are listed on the Swiss Stock Exchange since 29 May 2000. The ticker is SQN, the security number is 1067586 and the ISIN Number is CH0010675863.

The main shareholders (pursuant to Swiss Financial Market Infrastructure Act FMIA) are (including stock options):

	2017			2016		
	Shares	Options	Total	Shares	Options	Total
Marc Bürki	12.62%	0.10%	**12.72%**	12.57%	0.14%	**12.71%**
Paolo Buzzi	12.63%	0.09%	**12.72%**	12.57%	0.14%	**12.71%**
PostFinance AG	5.00%	–	**5.00%**	5.00%	–	**5.00%**
Mario Fontana	4.96%	0.01%	**4.97%**	4.95%	0.02%	**4.97%**
Basellandschaftliche Kantonalbank	4.77%	–	**4.77%**	4.77%	–	**4.77%**
Janus Henderson Group plc	3.00%	–	**3.00%**			
Windel Investments Ltd (indirect holder: Georges Butros Mansour)	–	–	**–**	4.89%	1.37%	**6.26%**
UBS Fund Management (Switzerland) AG	–	–	**–**	3.22%	–	**3.22%**
Acadian Asset Management LLC	–	–	**–**	3.03%	–	**3.03%**
Treasury shares:						
Swissquote Group Holding Ltd			**6.94%**			**2.82%**

The statutory financial statements were approved for issue by the Board of Directors of the Company on 27 February 2018.

The Remuneration Report replaces the information previously contained in the notes to the statutory financial statements pursuant to art. 663b ^{bis} of the Swiss Code of Obligations.

Notes to the statutory financial statements

Summary of significant accounting policies

These statutory financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations (Art. 957 to 963b CO, effective since 1 January 2013 but applied by the Company for the first time for the year ended 31 December 2015). According to art. 962 Para. 3 CO, the Company does not present additional statutory financial statements in accordance with a recognised financial reporting standard.

Foregoing a cash flow statement and additional disclosures in the notes

Because consolidated financial statements are prepared in accordance with IFRS, the Company has decided, pursuant to art. 961d CO, to forego presenting additional information on audit fees in the notes as well as a cash flow statement in accordance with the Swiss law.

Where not described below, accounting and valuation principles are provided by law.

A Investments in subsidiaries

Investments in subsidiaries are valued at cost less economically necessary amortisations.

B Treasury shares

Treasury shares are valued at the acquisition price and are deducted from equity in accordance with art. 959a Para. 2 CO. Gains and losses on disposal of treasury shares are recognised in equity (but remain accountable for the determination of the taxable profit).

C Comparatives

Comparative figures, where necessary, are adjusted to conform to any changes in presentation in the current year.

Notes to the statutory financial statements

Other notes to the statutory financial statements

1 Receivables from subsidiaries

The current account of CHF 20,229,208 (2016: CHF 31,803,214) is related to cash deposited into a bank account opened with Swissquote Bank Ltd.

2 Investment in subsidiaries and subordinated loan to subsidiaries

	Office/country	2017		2016	
in CHF					
Swissquote Bank Ltd	Gland/Switzerland	100.00%	137,560,002	100.00%	97,560,002
Swissquote Trade Ltd	Gland/Switzerland	100.00%	238,950	100.00%	238,950
Swissquote Financial Services (Malta) Ltd	Mriehel/Malta	99.90%	1,977,004	99.90%	1,977,004
Total as at 31 December			**139,775,956**		**99,775,956**

Subordinated loan to subsidiaries

On 8 December 2017, the subordinated loan of CHF 40,000,000 due by Swissquote Bank Ltd was converted into equity increasing the investment in subsidiary for the same amount.

3 Share capital

	2017	2016
Ordinary issued share capital		
Number of shares in issue	15,328,170	15,328,170
Nominal value of each share (registered shares)	0.20	0.20
Ordinary share capital (CHF)	**3,065,634**	**3,065,634**
Unissued share capital (CHF)		
Conditional share capital (nominal value)	192,000	192,000
Authorised share capital (nominal value)	362,040	362,040

Authorised and conditional share capital
The provision ruling the utilisation of the authorised share capital provides that the Board of Directors is authorised until 13 May 2018 to increase the share capital of the Company by a maximum of CHF 362,040 by issuing no more than 1,810,200 new registered shares with a nominal value of CHF 0.20. The provision further provides details on the capital increase process and exercise of preferential subscription rights.

The provision ruling the utilisation of the conditional share capital provides that the Board of Directors is authorised to increase the share capital of the Company by a maximum of CHF 192,000 by issuing no more than 960,000 shares. The capital increase may be carried out through the exercise of options granted to employees.

Shares for members of the Board of Directors
Board members were granted free shares of the Company which are subject to a blocking period. The grants performed on behalf of 2016 and 2017 were as follows:

	Shares					
	2017			2016		
	Number	Market value	Tax value	Number	Market value	Tax value
Members of the Board	3,437	131,122	110,094	6,494	154,882	130,042

Notes to the statutory financial statements

Other notes to the statutory financial statements

4 Legal capital reserves

On 5 March 2015, the Federal Tax Administration confirmed to the Company that an amount of CHF 25,182,184 was recognised as capital contributions. Following the reimbursements performed in previous years, the remaining balance as at 31 December 2017 is CHF 653,949 (total balance of CHF 931,356). The residual amount of CHF 277,407 consists of notary fees and of issuance stamp tax that Federal Tax Administration excludes from the scope of capital contributions. Reimbursements from the reserves from capital contributions are not subject to Swiss withholding tax and to income tax for private individuals living in Switzerland who hold the shares as part of their private assets.

The other capital reserves balance of CHF 6,109,093 consists of CHF 1,485,115 of the legal reserve – general under the old accounting law and of CHF 4,623,978 of reserves for own shares dissolved in 2015 for the purpose of the new Swiss Code of Obligations.

5 Retained earnings

in CHF	2017	2016
Retained earnings	156,629,897	142,743,094
Net profit (previous year)	11,399,855	14,081,134
1 January	**168,029,752**	**156,824,228**
Dividend paid on behalf of previous year	(1,839,915)	–
Realised loss on treasury shares	(634,301)	(194,331)
31 December	**165,555,536**	**156,629,897**

The dividend on behalf of exercice 2016 that was paid in 2017 (CHF 8,491,917) was partially paid out of the retained earnings (CHF 1,839,915) and partially reimbursed from the reserves from capital contibutions (CHF 6,652,002).

6 Treasury shares

	2017	2016
Beginning of the year (shares)	**432,744**	**421,388**
Purchase	**852,728**	**36,650**
Unit price ranging from CHF	23.82 to 38.55	22.77 to 28.50
Sale	**(19,479)**	–
Unit price ranging from CHF	34,93 to 38.42	–
Remittance to optionees/grant of shares	**(202,218)**	**(25,294)**
Unit price ranging from CHF	24.35 to 33.24	23.95 to 25.66
End of the period – 31 December (shares)	**1,063,775**	**432,744**
Total cost (CHF)	**29,318,059**	**13,991,183**
% of the issued shares	6.94%	2.82%

Proposed appropriation of retained earnings

Proposal of the Board of Directors for appropriation of retained earnings and reserves from capital contributions as at 31 December 2017

The Board of Directors proposes to the Annual General Meeting to utilise retained earnings available for appropriation, and to reimburse the reserves from capital contributions as follows:

in CHF	2017
Net profit for the year	13,564,553
Retained earnings carried forward	165,555,536
Retained earnings available for appropriation	**179,120,089**
Allocation of available retained earnings	
Available retained earnings as at 31 December 2017	179,120,089
Proposed dividend (CHF 0.86 per share)	(13,182,226)
Retained earnings to be carried forward	**165,937,863**
Reimbursement of reserves from capital contributions	
Reserves from capital contributions as at 31 December 2017	931,356
Proposed reimbursement (CHF 0.04 per share)	(613,127)
Reserves from capital contributions to be carried forward	**318,229**

Out of the CHF 931,356, Federal Tax Authorities have confirmed an amount of CHF 653,949 as capital contributions.

Amount of proposed dividend and reimbursement is based on the number of shares issued as at 31 December 2017. However no distribution is allocated to the treasury shares.

Report of the statutory auditor to the General Meeting of Swissquote Group Holding Ltd Gland

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Swissquote Group Holding Ltd, which comprise the balance sheet as at 31 December 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 114 to 121) as at 31 December 2017 comply with Swiss law and the company’s articles of incorporation.

Basis for opinion

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

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

Our audit approach

Audit scope

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

Materiality

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

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

Overall materiality	CHF 702'000
How we determined it	5% of profit before tax, rounded
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the entity is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 70’200 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
We have determined that there are no key audit matters to communicate in our report.

Responsibilities of the Board of Directors for the financial statements
The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

PricewaterhouseCoopers Ltd

Beresford Caloia	Alain Lattafi
Audit expert Auditor in charge	Audit expert

Lausanne, 27 February 2018

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Corporate Governance Report

Introduction

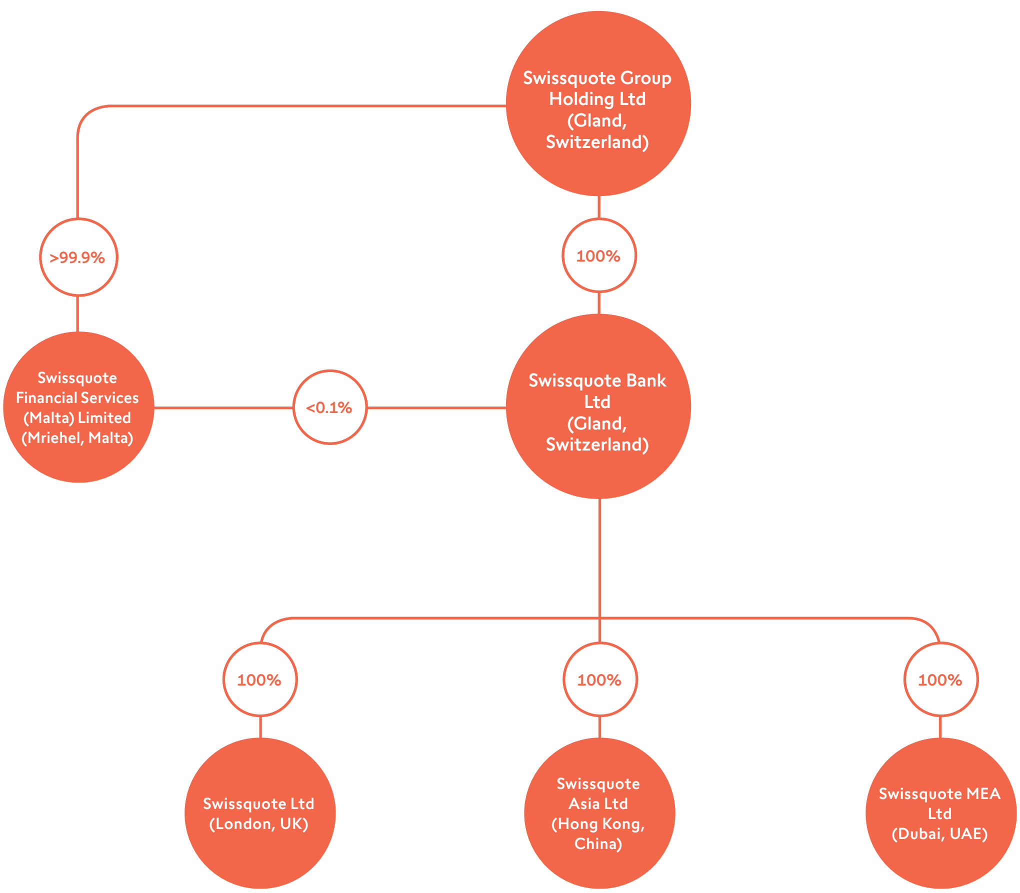
Corporate governance is at the heart of a proper business conduct and a central part of the Swissquote Group's (the "Group") internal organisation. This Corporate Governance Report informs shareholders, prospective investors as well as the larger public on the Group's policies in matters of corporate governance. The Group acts in compliance with the standards established by the SIX Swiss Exchange Directive on Information relating to Corporate Governance as well as FINMA Circular 2017/1 (Corporate governance – Banks).

1 Group structure and shareholders

1.1 Group structure

The structure of the Group, which comprises Swissquote Group Holding Ltd and its subsidiaries, is designed to support the Group's operations within an efficient regulatory and tax framework.

Swissquote Group comprises the following active companies as at 31 December 2017:



1.1 Group structure (continued)

Swissquote Group Holding Ltd (the "Company") is the listed vehicle of the Group. It was incorporated on 12 August 1999. Its shares have been listed on SIX Swiss Exchange since 29 May 2000 with the symbol SQN, the security number 1067586 and the ISIN number CH0010675863. As at 31 December 2017, the market capitalisation of the Company amounted to approximately CHF 585,000,000. Details on the capital are provided in section 2.

Swissquote Bank Ltd (the "Bank") was incorporated on 24 November 2000 and is a bank under the supervision of the Swiss Financial Market Supervisory Authority FINMA ("FINMA"). The main office of the Bank is located in Gland, Switzerland, with a branch in Zurich and representative offices in Dubai and Hong Kong. The share capital of the Bank amounts to CHF 42,000,000 (7,000,000 registered shares with a nominal value of CHF 6).

Swissquote Ltd has been a limited liability company incorporated in London since 19 July 2011. Swissquote Ltd is an investment company that provides online trading services under the supervision of the Financial Conduct Authority (FCA). The share capital of Swissquote Ltd amounts to GBP 4,260,100 (4,260,100 ordinary shares with a nominal value of GBP 1).

Swissquote Asia Ltd has been a limited liability company incorporated in Hong Kong since 16 January 2012. Swissquote Asia Ltd is a licensed corporation under the supervision of the Securities and Futures Commission (SFC), from which it was granted a Type 3 licence (Leverage Foreign Exchange Trading). The share capital of Swissquote Asia Ltd amounts to HKD 5,500,000 (5,500,000 registered shares with a nominal value of HKD 1).

Swissquote MEA Ltd has been a limited liability company incorporated in the Dubai International Financial Center (DIFC) since 14 June 2012. Swissquote MEA Ltd has a Category 4 licence (Arranging Deals and Custody in Investment) and is under the supervision of the Dubai Financial Services Authority (DFSA). The share capital of Swissquote MEA Ltd amounts to USD 500,000 (500 registered shares with a nominal value of USD 1,000).

Swissquote Financial Services (Malta) Limited has been a limited liability company incorporated in Malta since 19 October 2012. Swissquote Financial Services (Malta) Limited is an investment services company that operates as custodian for European investment funds under both a Category 4a and a Category 2 licences from the Malta Financial Services Authority (MFSA). The share capital of Swissquote Financial Services (Malta) Limited amounts to EUR 1,100,000, divided into 1,099,999 Ordinary Class A shares with a nominal value of EUR 1 (held by the Company) and 1 Ordinary Class B share with a nominal value of EUR 1 (held by the Bank).

For information on the exact registered addresses of each entity of the Group, reference is made to the last pages of the Annual Report.

Corporate Governance Report

1.2 Significant shareholders

Under the Swiss Financial Market Infrastructure Act (FMIA), any person holding shares in a company listed in Switzerland is required to notify the concerned company and the stock exchange, if the holding reaches, falls below or exceeds the following thresholds: 3%, 5%, 10%, 15%, 20%, 33¹/₃%, 50%, or 66²/₃% of the voting rights.

According to the information received by the Company and pursuant to section 1.2 of the Annex to the SIX Swiss Exchange Directive on Information relating to Corporate Governance, the shareholders with an interest in the Company above 3% as at 31 December 2017 are as follows:

	2017		
	Shares	Options	Total
Marc Bürki	12.62%	0.10%	12.72%
Paolo Buzzi	12.63%	0.09%	12.72%
PostFinance AG	5.00%	–	5.00%
Mario Fontana	4.96%	0.01%	4.97%
Basellandschaftliche Kantonalbank	4.77%	–	4.77%
Janus Henderson Group plc	3.00%	–	3.00%

For further information on stock options, reference is made to the Remuneration Report.

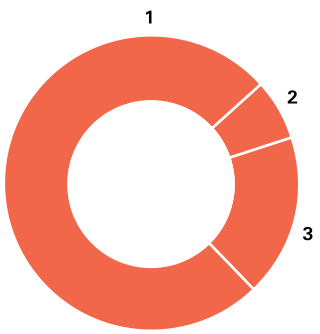
The full list of disclosures of shareholdings made in accordance with Art. 120 FMIA is available on the website of SIX Swiss Exchange using the following link:

https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

Corporate Governance Report

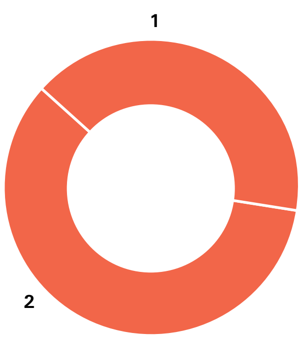
1.2 Significant shareholders (continued)

As at 31 December 2017, the issued share capital of the Company consisted of 15,328,170 ordinary registered shares with a nominal value of CHF 0.20 each. The shares registered in the share register amounted to 11,543,481 and the Company owned 1,063,775 treasury shares. The distribution of the shareholdings in the Company as at 31 December 2017 is reflected below:



1 Shares registered in the share register (75.3%)
2 Treasury shares (6.9%)
3 Other shares not registered in the share register (17.8%)

Further, the registered shareholders as at 31 December 2017 are broken down as follows:



1 Board members & Executive Management (41.1%)
2 Other registered shareholders (58.9%)

1.3 Cross-shareholdings

There are no cross-shareholdings.

Corporate Governance Report

2 Capital structure

2.1 Capital

Under Swiss company law, the general meeting of shareholders (the "General Meeting") has to approve any change in the total number of shares, whether with respect to the ordinary share capital or with respect to the creation of conditional capital or authorised capital.

As at 31 December 2017, the share capital of the Company amounted to CHF 3,065,634 (15,328,170 registered shares with a nominal value of CHF 0.20 each). The share capital is fully paid in. The Company itself owned 1,063,775 treasury shares. Further, a conditional share capital amounting to CHF 192,000 and consisting of 960,000 shares with a nominal value of CHF 0.20 each and an authorised capital of CHF 362,040 consisting of 1,810,200 shares with a nominal value of CHF 0.20 each remained outstanding as at 31 December 2017. The conditional capital and the authorised capital amount to a maximum of CHF 554,040, which equates to 18.1% of the existing share capital.

SIX Swiss Exchange regulations provide that individual shareholdings exceeding 5% (save for, inter alia, certain investment funds) are deemed to be a permanent investment and are therefore to be excluded from the free float. In accordance with SIX Swiss Exchange regulations, the free float as at 31 December 2017 was 62.81% (2016: 69.86%).

2.2 Conditional and authorised capital in particular

In this section and in the remainder of the Corporate Governance Report, the Articles of Incorporation of the Company, last amended on 13 May 2016 and applicable as at 31 December 2017, available at https://en.swissquote.com/company/investors in the French original version together with an English free translation, shall be referred to as the "AoI".

Art. 4bis of the AoI on the utilisation of the conditional capital provides that the Board of Directors of the Company (the "Board") is authorised to increase the share capital of the Company by a maximum of CHF 192,000 by issuing no more than 960,000 new registered shares with a nominal value of CHF 0.20 each. The capital increase may be carried out through the exercise of options granted by the Board to certain employees of the Company and its group companies by a maximum of CHF 150,000 through the issuance of a maximum of 750,000 new registered shares with a nominal value of CHF 0.20 each. The capital increase may also be carried out through the exercise of options granted by the Board in connection with the acquisition of a business undertaking, parts of a business undertaking or acquisition of participations in a business undertaking by a maximum of CHF 42,000 through the issuance of a maximum of 210,000 new registered shares with a nominal value of CHF 0.20 each.

Art. 4ter of the AoI governing the utilisation of the authorised capital provides that the Board is authorised until 13 May 2018 to increase the share capital of the Company by a maximum of CHF 362,040 by issuing no more than 1,810,200 new registered shares with a nominal value of CHF 0.20 each. The Board determines the amount of the issue, the point in time at which the shares confer a dividend entitlement, the method of payment in full for contributions and the subscription procedure. An increase in tranches or a partial increase is permissible. In accordance with the modalities laid down by the Board, the amount of the increase must be fully paid in. The restrictions on the transferability of registered shares set forth in the AoI also apply to the new shares.

For further information on the conditional and authorised capital, reference is made to the AoI.

2.3 Changes in capital

The following table summarises the changes in capital that took place within the last three financial years:

		Unissued shares		
	Ordinary shares issued	Conditional capital	Authorised capital	Total shares issued and unissued
Number of shares				
As at 1 January 2015	**15,328,170**	**960,000**	**1,810,200**	**18,098,370**
Exercise of employees' stock options	–	–	–	–
Increase/(decrease) in capital	–	–	–	–
As at 31 December 2015	**15,328,170**	**960,000**	**1,810,200**	**18,098,370**
As at 1 January 2016	**15,328,170**	**960,000**	**1,810,200**	**18,098,370**
Exercise of employees' stock options	–	–	–	–
Increase/(decrease) in capital	–	–	–	–
As at 31 December 2016	**15,328,170**	**960,000**	**1,810,200**	**18,098,370**
As at 1 January 2017	**15,328,170**	**960,000**	**1,810,200**	**18,098,370**
Exercise of employees' stock options	–	–	–	–
Increase/(decrease) in capital	–	–	–	–
As at 31 December 2017	**15,328,170**	**960,000**	**1,810,200**	**18,098,370**

2.4 Shares and participation certificates

Pursuant to Art. 5 of the AoI, the Company may issue its registered shares in the form of single certificates, global certificates or uncertified securities. As at 31 December 2017, the share capital consisted of 15,328,170 registered shares. The share capital of the Company is fully paid in. The dividend entitlement depends on the share's nominal value. Each of the Company's registered shares carries one voting right at the General Meeting. Upon request, acquirers of registered shares will be entered in the share register as shareholders with voting rights if they expressly declare that they acquired the registered shares in their own name and for their own account. More information is provided in sections 2.6 and 6.

The Company does not issue any participation certificates.

2.5 Dividend-right certificates

The Company does not issue any dividend-right certificates.

2.6 Limitations on transferability and nominee registrations

In accordance with Art. 685a CO and Art. 7 Para. 1 of the AoI, the transfer of registered shares is subject to the approval of the Board. Upon request, acquirers of registered shares will be entered in the share register as shareholders with voting rights if they expressly declare that they have acquired the registered shares in their own name and for their own account. If this requirement is not satisfied, the person in question will be entered in the share register as a shareholder without voting rights. In accordance with Art. 7 Para. 2 of the AoI, the Board may reject a request for entry into the share register within 20 days.

The AoI do not contain any express provision for granting exceptions to this limitation; no such exceptions were granted in the year under review. Nominees cannot be registered with voting rights; there were no exceptions in 2017.

Pursuant to Art. 14 Para. 1 of the AoI, decisions related to the restrictions on the transferability of registered shares can only be made by the General Meeting and require a qualified majority vote (two thirds of the votes represented and an absolute majority of the nominal values of the shares represented).

2.7 Convertible bonds and options

The Company does not issue any bonds, convertible bonds or warrants.

Information on the Group's stock option plan is provided in the Remuneration Report.

Corporate Governance Report

3 Board of Directors

The Board has the ultimate responsibility for the strategy and the management of the Company and for the supervision of the Executive Management of the Company (the "Executive Management"). Art. 16 Para. 1 of the AoI provides that the Board must be composed of a minimum of three members. As at 31 December 2017, the Board consisted of five members, all non-executive, details of which are presented here below.

3.1 Members of the Board of Directors

At the annual ordinary General Meeting (the "Ordinary General Meeting") of 12 May 2017, the Company's now former member of the Board Adrian Bult did not seek for re-election and all five remaining members of the Board were re-elected.

Mario Fontana (1946/Swiss national, domiciled in Switzerland)

Chairman of the Board of Swissquote Group Holding Ltd since April 2002
Chairman of the Board of Swissquote Bank Ltd since April 2004

Educational Background

1966–1969	Studies in Mechanical Engineering, ETH, Zurich
1969–1970	Master of Science Degree in Aerospace Engineering, Georgia Tech, USA

Executive Experience

1970–1977	Sales Representative and International Account Manager, IBM Switzerland
1977–1980	Chief Information Officer, Brown Boveri Brazil, Company acquired by ABB
1981–1983	Country General Manager, Storage Technology Switzerland
1984–1993	Country General Manager, Hewlett-Packard Switzerland
1993–1995	General Manager Computer Business, Hewlett-Packard Germany
1995–1997	General Manager Computer Business, Hewlett-Packard Europe
1997–1999	General Manager Financial Services worldwide, Hewlett-Packard USA

Previous Board Mandates

1993–2006	Member of the Board, Büro Fürrer. Company acquired by Lyreco, France
1998–2008	Member of the Board, Swiss Railways, SBB
1999–2004	Chairman, Bon Appétit Group. Company acquired by REWE, Germany
2000–2005	Chairman, Leica Geosystems. Company acquired by Hexagon, Sweden
2000–2003	Member of the Board, AC Services, Germany
2002–2006	Member of the Board, Sulzer
2003–2010	Member of the Board, Inficon
2004–2006	Chairman, Amazys. Company acquired by X-Rite, USA
2005–2013	Member of the Board, Dufry
2006–2008	Member of the Board, X-Rite, USA
2006–2013	Member of the Board, Hexagon, Sweden
2010–2017	Chairman, Regent Lighting

Current Board Mandates

Since 2001	Chairman (since 2002), Swissquote Group Holding Ltd
Since 2004	Chairman, Swissquote Bank Ltd

Other Activities

Since 2007	Investor and Board Member of various start-up companies
Since 2008	Own family foundation: www.fontana-foundation.org

Mario Fontana has not held official functions or political posts in 2017. With the exception of the above-mentioned activities, he has no significant business connections with the Company or one of the Company's subsidiaries.

Markus Dennler (1956/Swiss national, domiciled in Switzerland)
Member of the Board of Swissquote Group Holding Ltd since March 2005
Vice Chairman of the Board of Swissquote Bank Ltd since May 2015
Chairman of the Nomination & Remuneration Committee

Educational Background

1982	Licentiate in Law, University of Zurich
1984	Doctorate in Law, University of Zurich
1986	Attorney at Law, admitted to the Bar
1989	International Bankers School, New York
1997	Harvard Business School, Boston (AMP)

Executive Experience

1986–1994	Various assignments, Credit Suisse
1994–1996	Delegate to the Board of Directors, CS Columna
1997–1998	CEO, Winterthur Columna
1998–2000	Member of the Corporate Executive Board and Head of Individual and Group Life Division, Winterthur Insurance
2000–2003	Member of the Executive Board of CSFS and responsible for the operational global life & pensions business, Credit Suisse

Previous Board Mandates

2005–2006	Chairman, Batigroup
2005–2007	Chairman, Converium
2006–2013	Member of the Board, Petroplus
2006–2015	Chairman (since 2011), Implenia
2007–2010	Member of the Board, Jelmoli

Current Board Mandates

Since 2003	Honorary Councillor (since 2016), British Swiss Chamber of Commerce
Since 2005	Member of the Board, Swissquote Group Holding Ltd
Since 2005	Vice Chairman (since 2015), Swissquote Bank Ltd
Since 2006	Chairman (since 2012), Allianz Suisse

Markus Dennler has not held official functions or political posts in 2017. With the exception of the above-mentioned activities, he has no significant business connections with the Company or one of the Company's subsidiaries.

Martin Naville (1959/Swiss national, domiciled in Switzerland)
Member of the Board of Swissquote Group Holding Ltd since April 2007
Member of the Board of Swissquote Bank Ltd since April 2007
Member of the Audit & Risk Committee
Member of the Nomination & Remuneration Committee

Educational Background

1979–1984	Master of the Laws, University Zurich

Executive Experience

1985–1988	Assistant Treasurer, J.P. Morgan Bank, Zurich/New York
1988–1990	Consultant, The Boston Consulting Group, Munich
1990–1992	Project Leader, The Boston Consulting Group, Zurich
1992–1995	Manager, The Boston Consulting Group, New York
1995–2004	Partner and Director, The Boston Consulting Group, Zurich
Since 2004	CEO, Swiss-American Chamber of Commerce, Zurich

Current Board Mandates

Since 2002	Chairman (since 2004), Zoo Zurich Inc.
Since 2007	Member of the Board, Swissquote Group Holding Ltd
Since 2007	Member of the Board, Swissquote Bank Ltd

Martin Naville has not held official functions or political posts in 2017. With the exception of the above-mentioned activities, he has no significant business connections with the Company or one of the Company’s subsidiaries.

Jean-Christophe Pernollet (1966/French national, domiciled in Switzerland)
Member of the Board of Swissquote Group Holding Ltd since May 2015
Member of the Board of Swissquote Bank Ltd since November 2014
Chairman of the Audit & Risk Committee

Educational Background

1986	Bachelor of Science in Economics and Politics, Institut d'Etudes Politiques, Grenoble
1986	Institute of European Studies, Hull
1990	Master in Management, EDHEC Business School, Lille
2002	Senior Executive program, Columbia Business School, New York

Executive Experience

1990–1993	Deloitte & Touche, Paris, France, Audit	
1993–2010	PricewaterhouseCoopers:	
	1993–1997	Audit, Geneva
	1997–1999	since 1998 Senior Manager, Audit, New York
	1999–2010	since 2001 Partner and Business Unit Leader, Audit, Geneva
2010–2012	EFG International AG, Chief Financial Officer	
Since 2012	Edmond de Rothschild, Switzerland:	
	2012–May 2015	Group Chief Financial Officer, then Chief Audit Executive
	Since June 2015	Group Chief Risk Officer

Previous Board Mandates

2010–2012	Member of the Audit & Risk Committee, EFG Private Bank Ltd, London
2013–2014	Member of the Board, Edmond de Rothschild (Europe), Luxembourg

Current Board Mandates

Since 2014	Swissquote Bank Ltd, Member of the Board
Since 2015	Swissquote Group Holding Ltd, Member of the Board
Since 2015	Chairman of the Board, Edmond de Rothschild Real Estate SICAV,
Since 2015	Member of the Board and Chairman of the Audit and Risk Committee, Edmond de Rothschild Asset Management (Switzerland) Ltd
Since 2015	Chairman of the Board, Edmond de Rothschild Pension Fund

Jean-Christophe Pernollet has not held official functions or political posts in 2017. With the exception of the above-mentioned activities, he has no significant business connections with the Company or one of the Company's subsidiaries.

Dr Beat Oberlin (1955/Swiss national, domiciled in Switzerland)
Member of the Board of Swissquote Group Holding Ltd since May 2016
Member of the Board of Swissquote Bank Ltd since May 2016
Member of the Audit & Risk Committee

Educational Background

1979	Licentiate in Law, University of Basel
1982	Attorney at Law and notary, admitted to the Bar
1989	Doctorate in Law, University of Basel
1999	Stanford Business School, Stanford CA, Senior Executive

Executive Experience

1982–1994	Various assignments, SBG
1994–2004	Head of Retail and Head of Corporate Clients, Chief of Staff, Head of market and sales management, Business Banking, UBS, Switzerland
2004	Designated CEO, Basellandschaftliche Kantonalbank
2005–2016	Chairman of the Executive Board, Basellandschaftliche Kantonalbank

Previous Board Mandates

2005–2016	Member of the Board, Association of Swiss Cantonal Banks
2005–2016	Member of the Board, Basel Bank Association

Current Board Mandates

Since 2011	Member of the Board, St. Clara Spital Group
Since 2013	Member of the panel of experts appointed by the Federal Council for the "Advancement of Financial Centre Strategy" and its successor "Advisory Board for the Future of the Financial Center"
Since 2016	Member of the Board, Swissquote Group Holding Ltd
Since 2016	Member of the Board, Swissquote Bank Ltd
Since 2018	Vice President of the Board, University of Basel

Dr Beat Oberlin has not held official functions or political posts in 2017. With the exception of the above-mentioned activities, he has no significant business connections with the Company or one of the Company's subsidiaries.

3.2 Other activities and vested interests
None of the Board members has activities or vested interests (as defined in the SIX Swiss Exchange regulations) other than the ones described in section 3.1.

3.3 Number of permitted activities
Pursuant to Art. 16 Para. 4 of the AoI, the number of mandates held in superior governing or administrative bodies of legal entities outside the Company and its affiliates, which must be registered with the Swiss Commercial Register or a comparable foreign register, is limited for members of the Board to fifteen mandates held in business undertakings, a maximum of four of which may be in listed companies, and to five mandates held in other legal entities such as foundations and associations. Mandates held in different legal entities of one and the same single group of companies or mandates on behalf of a group or legal entity shall be counted as one mandate. Limits may be exceeded for a short-term period of time, but by no more than one third of the number of permitted mandates per above-mentioned category.

3.4 Elections and terms of office
The Board must have a minimum of three members elected at the General Meeting of Shareholders. According to Art. 16 Para. 2 of the AoI, the members of the Board are elected individually for a term of office that finishes at the end of the next Ordinary General Meeting. Re-election is permitted. New members of the Board appointed during a term of office can only be elected to serve until the end of that term. The chairperson is elected at the Ordinary General Meeting until the next Ordinary General Meeting.

The Board has always been composed of non-executive members. The Board acts at the same time as the Board of Directors of the Bank.

The time of the first election of the current Board members is mentioned in section 3.1.

3.5 Internal organisational structure
3.5.1 Generalities
The operating of a bank in Switzerland requires, inter alia, a proper organisation and a clear segregation between the duties and responsibilities of the Board and those of the Executive Management.

The Group's internal regulation framework consists of a cohesive set of by-laws, policies and regulations that is organised with respect to the level of competence required for adopting new regulations and/or amending existing ones. The various levels of competence are the following:
- Both the General Meeting and FINMA;
- The General Meeting;
- Both the Board and FINMA;
- The Board;
- The Executive Management; and
- The Management.

The level of competence for making decisions in the Company (including according to levels of financial materiality) is set forth in the Organisation Regulations and other internal regulations and is summarised in the Regulation relating to responsibilities and financial powers.

After each Ordinary General Meeting, where all Board members and the Chairman are elected, the Board appoints its Secretary. The Board may form one or several advisory committees, which consist of members of the Board. The Committees are in charge of proposing board resolutions to the full Board with respect to specific matters. In 2017, there were two such Committees at the level of the Group: the Audit & Risk Committee and the Nomination & Remuneration Committee. Such Committees must report to the Board on a regular basis, but at least once per quarter for the Audit & Risk Committee and twice a year for the Nomination & Remuneration Committee. Further, certain functions of the Board are delegated to the Chairman.

New Board members are introduced to their new function through a specific programme including presentations of the firmwide considerations by the Executive Management and presentations by the Managers of each department.

3.5.1 Generalities (continued)

The Board meets as often as required, but at least four times a year. The Board and the Committees plan and coordinate their activities in accordance with a yearly planning schedule that covers all matters requiring the Board's attention and thus ensures that the Board's activity is compliant with applicable laws and regulations.

In 2017, the Board met ten times (six physical meetings and four conference calls), out of which one meeting was a strategy session and another meeting the so-called Annual Conference on Risks (see section 3.7). In average, a physical meeting lasts for four to five hours and a conference call lasts for one to two hours. The Executive Management attended all the meetings. On various occasions, decisions were taken by means of circular resolutions and ratified at the next Board meeting.

3.5.2 Functions of the Board of Directors

The Board acts as the ultimate direction of the Company and has the power to decide on all matters that are not vested in the General Meeting or in any other body by law or pursuant to the AoI or the Organisation Regulations. It is the Board's responsibility to perform, inter alia, the following functions:

- Define the strategy and the objectives of the Company and approve the implementation or cessation of business activities;
- Establish the overall organisation and, in particular, approve the organisation chart of the Group based on the proposal of the Executive Management;
- Decide on the appointment, suspension and dismissal of the Executive Management and of the other signatories of the Company;
- Appoint the Chairmen of the Committees;
- Based on the proposal of the Nomination & Remuneration Committee, submit to the General Meeting proposals of maximum aggregate amounts of remuneration for the Board and the Executive Management and decide, within the framework of the General Meeting's resolutions, on the remuneration of the Board and the Executive Management;
- Based on proposals of the Audit & Risk Committee, determine the applicable accounting standards, the principles governing the internal control system (including for what regards the financial control), the financial planning and the financial disclosure policy, as well as approve the capital planning and the annual budget;
- Approve the Annual Financial Statements and regular interim financial reporting prior to their disclosure and after clearance by the Audit & Risk Committee;
- Prepare the Annual Report, the Corporate Governance Report and the Remuneration Report;
- Prepare the General Meeting (including the invitation to the General Meeting) and execute the General Meeting's resolutions;
- Decide on the nomination, renewal or dismissal of the auditors and of the internal auditor;
- Supervise the Executive Management, in particular with regard to compliance with laws, the AoI, the internal regulations and the Board's instructions;
- Approve the organisation of the risk management and the key risk management principles, which must be appropriate to the size, the complexity and the risk profile of the Group;
- Pass resolutions in connection with a capital increase pursuant to Art. 651a, 652g and 653g CO and make decisions pursuant to Art. 634a Para. 1 CO (contributions on shares not fully paid in) and 651 Para. 4 CO (increase of share capital in the case of authorised capital);
- Approve mass dismissal of employees pursuant to Art. 335d CO or similar foreign regulations;
- Approve those matters for which the Executive Management has to seek approval by the Board, in particular through the approval of internal regulations; and
- Notify the competent authority in case of over-indebtedness.

The Board's approval is also required for specific transactions that do not fall under the ordinary business activities and/or which financially exceed defined thresholds.

Board members may not act alone on behalf of the Company and may not give instructions on their own, except where the AoI, the internal regulations or a resolution of the Board provide otherwise.

3.5.3 Functions delegated to the Chairman

The Chairman performs, inter alia, the following functions:

- Chair the meetings of the Board and the General Meeting; and
- Represent the Board vis-à-vis the public at large, public officials and the shareholders.

3.5.4 Rules governing decisions

The majority of members shall be present for the Board to be quorate. Resolutions of the Board are passed by a majority of the votes cast by the members present. In the event of a tie, the Chairman has the casting vote. For decisions that are taken in relation to a capital increase (ordinary, conditional or authorised increase), including the related modifications of the AoI, the quorum is also achieved when a single member of the Board is present.

For further information on quorum and decisions, reference is made to the AoI (in particular Art. 17).

3.5.5 Audit & Risk Committee

Board members on the Committee: Jean-Christophe Pernollet (Chairman), Martin Naville and Beat Oberlin.

The Audit & Risk Committee's primary function is to assist the Board in fulfilling its oversight responsibilities defined by law, the AoI, internal regulations or otherwise with respect to financial reporting and risk management. The Audit & Risk Committee has no decision-making powers. It only acts in an advisory or preparatory capacity.

In terms of financial reporting, the oversight responsibilities of the Audit & Risk Committee include, inter alia, the following:

- Monitor and assess the overall integrity of the financial statements;
- Monitor the adequacy of the financial accounting, financial planning and reporting processes and the effectiveness of internal controls over financial reporting;
- Monitor processes designed to ensure compliance by the Group and its entities in all significant respects with legal and regulatory requirements, including disclosure controls and procedures, and the impact (or potential impact) of developments related thereto;
- Make recommendations to the Board as to the application of accounting standards;
- Inform the Board of the result of the above-mentioned tasks and make a recommendation as to whether the financial statements should be submitted to the General Meeting;
- Monitor and assess the qualifications, independence and performance of the auditors and their interactions with the internal auditor; and
- Review the risk analysis, the audit plan and all reports from the auditors and supervise the actions taken by the Executive Management following the audit results.

In terms of risk management, the oversight responsibilities of the Audit & Risk Committee include, inter alia, the following:

- Assess, at least annually, the Group's risk management framework (in particular the risk capacity, the risk appetite and the risk tolerance), make corresponding recommendations to the Board and ensure that necessary changes are made;
- Monitor and assess the risk management framework, including the internal control systems of the Company and of the Bank;
- Oversee that the Executive Management has identified and assessed all the significant risks that the Group and its entities face and has established a risk management infrastructure capable of addressing those risks;
- Oversee, in conjunction with the Board and, where applicable, other board-level committees, risks, such as strategic, credit, market, liquidity, operational, reputational and other risks;
- Assess the Group's capital and liquidity planning and report to the Board;
- Monitor and assess the qualifications, independence and performance of the internal auditor;
- Review the internal auditor's risk assessment, audit plans and all their reports and supervise the actions taken by the Management following the audit results; and
- Make recommendations to the Board as to the nomination, renewal or dismissal of the auditors and of the internal auditor.

The Audit & Risk Committee meets at least once per quarter. In 2017, it met five times (three physical meetings and two conference calls). The length of the meetings ranged from 30 minutes to two hours. At each meeting held in 2017, the Executive Management was present. The internal auditors were present at three physical meetings and at one conference call. The auditors were present at three physical meetings (once by conference call) and at one conference call. The other Board members attended the meetings as well. No external counsels attended the meetings.

3.5.6 Nomination & Remuneration Committee

Board members on the Committee: Markus Dennler (Chairman) and Martin Naville.

The Nomination & Remuneration Committee meets at least twice a year. In 2017, it met six times (four physical meetings and two conference calls). The average length of the meetings was one hour. The Executive Management was present at all meetings, except where there was a review of their personal situation. The other Board members attended the meetings as well. No external counsels attended the meetings.

Further details on the Nomination & Remuneration Committee are provided in the Remuneration Report.

3.6 Definition of areas of responsibility

All executive functions within the Group not reserved to the Board or to the Chairman are delegated to the Executive Management. The Executive Management is responsible for the implementation of the business strategies approved by the Board and for the compliance of the operations with the risk management policies approved by the Board. Further, the Executive Management ensures the maintenance and development of a corporate framework in line with the corporate values approved by the Board. The Executive Management is accountable to the Board for the Company's results.

The Executive Management in particular has the responsibility to perform the following functions:

- Implement the strategy decided by the Board and execute its decisions and instructions;
- Prepare the items to be discussed by the Board;
- Ensure that the internal organisation of the Company meets the needs of its business activities and its development;
- Propose the organisation chart to the Board;
- Hire the employees and set their employment conditions according to the guidelines issued by the Board;
- Prepare the list of signatories for Board approval;
- Supervise accounting, financial control and financial planning;
- Prepare the budget for Board approval;
- Prepare the reporting to the attention of the Board;
- Prepare the financial statements for Board approval and publish them;
- Ensure compliance with laws and regulations, in particular for what regards capital adequacy requirements, liquidity, risk diversification and privileged deposits and monitor the related developments;
- Delegate competences to committees; and
- Draft the internal regulations for Board approval.

The delegation process to the Management (i.e. the "directeurs" and "vice-directeurs") is documented in the internal regulations and the Board has an overview of the delegation process through the summary provided in the Regulation relating to responsibilities and financial powers.

The following business functions report to:

- Marc Bürki:
  eForex Trading & Market Strategy / Marketing / Sales eTrading Private Clients & Partners / Sales HQ
- Paolo Buzzi:
  Back Office & Banking Applications / Information Technology & Security / Product Development / Project Management / Quantitative Asset Management / Software Development
- Michael Ploog:
  Assets & Liabilities Management & Treasury / Customer Care / Facility Management / Finance, Reporting & Tax / Trading
- Morgan Lavanchy:
  Legal & Compliance
- Gilles Chantrier:
  Controlling & Risk
- Executive Management:
  Human Resources / all foreign entities

The Executive Management is further assisted by committees consisting of members of the General Management that carry out coordination and reporting functions and make recommendations to the Executive Management. At least one member of the Executive Management sits in each committee.

3.7 Information and control instruments vis-à-vis the Executive Management

The Group operates a comprehensive management information system that provides the Executive Management with all data required to manage and control the business and to report relevant information to the Board.

The Board periodically reviews the nature of the reporting prepared by the Executive Management and the frequency of the respective reports. The reporting may be summarised as follows:

- Quarter 1 and 3 reporting includes a full set of condensed consolidated interim financial statements (established for internal purposes only), as well as a financial report examining the key financial matters, including budgets, and capital management issues. A risk and compliance report summarises the key risk issues, new or amendments to internal regulations that require Board approval, and assesses the changes in the legislative and regulatory environment. Furthermore, the Board receives summary reports on key human resources and remuneration issues as well as an update on important projects, statistics on revenue developments and comments on the operations and the business environment;
- Half-yearly reporting covers the same scope as the quarter 1 and 3 reporting, except that an interim statutory balance sheet and income statement is provided in addition to the condensed consolidated interim financial statements. This latter document is reviewed by the auditors and serve as basis for the half-year press release; and
- Yearly reporting covers the same scope as the half-year reporting and includes the audited consolidated and statutory financial statements.

Once a year, the Board organises a conference dedicated to an in-depth review of the risks, internal control systems and risk management processes (the "Annual Conference on Risks"). The Executive Management and the respective heads of Finance, Reporting & Tax, Information Technology & Security and Assets & Liabilities Management & Treasury provide the Board with their own risk assessment and their recommendations with respect to the enhancement of the internal control systems and risk management processes.

Ad hoc reporting is addressed to the Board when required by the circumstances or upon request by the Board. Further, the Executive Management must immediately report to the Board material matters outside the ordinary course of business.

The Executive Management attends all meetings of the Board and of the Committees, unless otherwise requested by the Board or the concerned Committees.

The function of internal auditor, reporting directly and independently to the Board of Directors of the Bank, is outsourced to BDO SA, Geneva, which is a member of the Institute of Internal Auditing Switzerland. The duties of the internal auditor are governed by the Ordinance on Banks and Savings Banks, FINMA Circular 2017/1 (Corporate governance – Banks) and the applicable internal regulations. The internal auditor analyses the compliance of business activities with legal and regulatory requirements and applicable internal regulations. The internal auditor carries out the audit plan approved by the Board and reports its significant findings and recommendations in writing. It also executes ad hoc missions and investigations upon request of the Board. The internal auditor provides the Board with a specific half-year summary report that reviews, inter alia, the progress made by the Company in implementing the recommendations made in earlier reports and includes relevant information with respect to the execution of the audit plan. The internal auditor participates in the Annual Conference on Risks and provides the Board with its own assessment of the risks, internal control systems and risk management processes. The Board formally takes note of the reports of the internal auditor and reviews the conclusions and comments made by the Audit & Risk Committee, which examines the reports in detail.

The Bank is responsible for performing consolidated supervision functions which cannot be performed at the level of the Company or at the level of its entities, because the necessary organs or systems are not available at the level of these entities.

In terms of risk management, the Company complies, inter alia, with the requirements of FINMA Circular 2017/1 (Corporate governance – Banks) and maintains an extensive risk management regulations framework which addresses risks related to a banking activity (credit risk, market risk, interest risk, operational risk, reputation risk, etc.).

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4 Executive Management

4.1 Members of the Executive Management

As at 31 December 2017, the Executive Management consisted of Marc Bürki, Chief Executive Officer, Paolo Buzzi, Chief Technology Officer, Michael Ploog, Chief Financial Officer, Morgan Lavanchy, Chief Legal Officer, and Gilles Chantrier, Chief Risk Officer. Marc Bürki and Paolo Buzzi are founding shareholders of the Company and are major shareholders as at 31 December 2017.

Marc Bürki (1961/Swiss national, domiciled in Switzerland)

Chief Executive Officer (CEO) of Swissquote Group Holding Ltd and Swissquote Bank Ltd
Founding partner of Swissquote Group Holding Ltd

Educational Background

1982–1987 Degree in Electrical Engineering, Swiss Federal Institute of Technology (EPFL), Lausanne

Professional Experience

1987–1990 Telecommunication Specialist, European Space Agency, Nordweijk, Netherlands
1990–2002 Co-Managing Director, Marvel Communications Ltd
Since 1999 Chief Executive Officer, Swissquote Group Holding Ltd
Since 2002 Chief Executive Officer, Swissquote Bank Ltd

Current Board Mandates

Since 2012 Chairman of the Board, Swissquote MEA Ltd, Dubai, UAE
Since 2014 Chairman of the Board, Swissquote Ltd, London, UK
Since 2014 Chairman of the Board, Swissquote Asia Ltd, Hong Kong
Since July 2016 Member of the Board, ETH Domain, Bern

Paolo Buzzi (1961/Swiss national, domiciled in Switzerland)

Chief Technology Officer (CTO) of Swissquote Group Holding Ltd and Swissquote Bank Ltd
Founding partner of Swissquote Group Holding Ltd

Educational Background

1983–1988 Degree in Micro-Engineering, Swiss Federal Institute of Technology (EPFL), Lausanne

Professional Experience

1988–1990 Software Engineer and New Technology Integration Engineer, Rolm Systems, Santa Clara, USA
1990–2000 Co-Managing Director, Marvel Communications SA
2000–2002 Chief Executive Officer, Swissquote Info SA
Since 1999 Chief Technology Officer, Swissquote Group Holding Ltd
Since 2002 Chief Technology Officer, Swissquote Bank Ltd

Current Board Mandates

Since 2002 Chairman of the Board, Swissquote Trade Ltd, Gland, Switzerland
Since 2012 Member of the Board, Swissquote MEA Ltd, Dubai, UAE
Since 2012 Chairman (2012-March 2015: Vice Chairman), Swissquote Financial Services (Malta) Limited, Mriehel, Malta

Michael Ploog (1960/Swiss national, domiciled in Switzerland)

Chief Financial Officer (CFO) of Swissquote Group Holding Ltd and Swissquote Bank Ltd

Educational Background

1980–1983	Hautes Etudes Commerciales (HEC), University of Lausanne
1986–1990	Swiss Certified Public Accountant, Swiss Institute of Certified Public Accountant, Lausanne

Professional Experience

1983–1985	Chair of Financial and Cost Accounting, Graduate Teaching Assistant, University of Lausanne	
1986–1998	Deloitte (since 1995), Senior Manager	
	1986–1994	Audit, Geneva
	1994–1996	Corporate Finance, London
	1996–1998	Management Advisory Services, Lausanne
1998–1999	Senior Manager Transaction Services Group & Corporate Finance PricewaterhouseCoopers, Lausanne	
Since 1999	Chief Financial Officer, Swissquote Group Holding Ltd	
Since 2000	Chief Financial Officer, Swissquote Bank Ltd	

Current Board Mandates

Since 1999	Member of the Board, Swissquote Trade Ltd, Gland, Switzerland
Since 2012	Vice Chairman of the Board, Swissquote MEA Ltd, Dubai, UAE

Other Mandates

Since 1999	Secretary of the Board, Swissquote Group Holding Ltd
Since 2006	Secretary of the Board, Swissquote Bank Ltd
Since 2010	Chairman, Foundation Swissquote 3rd Pillar
Since 2012	Member of the Selection Committee, FIT – Fondation pour l'Innovation Technologique

Morgan Lavanchy (1979/Swiss national, domiciled in Switzerland)

Chief Legal Officer (CLO) of Swissquote Group Holding Ltd and Swissquote Bank Ltd

Educational Background

1997–2002	Master of Laws, Law School, University of Neuchâtel
2002–2004	Master of Advanced Studies (LL.M.) in Business Law, Law School, Universities of Lausanne and Geneva
2011	Certificate DIFC Rules & Regulations, Chartered Institute for Securities & Investment

Professional Experience

2003–2006	Legal Officer, Swissquote Bank Ltd
2006–2016	Head Legal & Compliance, Swissquote Bank Ltd
Since 2017	Chief Legal Officer, Swissquote Group Holding Ltd/Swissquote Bank Ltd

Mandates

Since 2010	Secretary, Foundation Swissquote 3rd Pillar

Gilles Chantrier (1972/Swiss and French national, domiciled in Switzerland)
Chief Risk Officer (CRO) of Swissquote Group Holding Ltd and Swissquote Bank Ltd

Educational Background

1997–2000	Bachelor – B.Sc. in Economics, School of Business Administration (HEG), Lausanne
2016	Risk Management in Banking, Institut européen d'administration des affaires (INSEAD), Fontainebleau

Professional Experience

1995–1997	Accountant, Infogest SA
2000–2002	Deputy Head Accounting, Swissquote Bank Ltd
2002–2003	Head Backoffice, Swissquote Bank Ltd
2003–2005	Head Internal Controlling, Swissquote Bank Ltd
2005–2013	Head Reporting & Controlling, Swissquote Bank Ltd
2014–2016	Head Controlling & Risk, Swissquote Bank Ltd
Since 2017	Chief Risk Officer, Swissquote Group Holding Ltd/Swissquote Bank Ltd

Current Board Mandates

Since 2014	Member of the Board, Swissquote Ltd, United Kingdom
Since 2014	Member of the Board, Swissquote MEA Ltd, Dubai, UAE
Since 2014	Member of the Board, Swissquote Asia Ltd, Hong Kong

Other Mandates

Since 2010	Member of the Board, Foundation Swissquote 3rd Pillar

4.2 Other activities and vested interests

None of the members of the Executive Management has activities and vested interests (as defined in the SIX Swiss Exchange regulations) other than the ones described in section 4.1.

4.3 Number of permitted activities

Pursuant to Art. 16 Para. 4 of the AoI, the number of mandates held in superior governing or administrative bodies of legal entities outside the Company and its affiliates, which must be registered with the Swiss Commercial Register or a comparable foreign register, is limited for members of the Executive Management to four mandates held in business undertakings, a maximum of one of which may be in a listed company, and to five mandates held in other legal entities such as foundations and associations. Mandates held in different legal entities of one and the same single group of companies or mandates on behalf of a group or a legal entity shall be counted as one mandate. Limits may be exceeded for a short-term period of time, but by no more than one third of the number of permitted mandates per above-mentioned category.

4.4 Management contracts

The Company has not entered into management contracts with third parties.

5 Remuneration, shareholding and loans
Details on the remuneration, shareholding and loans are provided in the Remuneration Report.

6 Shareholders' participation
6.1 Generalities
Shareholders in Swiss corporations limited by shares have extended protective and participatory rights. Protective rights include the right of inspection and information (Art. 696, 697 CO), the right to a special audit (Art. 697a CO), the right to call a General Meeting (Art. 699 Para. 3 CO), motion rights (Art. 699 Para. 3 CO), the right of challenging resolutions of the General Meeting (Art. 706 CO) and the right to instigate liability proceedings (Art. 752 ff CO). Participatory rights primarily include the right to participate in General Meetings of Shareholders, the right to express an opinion and voting rights (Art. 694 CO). The Ordinance against Excessive Compensation in Listed Corporations comprises additional rights for the shareholders, such as with respect to the election of the independent proxy, whose term of office ends at the next Ordinary General Meeting. For further information on this ordinance, reference is made to the Remuneration Report.

The General Meeting is the highest body of the Company. It has the following non-transferable powers to:
- Establish and amend the AoI;
- Annually elect the members of the Board, the Chairman of the Board, the members of the Remuneration Committee, the independent proxy and the auditors;
- Approve the Annual Report and the Consolidated Financial Statements;
- Approve the Annual Financial Statements and adopt resolutions concerning the allocation of the disposable profit, in particular set the dividend as well as the profit-sharing bonus;
- Discharge the members of the Board;
- Approve the remuneration of the Board and the Executive Management in accordance with Art. 14bis of the AoI; and
- Pass resolutions on all matters reserved to it by law or the AoI.

For further information on the General Meeting, reference is made to the AoI (in particular Art. 9, 10 and 11).

6.2 Voting-rights and representation restrictions
Pursuant to Art. 12 of the AoI, every person duly entered in the share register as a shareholder with voting rights is entitled to exercise the rights attached to the registered shares. Shareholders may have their shares represented at the General Meeting by a legal representative or, with a written power of attorney, by a third party, who is not required to be a shareholder of the Company. The Board shall decide on the requirements regarding powers of attorney and instructions; powers of attorney without qualified electronic signatures may also be recognised. The final decision on the validity of powers of attorney rests with the Chairman of the Board.

Pursuant to Art. 7 of the AoI, upon request, acquirers of registered shares will be entered in the share register as shareholders with voting rights if they expressly declare that they have acquired the registered shares in their own name and for their own account. If this requirement is not satisfied, the person in question will be entered in the share register as a shareholder without voting rights. The AoI do not contain any express provisions for granting exceptions to this limitation.

The AoI do not contain any provisions on abolishing voting-rights restrictions; the general rules of the Swiss Code of Obligations apply.

Specific rules on the issue of instructions to the independent proxy or on the electronic participation in the General Meeting are set by the Board and communicated to shareholders in the invitation to the General Meeting.

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6.3 Quorums required by the Articles of Incorporation
Where a General Meeting has been convened in accordance with the provisions of the law and the AoI, decisions may be taken, irrespective of the number of shares represented or shareholders present at the General Meeting. Pursuant to Art. 12 of the AoI, the General Meeting is therefore quorate regardless of the number of shares represented.

Except when the law and/or the AoI provide otherwise, the General Meeting passes resolutions and conducts elections by an absolute majority of the voting rights validly represented. Elections require an absolute majority in the first round, and, if this is not achieved, a relative majority is sufficient in the second round. In the event of a tie, the Chairman of the Board has the casting vote. As a rule, votes are cast electronically. If the electronic voting system fails, an open vote shall be held unless one or more shareholders who alone or together represent at least 5% of the voting rights request a secret ballot.

Pursuant to Art. 14 of the AoI, a resolution of the General Meeting adopted by at least two thirds of the votes represented and an absolute majority of the nominal values of the shares represented is required for:

- A change to the Company's purpose;
- The introduction of preferred voting shares;
- The restriction of the transferability of registered shares;
- An authorised or conditional capital increase;
- A capital increase by recourse to equity, against contribution in kind or for the acquisition of assets and the granting of special benefits;
- The restriction or revocation of subscription rights;
- The relocation of the Company's registered office; and
- The dissolution of the Company.

6.4 Convocation of the General Meeting of Shareholders
The General Meeting is convened by the Board in the normal course of business or otherwise by the auditors or the liquidator.

One or more shareholders of the Company may request the convocation of a General Meeting if all of the following conditions are satisfied:

- The shareholder or shareholders together hold at least 10% of the nominal value of the share capital entered in the commercial register on the day the request is received; and
- The shareholder or shareholders submit their request in writing and, at the same time, arrange for shares with a nominal value of at least 10% of the share capital to be blocked by the depository, the latter being required to issue confirmation that said shares have been blocked. The shares shall remain blocked until the day after the General Meeting.

For further information on the convocation of the General Meeting, reference is made to the AoI (in particular Art. 10 and 11).

6.5 Inclusion of items on the agenda
Pursuant to Art. 11 of the AoI, no resolutions may be passed on motions relating to agenda items that were not duly announced, except for motions by a shareholder to convene an extraordinary General Meeting, to carry out a special audit or to elect an auditor.

One or more shareholders of the Company may request that an item be included on the agenda if all of the following conditions are satisfied:

- The shareholder or shareholders together hold at least 5% of the nominal value of the share capital entered in the commercial register on the day the request is received;
- The shareholder or shareholders submit their request in writing and, at the same time, arrange for shares with a nominal value of at least 5% of the share capital to be blocked by the depository, the latter being required to issue confirmation that said shares have been blocked. The shares shall remain blocked until the day after the General Meeting; and
- The request is sent by registered letter to the attention of the Board to the registered office of the Company and shall arrive there at least 45 days prior to the General Meeting.

For further information on the agenda, reference is made to the AoI (in particular Art. 11).

6.6 Entries in the share register

Pursuant to Art. 6 of the AoI, the Company maintains a share register in which the names and addresses, respectively the corporate name and registered office of the owners of the registered shares and any usufructuaries, are entered into. The Board has mandated ShareCommService AG, Europastrasse 29, CH-8152 Glattbrugg, to maintain the Company's share register.

Pursuant to Art. 7 of the AoI, upon request, acquirers of registered shares will be entered in the share register as shareholders with voting rights if they expressly declare that they have acquired the registered shares in their own name and for their own account. If this requirement is not satisfied, the person in question will be entered in the share register as a shareholder without voting rights. For practical reasons, no new registration is made in the share register for a period up to 20 days before a General Meeting. Shareholders who sell their shares prior to the General Meeting are no longer entitled to exercise their votes.

For further information on entries in the share register, reference is made to the AoI (in particular Art. 6 and 7).

7 Changes of control and defence measures

7.1 Duty to make an offer

Art. 135 FMIA states that anyone who directly, indirectly or acting in concert with third parties acquires equity securities which, added to the equity securities already owned, exceed the threshold of 33⅓% of the voting rights of a target company, whether exercisable or not, must make an offer to acquire all listed equity securities of that company. Art. 132 Para. 1 and 2 FMIA outlines the Board's obligation, in the event of a public takeover bid, to provide shareholders with the information they need in order to evaluate the offer and also prohibits the Board from taking defensive measures. No significant alteration in the assets or liabilities of the target company is permitted as of the time of the bid, aside from transactions that have already been approved at the General Meeting.

The AoI do not include any opting-out or opting-up clause.

7.2 Clauses on changes of control

None of the members of the Board, the members of the Executive Management or other employees benefit from change of control clauses.

8 Auditors

8.1 Generalities

The main duties of the auditors are to report to the General Meeting the results of their audit, the objective of which is to verify that the Annual Financial Statements, the Annual Report and the proposed appropriation of retained earnings comply with the law and the AoI.

The auditors recommend the approval, with or without qualification, or the rejection of the Annual Financial Statements. Further, when the Company is required to deliver Consolidated Financial Statements, the auditors must report on the compliance with the law and the accounting principles adopted for the consolidation. The auditors must be present at Ordinary General Meetings, unless a unanimous resolution of the shareholders provides otherwise.

The Consolidated Financial Statements and the Statutory Financial Statements of the Company have been audited since 1999 by PricewaterhouseCoopers SA, which has been re-elected each year since then.

The auditors must be independent from the Board and from the shareholders. Except for tax matters, audit-related services and other services that can generally only be provided by the auditors (e.g. reviews of documents filed with FINMA), the Group uses consultants who are independent from the auditors.

In addition to their audit opinions, the auditors are requested to provide the Audit & Risk Committee with specific information such as their audit findings, comments on accounting issues and auditing fee proposals.

8.2 Duration of the mandate and term of office of the lead auditor

The auditors are elected for one-year terms by the General Meeting and are eligible for re-election. They were re-elected on 12 May 2017. Since 2014, Beresford Caloia has been responsible for the audit of the Group. The rotation frequency of the lead auditor is maximum seven years.

8.3 Auditing fees and additional fees

The total fees charged by the auditors to the Group in 2017 are analysed as follows:

in CHF	2017	2016
Auditing fees	630,161	596,200
Additional fees:		
Tax	65,000	71,889
Total	**695,161**	**668,089**

Auditing fees are agreed upon in advance for the audits of the Consolidated and Statutory Financial Statements of the Group companies, as well as for the regulatory audit of the Bank. They can be adjusted in the course of the relevant year under special circumstances.

In line with the standards established by the SIX Swiss Exchange Directive on Information relating to Corporate Governance, the fees that were stated under "Additional fees: Audit-related services" in the 2016 Corporate Governance Report are now included in the "Auditing fees". As a result, the two distinct figures stated in the 2016 Corporate Governance Report, amounting respectively to CHF 154,500 for the "Additional fees: Audit-related services" and CHF 441,700 for the "Auditing fees", have been added to amount to CHF 596,200 in this 2017 Corporate Governance Report.

Tax-related additional fees mainly cover the assistance provided to the Group when filing local tax returns.

8.4 Informational instruments pertaining to the auditors
The auditors closely interact with the Audit & Risk Committee and are usually invited to its meetings. In 2017, the auditors met five times with the Audit & Risk Committee.

Year-round, the auditors issue, inter alia, the following documents:

- Planning of the statutory and consolidated financial audits with respect to the Statutory and Consolidated Financial Statements of the Company, respectively Statutory Financial Statements of the Bank. The document includes, inter alia, information on (i) the developments in accounting standards, (ii) the auditors' risk assessment, (iii) the audit relating to the internal control system, (iv) the coordination of the auditors' activities with the internal auditor, (v) the estimated fees and (vi) the timeline of the audit activities;
- Information on the regulatory audit, which includes, inter alia, information on (i) the changes in the regulatory environment and accounting principles, (ii) the auditors' risk analysis pursuant to FINMA Circular 2013/3 on auditing and the audit strategy, (iii) the estimated fees and (iv) the timeline of the audit activities;
- Review report to the Audit & Risk Committee and to the Board with respect to the Condensed Consolidated Interim Financial Statements;
- Comprehensive report to the Audit & Risk Committee and to the Board with respect to the Statutory and Consolidated Financial Statements of the Company, respectively to the Board of Directors of the Bank with respect to the Statutory Financial Statements of the Bank. The document includes, inter alia, the auditors' key findings regarding the accounting, the internal control system and the performance and results of the audit;
- Regulatory audit report to FINMA, a copy of which is addressed, inter alia, to the Board and the Board of Directors of the Bank; and
- Report to the General Meeting of the Company, respectively of the Bank, on the results of the audit of the Financial Statements. The document includes, inter alia, (i) the auditors' opinion as to whether the Financial Statements should be approved with or without qualification, or rejected, (ii) information on the independence of the auditors, (iii) a confirmation as to whether an internal control system exists or not and (iv) a confirmation as to whether the proposed appropriation of retained earnings complies with the law and the AoI.

The above-mentioned documents are commented on by the auditors in meetings of the Audit & Risk Committee. The planning of the statutory and consolidated financial audits and information on the regulatory audit are discussed at the Annual Conference on Risks, to which the members of the Audit & Risk Committee attend.

The Audit & Risk Committee also receives copies of the various reports issued by the auditors within the framework of audit-related services, e.g. reports related to the Bank's compliance with the provisions of agreements or private regulations as described in section 8.3. This allows the Audit & Risk Committee to assess the work of the auditors performed outside the standard audit services, in particular in terms of conflicts of interest.

Once a year, the Audit & Risk Committee reviews the qualification, independence and performance of the auditors and assesses, inter alia, the level of expertise available, the adequacy of resources and the quality of the planning (in particular the coordination with the internal auditor). The Audit & Risk Committee assesses the auditors' independence on the basis of the auditor's related annual confirmation and on the Audit & Risk Committee's own assessment of the various reports addressed to its attention or of which it received a copy (including documents related to additional services). The Audit & Risk Committee also assesses whether the amount and trend in auditing fees appears reasonable. In this respect, changes to auditing fees must be justified by the auditors in terms of marginal changes in volumes to be audited and/or complexity of the audit items.

Based on its annual assessment, the Audit & Risk Committee recommends to the Board to either propose the General Meeting to re-elect the auditors or to start a process for the selection of new auditors.

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9 Information policy

9.1 General principles

The Company's information policy aims primarily at promoting confidence, creating a better understanding of the Company's business and developing and maintaining realistic investor expectations.

The Company commits to providing timely and orderly information in accordance with the legal and regulatory requirements, in particular with the provisions of the SIX Swiss Exchange regulations on ad hoc publicity. The Company aims at providing the financial market with consistent, accurate and complete information evenly during profitable or difficult periods and ensures that the investment community has fair access to such information.

It is the Company's policy not to release detailed earnings projections, but it may provide certain guidance to the investment community for them to assess the Company and its business prospects.

As a general rule, material or price-sensitive information must be released promptly as soon as the main aspects of such information are established by the Company. However, the Company is permitted under the relevant regulatory provisions to postpone the release of material information, if the information concerns a plan or negotiation of the Company and its premature disclosure would prejudice the legitimate interest of the Company. In such case, the Company will take adequate measures to ensure the effective confidentiality of the information and to prevent insiders from trading on the basis of that information. The Company will adequately inform the investment community in cases where the information previously kept confidential is substantially leaked into the market.

The Company will generally avoid releasing material and price-sensitive information during trading periods of the Company's shares or shortly before opening of trading. If the information is to be released during normal trading hours of the SIX Swiss Exchange (9 a.m. to 5.30 p.m.) or less than 90 minutes before the opening of trading, the competent department (SIX Exchange Regulation) must be informed at least 90 minutes prior to the release of such information. In situations where it cannot be avoided that material information be disclosed during trading hours, the CEO and CFO must consider whether a request for a suspension of trading is appropriate. If material and non-public information is divulged unintentionally in a selective setting, such as analyst meetings or conference calls, which are not open to the investment community, the Company will publicly disclose such information promptly after the meeting or after it learns of the selective disclosure.

If the Company discovers that a statement made was, in fact, materially incorrect at the time it was disclosed, the Company will publicly issue a corrective statement of such incorrect statement as soon as the error is discovered. The Company will also issue in due time a corrective statement when new facts have emerged that make a previous disclosure false or misleading.

The Company does not comment on market rumours and speculations.

9.2 Reporting and corporate calendar

9.2.1 Annual and interim reporting

Company results are published by media releases shortly after the Board approves them. Such media releases are followed by a media and analyst conference as well as optional call-in conferences. The media release, presentations made at call-in and press conferences, Annual Reports (including the Corporate Governance Report and the Remuneration Report) and Interim Consolidated Financial Statements are released on the Company website (https://en.swissquote.com/company/investors). Annual Reports (including the Corporate Governance Report and the Remuneration Report) are available in print format on request.

9.2.2 Corporate calendar

The dates of the publication of the annual and interim results as well as the dates of the Ordinary General Meeting and of any extraordinary General Meeting are published on the Company website (https://en.swissquote.com/company/investors) and in media releases.

The Ordinary General Meeting generally takes place in April or May of each year and will, in 2018, take place on 4 May. The half-year reporting 2018 is scheduled on 31 July 2018.

9.3 Communication channels and contact addresses

Media releases (including ad hoc notices) and reports as well as other information made public are accessible on https://en.swissquote.com/company/media/press-releases in the section "Company". An e-mail service is available for subscription in the same section of the Company website and allows any interested party to automatically receive by e-mail all information made public by the Company.

Contact addresses can be found after the Remuneration Report.

Remuneration Report 2017
Content

Remuneration Report

1 Introduction

This Remuneration Report reports on the remuneration of the Board of Directors (the "Board") and the Executive Management of Swissquote Group Holding Ltd (the "Company") and, where applicable, its consolidated subsidiaries (together, the "Group"). It provides information on the remuneration policy and the components of the remuneration, and reports on the type and size of payments made during the period under review.

Since 2014, in accordance with the Ordinance against Excessive Compensation in Listed Corporations that entered into force on 1 January 2014 (the "Ordinance") [1], the Company has the obligation to issue every year a Remuneration Report separately from the Annual Report. This Remuneration Report contains the information required by the Ordinance, section 5 of the Annex to the SIX Swiss Exchange Directive on Information relating to Corporate Governance in its 10 April 2017 version as well as Art. 663c of the Swiss Code of Obligations (CO). In accordance with the requirements set forth in the Ordinance, section 5 of this Remuneration Report was audited by the Company's auditors, PricewaterhouseCoopers Ltd, Lausanne; a copy of the audit report is enclosed.

Although not legally required, but in line with international standards and its previous practice, the Board intends to submit this Remuneration Report to a consultative vote by the General Meeting of shareholders (the "General Meeting") at the ordinary General Meeting (the "Ordinary General Meeting") of 4 May 2018.

The Ordinance introduced a binding say on pay by the shareholders. As a result, the General Meeting shall approve annually, at the Ordinary General Meeting, the maximum aggregate amount of remuneration payable to (1) the Board for a period running from said Ordinary General Meeting to the next Ordinary General Meeting and (2) the Executive Management for the financial year starting after said Ordinary General Meeting. Section 5 of this Remuneration Report comprises tables that report the total amount of remuneration granted to the Board and the Executive Management for the financial year under review. Therefore, as far as the remuneration of the Board is concerned, the period covered by the General Meeting's binding say on pay differs from the period reported in the tables of this Remuneration Report.

In this context, section 6 of this Remuneration Report in particular aims at reconciling the maximum aggregate remuneration for the Board and the Executive Management with the remuneration actually paid. The proposal of the Board on the maximum aggregate remuneration for the Board and the Executive Management is included in the invitation to the Ordinary General Meeting.

For further information on remuneration matters, reference is made to the Articles of Incorporation of the Company last amended on 13 May 2016 and applicable as at 31 December 2017, which are available at https://en.swissquote.com/company/investors in the French original version together with an English free translation (the "AoI").

[1] Also known in German as "Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften" (VegüV) and in French as "Ordonnance contre les rémunérations abusives dans les sociétés anonymes cotées en bourse" (ORAb).

2 Remuneration policy

The Group's remuneration policy is an important component of its corporate framework and has the ultimate purpose to deliver sustainable growth and performance to shareholders, provide a favourable development ground for the Group's employees and induce a responsible and ethical behaviour vis-à-vis the Group and the community. The remuneration policy is designed to attract, motivate and retain the best qualified employees, and to reward merit as well as medium- and-long term performance, with due care to the Group's success and stage of development and in alignment with the interest of shareholders. With due care to labour market constraints, the Group seeks to keep multiples between lowest and highest paid employees within sensible ranges.

3 Organisation and competencies

3.1 Nomination & Remuneration Committee

In line with Art. 20^{bis} Para. 3 of the AoI, the Board has entrusted the remuneration committee with further tasks in the field of succession planning and nominations, and therefore named the committee "Nomination & Remuneration Committee" (the "NRC"). The NRC is governed by Art. 20^{bis} of the AoI, the Organisation Regulations and the Charter of the NRC. Pursuant to Art. 20^{bis} Para. 1 of the AoI and the Charter of the NRC, the NRC is composed of at least two independent members of the Board. The General Meeting elects the members of the NRC individually. The term of office ends at the close of the next Ordinary General Meeting. Members may be re-elected.

At the Ordinary General Meeting of 12 May 2017, Markus Dennler and Martin Naville were elected as members of the NRC. Markus Dennler was subsequently designated by the Board as Chairman of the NRC.

As per the Charter of the NRC, there shall be at least two meetings of the NRC per financial year. In 2017, the NRC met six times (four physical meetings and two conference calls). In average, a physical meeting lasts for one hour and a conference call lasts for 40 minutes. At each meeting held in 2017, the members of the Executive Management were present, except when their own remuneration was discussed. The other Board members attended the meetings as guests. No external advisors attended the meetings.

The Chairman of the NRC reports on the activities of the Committee at the following Board meeting or more often when required by the circumstances. In addition, the minutes of the meeting of the NRC are provided to all Board members.

As a general rule, the Company does not consult with permanent external advisors with respect to the structuring of remuneration and share ownership, or to any related matters. In 2017, the Company did not consult with such external advisors.

In accordance with the Organisation Regulations and the Charter of the NRC, the NRC has no decision-making powers. It only acts in an advisory or preparatory capacity to support the Board and reports to the latter the outcome of its reviews together with its recommendations, including in terms of succession planning, training and need for external support. In particular, it has the following duties:

<u>Generally:</u>

- Review the remuneration policy and system inter alia with due care to the stage of development of the Group and the industry practice, and make sure they are always compliant with applicable legal and regulatory requirements.

<u>With respect to the Board:</u>

- Regularly review inter alia the size and composition of the Board as well as the independence of its members, in order to ensure compliance with the legal and regulatory requirements, in particular with FINMA Circular 2017/1 "Corporate Governance – Banks", and consistency with the Group's corporate governance framework;
- Conduct an annual review of the remuneration of the Board members;
- Recommend to the Board for approval and, as the case may be, for proposal to the General Meeting, the form and amount of remuneration to be paid to the Chairman of the Board, other Board members as well as to the Chairman and members of each Board Committee, in line with the AoI and the resolutions of the General Meeting.

3.1 Nomination & Remuneration Committee (continued)
With respect to the Management:
- Make recommendations to the Board regarding the general remuneration policy of the Executive Management and other members of the Management (together, the "Management");
- Regularly review the employment contracts of the Management and make recommendations to the Board on the remuneration of the Management;
- Make recommendations to the Board and assist the Board regarding the determination and evaluation of the remuneration system and the principles of remuneration, always in line with the AoI, including proposal to the Board of short- or long-term incentive plans and equity-based plans (including but not limited to stock options, restricted shares and similar instruments), regular review of the plans and proposal of modifications, suspensions or discontinuation of such plans;
- Review the organisation of the Group from a human resources perspective and make recommendations for nomination and dismissal of the Management;
- Review the succession plan for the Management, both for emergencies as well as long-term planning;
- Prepare the proposals to be submitted to the General Meeting pursuant to Art 14bis of the AoI (approval of remuneration) or in relation to the amendments to the provisions of the AoI that address remuneration matters.

For further information on the NRC, reference is made to the AoI (in particular Art. 14bis and 20bis).

3.2 Board of Directors

Subject to the prerogatives of the General Meeting and in line with the applicable laws and Art. 14bis of the AoI, the Board is competent to decide on all relevant issues related to remuneration.

The Board, which is composed of non-executive members only, makes its decisions based on the proposals of the NRC. Board members attend the part of the Board meeting where their remuneration is decided on, and, except if otherwise requested by a Board member, resolve on all recommendations of the NRC regarding Board remuneration in one vote. Members of the Executive Management do not attend the part of the Board meeting where their remuneration is decided on.

3.3 General Meeting

Binding vote on pay

Pursuant to Art. 9 Para. 2 and 14bis Para. 1 of the AoI, the General Meeting shall approve annually the proposals of the Board with regard to the maximum aggregate amount of:
- The remuneration payable to the Board for the period until the next Ordinary General Meeting pursuant to Art. 21bis of the AoI; and
- The remuneration payable to the Executive Management for the following financial year pursuant to Art. 21ter of the AoI.

This prospective vote allows the Company to avoid the legal uncertainties that could arise from post hoc votes. At the Ordinary General Meeting of 12 May 2017, the following maximum aggregate amounts were approved:
- CHF 750,000 for the Board; and
- CHF 4,000,000 for the Executive Management.

For further information on the binding vote on pay, reference is made to the AoI, in particular Art. 14bis.

Consultative vote on Remuneration Report

Since 2011, it has been the Company's policy to submit the Remuneration Report to a consultative vote by the shareholders and the Board intends to sustain this practice.

Remuneration Report

4 Remuneration components

4.1 Generalities

As at 31 December 2017, the following remuneration components were available for the level of responsibilities listed below:

	Base remuneration		Variable remuneration				
	Cash	Shares	Cash bonus (short-term)	Shares (long-term)	Stock options (long-term)	Pension fund contributions and benefits	Other remuneration
Board members	Yes	Yes	Not eligible	Not eligible	Not eligible	Not eligible	Eligible
Members of the Executive Management	Yes	Not eligible	Eligible	Eligible	Eligible	Eligible	Eligible
Other employees	Yes	Not eligible	Eligible	Eligible	Eligible subject to conditions	Eligible	Eligible

Base remuneration

Cash component

The base remuneration depends on the level of seniority and the area in which an employee exercises his/her function. It is paid out in cash in monthly instalments, after deduction of any social insurance, pension fund and other contributions.

Board share plan

The Board share plan is distinct from the employee share plan and does not relate to variable remuneration.

Variable remuneration

The current remuneration framework does not allow for any variable remuneration for the Board. Art. 21ter Para. 2 of the AoI sets forth the principles applicable to the variable remuneration of the members of the Executive Management, which are as follows:

- The short-term remuneration elements depend in particular on quantitative and qualitative objectives that can take into account results of the Company or parts of the Company, on objectives in relation to the market or other companies and/or on specific objectives. The extent to which the objectives are met is generally assessed over a period of one year and can give rise to a short-term remuneration. Cash bonus is considered short-term remuneration.
- The long-term remuneration elements depend in particular on the quantitative strategic objectives of the Company and/or on specific objectives. The extent to which the objectives are achieved is generally assessed over a period of several years. Grants of shares and stock options are considered long-term remuneration.

Further, pursuant to Art. 21ter Para. 3 of the AoI, the Board sets the objectives and subsequently carries out an evaluation of the extent to which these are achieved. The remuneration can be paid or guaranteed in cash, in shares, in options, in similar financial instruments, in kind, or in another form of earnings. The Board decides on the conditions of granting, entitlement, exercising and due date, as well as the timing of the allocation and valuation of shares, options and similar financial instruments, and shall also stipulate a blocking period if necessary. It may issue rules in respect of the early implementation or expiry of conditions of entitlement and exercise, in respect of the payment or assurance of performance-based remuneration, or in respect of the due date upon the occurrence of predetermined events such as a change of control or the termination of an employment relationship or mandate.

4.1 Generalities (continued)

Employee share plan

Since 2014, the Group offers its employees the opportunity to directly participate in the long-term success of the Group by purchasing Swissquote shares at a discounted price. The employee share plan aims to reward sustained, long-term performance and align shareholder and employee interests more closely.

The employee share plan can be made available to all eligible employees. Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, the Board will at its entire discretion decide every year whether and how many shares will be offered and to whom; no eligible employee shall have an enforceable right to be granted shares at a discounted price. The Board seeks to keep a sensible relation between the number of shares offered to members of the respective levels of the organisation.

Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, the Board decides, at its discretion, the terms of the employee share plan, including the proceedings and the date of grant of the shares, the price to acquire the shares and the blockage period of the shares and its terms. During the blockage period, the employee is not entitled to sell, donate, pledge or otherwise transfer the shares. In case of change of control, the Board may decide to put an end to any ongoing blockage period.

In 2017, shares were offered to all eligible employees for free (no price paid for the acquisition). They are blocked for a period of five years as from their attribution.

Employee option plan

The Group operates a stock option plan in order to allow for a long-term participation of eligible employees in the growth of the stock price of the Company. Except for options already granted, the stock option plan for the Board members has been discontinued in 2014 and the current remuneration framework does not allow for further grants to Board members.

Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, the Board is responsible for deciding at its own discretion on the terms of the options and the number of options offered. The terms of the options provide that options offered are divided in three equal tranches, each tranche becoming exercisable respectively one, two and three years after the date of grant. The exercise period is two years. The exercise of one option allows acquiring one Swissquote share (ratio 1:1). Options granted are vested on the date of exercise. As a result, employees holding options who leave the Group before their options become exercisable lose their right to exercise their options, unless the Board decides otherwise.

Since 2007 and in ordinary business circumstances, the maximum number of options that can be offered in a single financial year is determined based on a set ratio expressing the percentage of the fair value of the options offered compared to the base remuneration payroll costs. The ratio was 2.5% in 2017 (1.5% in 2016). In ordinary business circumstances, the grant of options to individual employees is made based on the level of an employee in the organisation. In 2017, options were offered to all eligible employees from the middle management to the Executive Management. All employees belonging to the same level of the organisation are offered the same number of options. The Board seeks to keep a sensible relation between the number of options offered to members of the respective levels of the organisation.

In case of change of control, the Board may decide that any non-exercisable option becomes exercisable as of the date and within the period determined by the Board. The Board may also decide that outstanding options shall be replaced by new options having the equity securities of the acquiring Company or another related company as underlying asset, provided that the value of the options received as a replacement for the options is at least equal to the value of the options that they replace on the date the decision is made.

Further details on options valuation are provided in Note 15.2 to the Consolidated Financial Statements (section VII).

Pension fund contributions and benefits

Pension fund contributions and benefits depend on the level of management, age, and remuneration.

Loans

Pursuant to Art. 21 Para. 2 of the AoI, the Company may grant loans and credits to the members of the Board and of the Executive Management at market terms or at terms which apply to all employees. Loans and credits which do not satisfy such conditions are authorised provided that, in each single case, they do not exceed the amount of CHF 100,000 and to the extent that they have been approved by the General Meeting, either individually or as part of an aggregate amount.

4.1 Generalities (continued)

Indemnification

Pursuant to Art. 21 Para. 3 of the AoI, the Company may indemnify members of the Board and of the Executive Management for any loss suffered in connection with lawsuits, trials or settlements relating to their work for the Company and its subsidiaries, or advance appropriate amounts and take out insurance.

Other remuneration

The cash component of the base remuneration may be supplemented by a fixed indemnity covering estimated out-of-pocket expenses. Out-of-pocket expenses are determined in accordance with applicable local tax principles.

The Group employees enjoy benefits on the consumption of services provided by the Group (such as favourable conditions on their Swissquote trading account) and other benefits of minor importance.

4.2 Elements of the remuneration of the members of the Board of Directors

As reflected in the table introducing section 4.1 and in accordance with Art. 21bis Para. 1 of the AoI, the remuneration of the Chairman of the Board and other Board members comprises the annual base remuneration applicable up until the following Ordinary General Meeting, as well as social insurance contributions, insurance premiums and other benefits, which must be regarded as remuneration.

Base remuneration

Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, the base remuneration, which is reviewed annually, is set at the discretion of the Board in response to a proposal by the NRC. The review of the remuneration of the Board takes several factors into consideration, such as the trends in remuneration of Board members in Switzerland and/or in companies that are comparable (in terms of industry and size) according to publicly available information, although no defined benchmark is used. Further, the Board seeks to keep a sensible relation between the base remuneration of the Board members and that of the Executive Management.

In accordance with Art. 21bis Para. 2 of the AoI, the Board can decide to have part of the annual base remuneration paid in the form of shares. In this case, it decides on the conditions, including the conditions of grant and the valuation of shares, and stipulates a possible blocking period. The Board share plan is distinct from the employee share plan and does not relate to variable remuneration.

No variable remuneration

Members of the Board are not eligible for any variable remuneration.

Other remuneration

The Board members receive a fixed indemnity covering their estimated out-of-pocket expenses. Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, it is set annually at the discretion of the Board in response to a proposal by the NRC.

The Board members enjoy the same benefits on the consumption of services provided by the Group as the Group employees (such as favourable conditions on their Swissquote trading account). The aggregate amount of such benefits is not considered material and is therefore not reported in this Remuneration Report.

Loans

Pursuant to Art. 21 Para. 2 of the AoI, the Company may grant loans and credits to the members of the Board at market terms or at terms which apply to employees. Loans and credits which do not satisfy such conditions are authorised provided that, in each single case, they do not exceed the amount of CHF 100,000 and to the extent that they have been approved by the General Meeting, either individually or as part of an aggregate amount.

4.3 Elements of the remuneration of the members of the Executive Management

As reflected in the table introducing section 4.1 and in accordance with Art. 21ter Para. 1 of the AoI, the remuneration of the members of the Executive Management comprises:

- A base remuneration, which is cash-based;
- A variable remuneration in the form of:
  - A cash component (bonus) capped at 150% of the base remuneration;
  - A share plan;
  - An option plan;
- Social insurance contributions made by the Company;
- Pension fund contributions and benefits;
- A fixed indemnity covering their estimated out-of-pocket expenses (other remuneration).

Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, all of these items are set at the discretion of the Board and reviewed annually. Members of the Executive Management do not attend the part of the Board meeting where their remuneration is decided on.

Base remuneration

The base remuneration of the members of Executive Management is cash-based. It is reviewed annually by the Board and, when necessary, adjusted by the Board at its discretion – within the framework of the applicable laws, the AoI and the decisions of the General Meeting – in response to a proposal by the NRC. The base remuneration of the members of the Executive Management was last increased in August 2013. The increase in the total base remuneration of the Executive Management stated in section 5.2 of this Remuneration Reports exclusively relates to the nomination of Morgan Lavanchy, Chief Legal Officer, and Gilles Chantrier, Chief Risk Officer, on 1 January 2017.

Variable remuneration

<u>Annual cash bonus</u>

Art. 21ter Para. 2 of the AoI allows for a cash bonus up to 150% of the base remuneration.

Each year, the Board sets a list of quantitative and qualitative objectives to the Executive Management as a whole. Objectives typically include growth and profitability targets as well as objectives relating to the strengthening of the organisation (risk management, compliance, people development, etc.). Members of the Executive Management are not set individual objectives.

The performance review is carried out by the NRC, shortly before the auditors deliver their Audit Report on the Consolidated Financial Statements of the year under review. Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, the Board resolves, at its entire discretion, on the level of the cash bonus in response to a proposal by the NRC.

<u>Employee share plan</u>

Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, the Board is responsible for making discretionary decisions with respect to the terms of the share attributions and the number of shares offered, in response to a proposal by the NRC. The decision, made each year, is based on general considerations inter alia linked with the stage of development of the Group.

<u>Employee option plan</u>

Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, the Board is responsible for making discretionary decisions with respect to the terms of the options and the number of options offered, in response to a proposal by the NRC. The decision, made each year, is based on general considerations inter alia linked with the stage of development of the Group. The terms of the options provide that options offered are divided into three equal tranches, with each tranche becoming exercisable respectively one, two and three years after the date of grant. The exercise period for the options is two years. Options granted to the members of the Executive Management are vested on the date of the exercise.

4.3 Elements of the remuneration of the members of the Executive Management (continued)

Pension fund contributions and benefits

Pursuant to Art. 21^{ter} Para. 1 of the AoI, social insurance contributions and pension fund contributions are made to members of the Executive Management.

Other remuneration

The members of the Executive Management receive a fixed indemnity covering their estimated out-of-pocket expenses. Within the framework of the applicable laws, the AoI and the decisions of the General Meeting, it is set annually at the discretion of the Board in response to a proposal by the NRC.

The members of the Executive Management enjoy the same benefits as all the other employees (such as favourable conditions on their Swissquote trading account). The aggregate amount of such benefits is not considered material and is therefore not reported in this Remuneration Report.

Loans

Pursuant to Art. 21 Para. 2 of the AoI, the Company may grant loans and credits to the members of the Executive Management at market terms or at terms which apply to all employees. Loans and credits which do not satisfy such conditions are authorised provided that, in each single case, they do not exceed the amount of CHF 100,000 and to the extent that they have been approved by the General Meeting, either individually or as part of an aggregate amount.

Duration of contracts

The termination period of the employment contracts of the members of the Executive Management is six months.

5 Remuneration for the financial year under review

This section of the Remuneration Report was audited by the auditors. It replaces the information previously contained in the notes to the Consolidated Financial Statements pursuant to Art. 663b^{bis} CO.

The remuneration reported in this section is applicable to all activities of the concerned persons in the Group, including, for the Board members, their board activities for the Company and Swissquote Bank Ltd, and, for the members of the Executive Management, their activities in the Board of Directors of the foreign subsidiaries of the Group.

5.1 Remuneration of the members of the Board of Directors

The tables in this section state the total remuneration for the members of the Board for the financial years 2017 and 2016. The cash components correspond to gross figures and include social insurance contributions paid by the Board members. Therefore, the figures relating to social insurance contributions only cover the amount paid by the Company. Other remuneration consists of an indemnity covering estimated out-of-pocket expenses.

	Base remuneration				
in CHF	Cash	Shares (tax value)	Social insurance contributions	Other remuneration	Total
Board remuneration 2017					
Mario Fontana, Chairman	120,000	30,014	9,618	2,000	161,632
Markus Dennler, member	80,000	20,020	8,320	2,000	110,340
Martin Naville, member	80,000	20,020	8,320	2,000	110,340
Jean-Christophe Pernollet, member	80,000	20,020	8,320	2,000	110,340
Beat Oberlin, member	80,000	20,020	8,320	2,000	110,340
Adrian Bult, former member	31,500	–	4,285	730	36,515
Subtotal	**471,500**	**110,094**	**47,183**	**10,730**	**639,507**
Difference between tax value and IFRS fair value of shares granted to the Board					21,028
Total remuneration 2017					**660,535**

As reflected in the above table, the total remuneration is calculated by taking into consideration the fair value of the shares granted to the Board. For information on the tax value and on the fair value, reference is made to section 5.3.

At the Ordinary General Meeting of 12 May 2017, Adrian Bult did not seek re-election. The latter's remuneration for 2017 only covers his period of office from 1 January 2017 to 12 May 2017. Apart from the amount paid to Adrian Bult for his office time in 2017, no remuneration was paid, and no credit or loan was granted, to former Board members.

In 2017, no remuneration was paid to related parties and no credit or loan was granted to related parties, except Lombard loans, which were granted at market conditions.

Remuneration Report

5.1 Remuneration of the members of the Board of Directors (continued)

	Base remuneration				
	Cash	Shares (tax value)	Social insurance contributions	Other remuneration	Total
in CHF					
Board remuneration 2016					
Mario Fontana, Chairman	120,000	30,017	9,618	2,000	161,635
Markus Dennler, member	80,000	20,005	8,320	2,000	110,325
Martin Naville, member	80,000	20,005	8,320	2,000	110,325
Adrian Bult, member	80,000	20,005	8,320	2,000	110,325
Jean-Christophe Pernollet, member	80,000	20,005	8,320	2,000	110,325
Beat Oberlin, member	50,575	20,005	5,872	1,264	77,716
Subtotal	**490,575**	**130,042**	**48,770**	**11,264**	**680,651**
Difference between tax value and IFRS fair value of shares granted to the Board					24,840
Total remuneration 2016					**705,491**

As reflected in the above table, the total remuneration is calculated by taking into consideration the fair value of the shares granted to the Board. For information on the tax value and on the fair value, reference is made to section 5.3.

At the Ordinary General Meeting of 13 May 2016, Beat Oberlin was newly elected to the Board. The latter's remuneration covers his period of office from 13 May 2016 to 31 December 2016.

In 2016, no remuneration was paid, and no credit or loan was granted, to former Board members. No remuneration was paid to related parties and no credit or loan was granted to related parties, except Lombard loans, which were granted at market conditions.

Board remuneration changes from 2016 to 2017

There was no change in remuneration other than those related to the election of Beat Oberlin and those related to the departure of Adrian Bult.

Remuneration Report

5.2 Remuneration of the members of the Executive Management

Compared to 2016, following the expansion of the Executive Management, this Remuneration Report states the remuneration of the highest paid member of the Executive Management as well as the aggregate remuneration of all members of the Executive Management. This is in line with market practice and results from the application of the Ordinance.

The cash components correspond to gross figures and include social insurance contributions and pension fund contributions paid by the members of the Executive Management. Therefore, the figures relating to social insurance contributions and pension fund contributions and benefits only cover the amount paid by the Company. Other remuneration consists of an indemnity covering estimated out-of-pocket expenses.

	Base remuneration	Variable remuneration					
	Cash	Cash bonus	Shares (tax value)	Stock options (fair value at grant)	Social insurance contributions	Other remuneration	Total
in CHF							
Executive Management remuneration 2017							
Marc Bürki, CEO (highest paid)	482,400	200,000	2,406	24,733	77,517	24,300	811,356
Aggregate of all members of the Executive Management	**2,032,800**	**856,000**	**12,030**	**123,665**	**331,978**	**96,300**	**3,452,773**

Difference between tax value and IFRS fair value of shares granted to the Executive Management	4,070
Total remuneration 2017	**3,456,843**

As reflected in the above table, the total remuneration is calculated by taking into consideration the fair value of the shares granted to the Executive Management. For information on the tax value and on the fair value, reference is made to section 5.3.

With respect to the cash bonus, reference is made to section 7.

In 2017, no remuneration was paid, and no credit or loan was granted, to former members of the Executive Management. No remuneration was paid to related parties and no credit or loan was granted to related parties, except Lombard loans, which were granted at market conditions.

The short-term performance-related remuneration of the Executive Management (cash bonus) represents 42.1% of their total base remuneration.

Remuneration Report

5.2 Remuneration of the members of the Executive Management (continued)

in CHF	Base remuneration	Variable remuneration					
	Cash	Cash bonus	Shares (tax value)	Stock options (fair value at grant)	Social insurance contributions	Other remuneration	Total
Executive Management remuneration 2016							
Marc Bürki, CEO	482,400	60,000	1,864	18,974	69,675	18,000	650,913
Paolo Buzzi, CTO	482,400	60,000	1,864	18,974	70,042	18,000	651,280
Michael Ploog, CFO	474,000	60,000	1,864	18,974	69,185	18,000	642,023
Subtotal	**1,438,800**	**180,000**	**5,592**	**56,922**	**208,902**	**54,000**	**1,944,216**

Difference between tax value and IFRS fair value of shares granted to the Executive Management	1,893
Total remuneration 2016	**1,946,109**

As reflected in the above table for the financial year 2016, the total remuneration is calculated by taking into consideration the fair value of the shares granted to the Executive Management. For information on the tax value and on the fair value, reference is made to section 5.3.

With respect to the cash bonus, reference is made to section 7.

In 2016, no remuneration was paid, and no credit or loan was granted, to former members of the Executive Management. No remuneration was paid to related parties and no credit or loan was granted to related parties, except Lombard loans, which were granted at market conditions.

The short-term performance-related remuneration of the Executive Management (cash bonus) represents 12.5% of their total base remuneration.

Executive Management remuneration changes from 2016 to 2017

The total base remuneration increased from CHF 1,438,800 to CHF 2,032,800 representing a total increase of 41.3%, which is exclusively related to the nomination of Morgan Lavanchy and Gilles Chantrier.

The total cash bonus increased from CHF 180,000 to CHF 856,000, representing a total increase of 375.6%, which is partly related to the fact that the Board assessed that the objectives set to the Executive Management for 2017 were over-achieved and partly related to the nomination of Morgan Lavanchy and Gilles Chantrier.

The shares' total tax value increased from CHF 5,592 to CHF 12,030 representing a total increase of 115.1%, while the stock options' total fair value increased from CHF 56,922 to CHF 123,665 representing a total increase of 117.3%. These increases are mainly related to the nomination of Morgan Lavanchy and Gilles Chantrier.

The total social insurance contributions and pension fund contributions and benefits increased from CHF 208,902 to CHF 331,978 representing a total increase of 58.9%, which is mainly related to the nomination of Morgan Lavanchy and Gilles Chantrier.

The other remuneration increased from CHF 54,000 to CHF 96,300 representing a total increase of 78.3%, which is mainly related to the nomination of Morgan Lavanchy and Gilles Chantrier.

Overall total remuneration increased from CHF 1,946,109 to CHF 3,456,843 representing a total increase of 77.6%, which is partly related to the nomination of Morgan Lavanchy and Gilles Chantrier and partly related to the fact that the Board assessed that the objectives set to the Executive Management for 2017 were over-achieved.

5.3 Valuation principles

The cash bonus is determined based on the accrual (cash bonus) in the financial year under review of the bonus payable in the following financial year. It is based on the results of the financial year under review.

The fair value of the shares is determined in accordance with the International Financial Reporting Standards (IFRS). It represents the market price, i.e. the price that would be received for a share in an orderly transaction between market participants on the grant date.

The market price of the shares granted to the Board in 2017 was CHF 38.2 and the market price of those granted to the Executive Management was CHF 32.2 due to a different grant date. The market price of the shares granted to the Board in 2016 was CHF 23.9 and the market price of those granted to the Executive Management was CHF 25.0 due to a different grant date.

The tax value of the shares is determined based on the Swiss Federal Tax Administration Circular Letter No. 37 on Taxation of Employee Participations. It represents the market price of the share on grant date discounted by a fixed percentage for a certain period of blocking.

Shares granted to the Board in 2017 are blocked for three years from their grant date and their tax value amounts to CHF 32.0 per share. This tax value represents the market price of the share on grant date (i.e. CHF 38.2) discounted by 16.0%. Shares granted to the Executive Management in 2017 are blocked for five years from their grant date and their tax value amounts to CHF 24.1 per share. This tax value represents the market price of the share on grant date (i.e. CHF 32.2) discounted by 25.3%.

Shares granted to the Board in 2016 are blocked for three years from their grant date and their tax value amounts to CHF 20.0 per share. This tax value represents the market price of the share on grant date (i.e. CHF 23.9) discounted by 16.0%. Shares granted to the Executive Management in 2016 are blocked for five years from their grant date and their tax value amounts to CHF 18.6 per share. This tax value represents the market price of the share on grant date (i.e. CHF 25.0) discounted by 25.3%.

The fair value of the options is determined based on the Black-Scholes valuation model. The most significant inputs into the model are the market value at grant, the strike price, the expected life of the options and the volatility. The volatility is measured over a period of three years. Other inputs into the model are the risk-free interest rate and the dividend yield. One option grants the right to acquire one Swissquote share (ratio 1:1). For the financial year 2017, the fair value amounts to CHF 5.2 on average per option on grant date. For the financial year 2016, the fair value amounts to CHF 4.0 on average per option on grant date.

5.4 Loans and credits to the Board and the Executive Management

The following loans and credits were granted to and were still outstanding as at 31 December 2017 with current and former members of the Board and of the Executive Management. All loans were granted at market conditions.

in CHF	2017	2016
Members of the Board		
Mario Fontana, Chairman	–	–
Markus Dennler, member	–	–
Martin Naville, member	–	–
Jean-Christophe Pernollet, member	–	–
Beat Oberlin, member	–	–
Closely related persons	3,998,490	3,991,845
Former members	–	–
Total as at 31 December	**3,998,490**	**3,991,845**

in CHF	2017	2016
Members of the Executive Management		
Marc Bürki, CEO	3,231,605	2,731,558
Paolo Buzzi, CTO	2,587,986	2,811,804
Michael Ploog, CFO	–	–
Morgan Lavanchy, CLO	–	–
Gilles Chantrier, CRO	–	–
Closely related persons	253,213	297,837
Former members	–	–
Total as at 31 December	**6,072,804**	**5,841,199**

6 Reconciliation of remuneration with the approval of the General Meeting

At the Ordinary General Meeting of 13 May 2016, the shareholders approved a maximum aggregate remuneration of the Board amounting to CHF 850,000 for the period of office from the Ordinary General Meeting of 13 May 2016 until the completion of the Ordinary General Meeting of 12 May 2017. The total amount of remuneration paid out for this period was CHF 693,340, which is in line with what was approved at the Ordinary General Meeting of 13 May 2016.

At the Ordinary General Meeting of 12 May 2017, the shareholders approved a maximum aggregate remuneration of the Board amounting to CHF 750,000 for the period of office from the Ordinary General Meeting of 12 May 2017 until the completion of the Ordinary General Meeting of 4 May 2018. The total amount of remuneration that will be paid out for this period is anticipated to be in line with the maximum aggregate remuneration approved at the Ordinary General Meeting of 12 May 2017. The amount that will be paid will be disclosed in the 2018 Remuneration Report.

With respect to the remuneration for the Executive Management, at the Ordinary General Meeting of 13 May 2016, the shareholders approved a maximum aggregate remuneration amounting to CHF 3,750,000 for the financial year 2017. The total amount of the remuneration paid out and accrued for this period was CHF 3,456,843, which is in line with what was approved at the Ordinary General Meeting of 13 May 2016.

At the Ordinary General Meeting of 12 May 2017, the shareholders approved a maximum aggregate remuneration for the Executive Management amounting to CHF 4,000,000 for the financial year 2018. The total amount of remuneration that will be paid out and accrued for this period is anticipated to be in line with the maximum aggregate remuneration approved at the Ordinary General Meeting of 12 May 2017. The amount that will be paid will be disclosed in the 2018 Remuneration Report.

7 "Pay for Performance" appraisal for the financial year under review

As stated in section 4.3, the Board sets each year a list of objectives to the Executive Management as a whole (i.e. no individual objectives). These typically include growth and profitability targets as well as objectives relating to the strengthening of the organisation.

Based on a proposal of the NRC, the Board assessed that the objectives set to the Executive Management for 2017 were over-achieved and set the aggregate cash bonus for the five members of the Executive Management to CHF 856,000.

As a result, for the financial year 2017, the short-term performance-related remuneration of the Executive Management (cash bonus) represents 42.1% of their total base remuneration.

8 Share ownership information

As at 31 December 2017, the number of shares and options held by Board members, members of the Executive Management and closely related persons, was 4,976,057 or 32.5% of the share capital.

The following tables were produced in accordance with Art. 663c CO and are also available in Note 24 to the Consolidated Financial Statements (section VII).

8.1 Shareholdings

For the sake of clarity, except for the shares granted as part of the Company's share plan, the shares enumerated in the following tables were not granted by the Group, but were acquired by the concerned shareholders, for instance as part of their investment in the initial capital of the Company or via ordinary purchases on the market.

	Number of shares as at 31 December 2017	Number of shares as at 31 December 2016
Members of the Board		
Mario Fontana, Chairman	516,752	595,815
Mario Fontana, closely related persons	244,011	164,011
Markus Dennler, member	29,534	28,909
Martin Naville, member	8,990	8,365
Jean-Christophe Pernollet, member	2,868	2,243
Beat Oberlin, member	3,424	1,699
Other closely related persons	–	–
Total as at 31 December	**805,579**	**801,042**

	Number of shares as at 31 December 2017	Number of shares as at 31 December 2016
Members of the Executive Management		
Marc Bürki, CEO	1,934,692	1,926,300
Paolo Buzzi, CTO	1,936,240	1,926,275
Michael Ploog, CFO	68,050	67,950
Morgan Lavanchy, CLO [1]	340	–
Gilles Chantrier, CRO [1]	340	–
Closely related persons	154,810	163,090
Total as at 31 December	**4,094,472**	**4,083,615**

In line with Art. 663c CO, this Remuneration Report no longer states the number of shares held by former members of the Board and former members of the Executive Management.

[1] Morgan Lavanchy and Gilles Chantrier have joined the Executive Management on 1 January 2017.

8.2 Options

The following tables provide information on unexpired options granted to members of the Board and of the Executive Management. These options have the Swissquote share (SQN; ISIN CH0010675863) as underlying and the exercise of one option allows acquiring one Swissquote share (ratio 1:1). The lock-up period ends one day before the start of the exercise period as mentioned in the tables below. Duration and strike prices are also listed below.

Members of the Board

Mario Fontana, Chairman of the Board, 1,000 options, the details of which are stated below:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
1,000	31.07.13	31.07.16	31.07.18	33.24

Markus Dennler, member, 667 options, divided as follows:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
667	31.07.13	31.07.16	31.07.18	33.24

Martin Naville, member, 667 options, divided as follows:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
667	31.07.13	31.07.16	31.07.18	33.24

Former member, 667 options, divided as follows:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
667	31.07.13	31.07.16	31.07.18	33.24

Jean-Christophe Pernollet, member: none.

Beat Oberlin, member: none.

8.2 Options (continued)

Executive Management

Marc Bürki, CEO, 15,255 options, divided as follows:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
2,667	31.07.13	31.07.16	31.07.18	33.24
1,573	31.10.14	31.10.16	31.10.18	30.71
1,574	31.10.14	31.10.17	31.10.19	30.71
1,574	04.08.15	04.08.18	04.08.20	25.66
1,573	04.08.16	04.08.18	04.08.20	25.95
1,574	04.08.16	04.08.19	04.08.21	25.95
1,573	11.08.17	11.08.18	11.08.20	34.02
1,573	11.08.17	11.08.19	11.08.21	34.02
1,574	11.08.17	11.08.20	11.08.22	34.02

Paolo Buzzi, CTO, 13,682 options, divided as follows:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
2,667	31.07.13	31.07.16	31.07.18	33.24
1,574	31.10.14	31.10.17	31.10.19	30.71
1,574	04.08.15	04.08.18	04.08.20	25.66
1,573	04.08.16	04.08.18	04.08.20	25.95
1,574	04.08.16	04.08.19	04.08.21	25.95
1,573	11.08.17	11.08.18	11.08.20	34.02
1,573	11.08.17	11.08.19	11.08.21	34.02
1,574	11.08.17	11.08.20	11.08.22	34.02

Michael Ploog, CFO, 19,974 options, divided as follows:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
2,667	31.07.13	31.07.16	31.07.18	33.24
1,573	31.10.14	31.10.16	31.10.18	30.71
1,574	31.10.14	31.10.17	31.10.19	30.71
1,573	04.08.15	04.08.16	04.08.18	25.66
1,573	04.08.15	04.08.17	04.08.19	25.66
1,574	04.08.15	04.08.18	04.08.20	25.66
1,573	04.08.16	04.08.17	04.08.19	25.95
1,573	04.08.16	04.08.18	04.08.20	25.95
1,574	04.08.16	04.08.19	04.08.21	25.95
1,573	11.08.17	11.08.18	11.08.20	34.02
1,573	11.08.17	11.08.19	11.08.21	34.02
1,574	11.08.17	11.08.20	11.08.22	34.02

8.2 Options (continued)
Executive Management

Morgan Lavanchy, CLO, 12,347 options, divided as follows:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
1,334	31.07.13	31.07.16	31.07.18	33.24
787	31.10.14	31.10.16	31.10.18	30.71
786	31.10.14	31.10.17	31.10.19	30.71
786	04.08.15	04.08.16	04.08.18	25.66
787	04.08.15	04.08.17	04.08.19	25.66
787	04.08.15	04.08.18	04.08.20	25.66
787	04.08.16	04.08.17	04.08.19	25.95
787	04.08.16	04.08.18	04.08.20	25.95
786	04.08.16	04.08.19	04.08.21	25.95
1,573	11.08.17	11.08.18	11.08.20	34.02
1,573	11.08.17	11.08.19	11.08.21	34.02
1,574	11.08.17	11.08.20	11.08.22	34.02

Gilles Chantrier, CRO, 12,347 options, divided as follows:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
1,334	31.07.13	31.07.16	31.07.18	33.24
787	31.10.14	31.10.16	31.10.18	30.71
786	31.10.14	31.10.17	31.10.19	30.71
786	04.08.15	04.08.16	04.08.18	25.66
787	04.08.15	04.08.17	04.08.19	25.66
787	04.08.15	04.08.18	04.08.20	25.66
787	04.08.16	04.08.17	04.08.19	25.95
787	04.08.16	04.08.18	04.08.20	25.95
786	04.08.16	04.08.19	04.08.21	25.95
1,573	11.08.17	11.08.18	11.08.20	34.02
1,573	11.08.17	11.08.19	11.08.21	34.02
1,574	11.08.17	11.08.20	11.08.22	34.02

Closely related persons, 67 options, divided as follows:

Number of options	Date of grant	Start of exercise period	Expiry date	Strike price
67	31.07.13	31.07.16	31.07.18	33.24

Remuneration Report

9 Approval of the Remuneration Report

This Remuneration Report provides full transparency for the financial year 2017 with regard to the Group's remuneration arrangements and remuneration paid to the Board and the Executive Management. The Board intends to recommend that the General Meeting approves this Remuneration Report at the Ordinary General Meeting of 4 May 2018 (consultative vote).

pwc

Report of the statutory auditor to the General Meeting of Swissquote Group Holding Ltd Gland on the Remuneration Report 2017

We have audited the remuneration report of Swissquote Group Holding Ltd for the year ended 31 December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in section 5 on pages 162 to 167 of the remuneration report.

Board of Directors' reponsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's reponsibility
Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the remuneration report of Swissquote Group Holding Ltd for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers Ltd

Beresford Caloia	Alain Lattafi
Audit expert	Audit expert
Auditor in charge	

Lausanne, 27 February 2018

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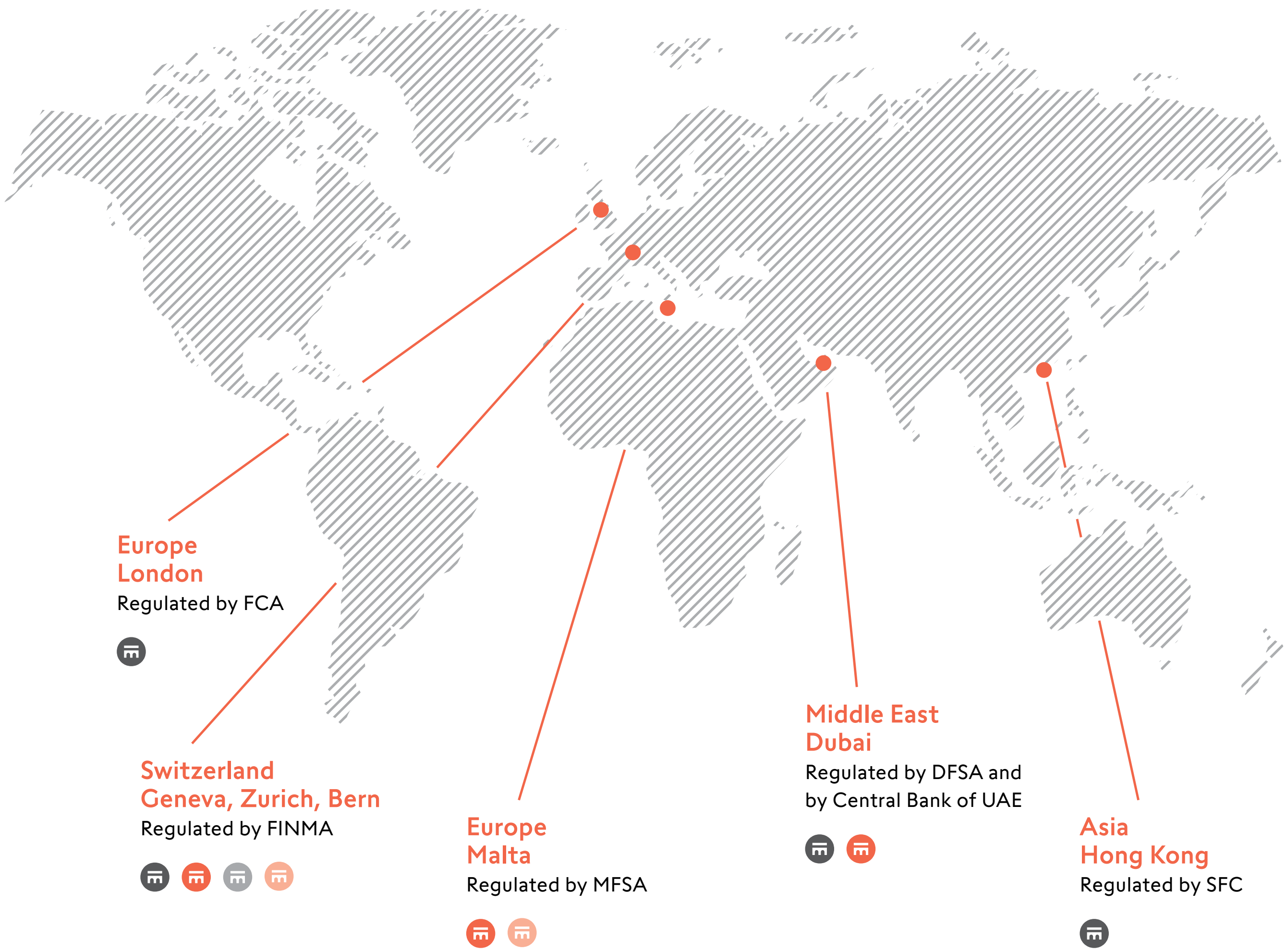

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