ANNUAL REPORT 2012
CORPORATE GOVERNANCE REPORT
COMPENSATION REPORT

SWISSQUOTE
BANKING. SELF-MADE.

Annual Report 2012

Swissquote...

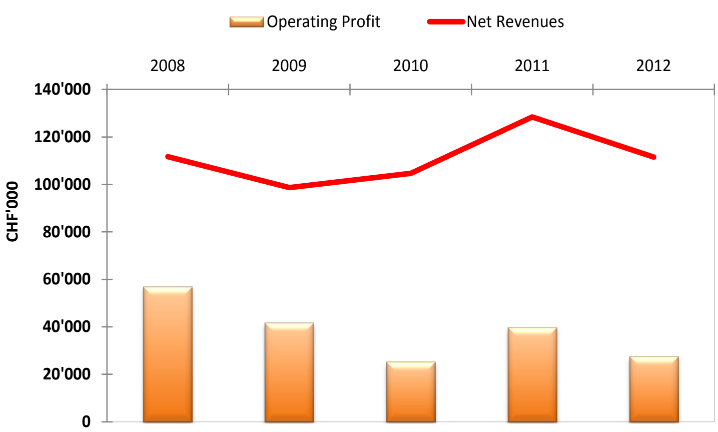
Is a leading provider of online financial and trading services in Switzerland and abroad.
Creates sustainable added value for its customers, employees and shareholders.
Is an independent Company, listed on the SIX Swiss Exchange.

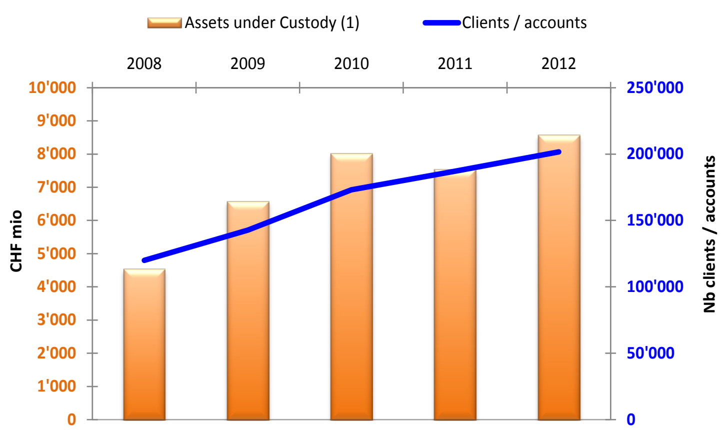
Section 1: Key Figures

	2012	2011	2010	2009	2008
Clients / accounts	201,582	187,077	173,058	142,702	119,869
% change	7.8%	8.1%	21.3%	19.0%	31.9%
Assets under Custody in CHFm (1)	8,581	7,537	8,030	6,583	4,540
% change	13.9%	-6.1%	22.0%	45.0%	-22.4%
Employees	368	358	355	236	236
% change	2.8%	0.8%	50.4%	0.0%	10.8%

(1) including cash deposited by clients

All amounts in CHF '000	2012	2011	2010	2009	2008
Net revenues	111,492	128,444	104,645	98,633	111,677
% change	-13.2%	22.7%	6.1%	-11.7%	0.7%
Operating Expenses	83,924	88,431	79,383	56,802	54,640
% change	-5.1%	11.4%	39.8%	4.0%	7.3%
Operating Profit	27,567	40,013	25,262	41,831	57,037
% change	-31.1%	58.4%	-39.6%	-26.7%	-4.9%
Operating Profit Margin [%]	24.7%	31.2%	24.1%	42.4%	51.1%
Net Profit	22,664	31,407	21,157	34,993	32,807
% change	-27.8%	48.4%	-39.5%	6.7%	-31.0%
Net Profit Margin [%]	20.3%	24.5%	20.2%	35.5%	29.4%
Equity	242,648	229,746	199,011	174,240	139,130
% change	5.6%	15.4%	14.2%	25.2%	9.9%
Equity ratio [%]	8.6%	8.9%	8.5%	9.2%	10.3%





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 1,067,586 and ISIN number is CH0010675863. Their ticker symbols are: SQN (Swissquote); SQZ.S (Reuters); SQNSW (Bloomberg); SQN (Telekurs).

Development of stock market share price (2008 to 2012)

Development of stock market share price (January to December 2012)

Share price in CHF	2012	2011	2010	2009	2008
High	42.40	61.70	54.80	58.85	63.90
Low	24.10	29.00	36.25	35.00	25.40
31 December	28.70	33.00	53.60	51.50	37.00

Stock market capitalisation in CHF million	2012	2011	2010	2009	2008
High	620.7	888.2	777.9	825.9	903.4
Low	352.8	417.5	514.6	491.2	359.1
31 December	420.1	475.0	760.8	722.8	523.1

Per share data in CHF	2012	2011	2010	2009	2008
Net revenue per share	7.71	8.92	7.37	7.03	7.90
Net profit per share	1.57	2.18	1.49	2.49	2.32
Equity per share	16.58	15.69	13.60	11.90	9.50
Dividend per share	0.60 (*)	-	0.60	0.60	0.40
Other pay out per share	1.04	-	-	-	-

(*) Proposal of the Board of Directors

Report to the Shareholders

SWISSQUOTE WITH SOLID RESULTS FOR 2012

Dear Shareholders,

Swissquote's results for the first nine months indicated the pattern for the year as a whole: the number of clients and assets under custody continue to grow, while revenues and profits stagnate. Although stock market performance in the second half of the year surprised on the upside, investors' high level of uncertainty persisted virtually unchanged through to the end of the year. As a result, Swissquote posted a decline in operating income (13.2 percent) and net profit (27.8 percent) in 2012.

Swissquote is cautiously optimistic about the outlook for 2013: Revenues and profits are expected to grow again, and the number of clients and net new monies should continue to increase in line with the current trend.

Investor uncertainty decreases

Swissquote's revenue trend in 2012 reflected developments in the global capital and currency markets as well as the related uncertainty and caution on the part of investors. That the latter has hardly declined, despite the positive performance of the stock market in the second half of the year, illustrates the depth and persistence of investors' scepticism toward the financial markets.

Only at the beginning of 2013 did the number of transactions start to pick up. In 2012 both the commission business and trading operations contributed to the decline in operating income. The only sector to make a positive contribution was the interest business, a significantly smaller operation in terms of volume. Operating income of CHF 111.5 million (CHF 128.4 million) fell by 13.2 percent year on year. As a consequence of the significant fall-off in trading activity to only 11.2 transactions per client/year (13.9 transactions), net fee and commission income dropped by 20.0 percent to CHF 51.7 million (CHF 64.7 million).

Owing to limited volatility in the currency markets, trading results and other results fell by 10.6 percent to CHF 42.7 million (CHF 47.7 million). The eForex trading volume decreased by 18.9 percent to CHF 336.6 billion (CHF 414.9 billion).

The interest business faced another challenging year on account of the currency situation and Swissquote's cautious investment strategy (almost 60 percent of the balance sheet total is held as deposits with the Swiss National Bank). Nevertheless, net interest income rose by 6.4 percent to CHF 17.1 million (CHF 16.1 million).

Profits stable despite decline in client activity

Although operating expenses fell by 5.1 percent to CHF 83.9 million (CHF 88.4 million) in 2012, this did not compensate for the decline in overall revenues. The reduction in expenses is primarily a result of the decrease of CHF 2.0 million in payroll and related expenses – despite a slight increase in the number of employees – and a reduction of CHF 2.3 million in marketing expenses.

Operating profit fell by 31.1 percent to CHF 27.6 million (CHF 40.0 million). Net profit was 27.8 percent lower at CHF 22.7 million (CHF 31.4 million). The operating profit margin reached 24.7 percent (31.2 percent), and the net profit margin stood at 20.3 percent (24.5 percent). Earnings per share amounted to CHF 1.57 (CHF 2.18).

The balance sheet total grew by 9.0 percent to CHF 2.820 billion (CHF 2.586 billion), and total equity was 5.6 percent higher at CHF 242.6 million (CHF 229.7 million). The core capital ratio (tier 1) stood at 23.2 percent.

Report to the Shareholders

Number of accounts exceeds 200,000

In contrast to the decrease in revenues and profits, Swissquote recorded another year of customer growth in 2012. In 2012 the total number of accounts rose by 7.5 percent year-on-year to 201,582.

The breakdown is 159,942 trading accounts (+0.9 percent), 30,002 saving accounts (+70.7 percent), 10,870 eForex accounts (+1.0 percent), and 768 ePrivate Banking accounts (+20.2 percent). Compared to the previous year, assets under custody rose by 13.9 percent to reach CHF 8.581 billion (CHF 7.537 billion). At the end of 2012, assets of CHF 7.740 billion were held in trading accounts, CHF 695.1 million in saving accounts, CHF 123.4 million in eForex accounts, and CHF 22.6 million in ePrivate Banking accounts. Net new monies decreased by 9.5 percent year-on-year to CHF 838.0 million (CHF 926.1 million).

Strategic expansion abroad

As part of its policy of cautious expansion, Swissquote opened an office in Malta in October 2012, its second location outside Switzerland. The Malta Financial Services Authority (MFSA) granted Swissquote a Category 3 license. Thanks to the EU passporting rules, Swissquote can now offer its forex services in all EU member states without restriction.

Swissquote Europe Ltd has a team of four working in Malta; the operating business is handled by Swissquote Bank Ltd in Switzerland. The two foreign locations in Malta and Dubai (category 4 license) will enable Swissquote to rapidly establish a foothold in European markets as well as in the Middle East and Asia, and to generate revenues accordingly.

Explosive growth in mobile banking

In 2012 for the first time more than 50 percent of people who accessed the internet in Switzerland did so from mobile devices and not computers.

Swissquote's figures confirm this trend: already more than 10 percent of all transactions in 2012 were executed using mobile devices and the figure is rising fast. Swissquote took an early decision to make its service offering available on all mobile platforms via regularly updated attractive and efficient applications. Swissquote expects that in a few years more than half of all transactions will be conducted using mobile devices.

Swiss DOTS meets investor need

The volume of the Swissquote Swiss DOTS (Swiss Derivatives OTC Trading System), which Swissquote launched in cooperation with Goldman Sachs and UBS at the end of May 2012, is increasing steadily. More than 8,300 transactions were executed in November alone, which is equal to 16.6 percent of all transactions in leverage products executed on Scoach. Today clients can choose from more than 38,000 leverage products on the Swissquote platform.

The rapid development confirms on the one hand that Swiss DOTS meets a genuine need among investors and on the other that in Switzerland there is certainly room for such an offering in addition to Scoach. Swiss DOTS generates significant additional volume for Swissquote, without negatively impacting the volume traded on Scoach.

Demand for online mortgages is growing

For the past year, Swissquote has partnered with Basellandschaftliche Kantonalbank (BLKB) to offer online mortgages. Demand is rising steadily. To date the partnership has originated CHF 160 million in loans. The two partners plan to expand existing services in order to accelerate growth.

Report to the Shareholders

Swissquote launches oil trading

In the first quarter of 2012 Swissquote's latest product addressed a wish expressed by numerous clients to be able to trade oil directly in real time on the various Swissquote platforms (FXBook, Advanced Trader and MetaTrader 4).

Clients can trade commission-free in West Texas Intermediate (WTI) crude oil, the most traded energy product worldwide. With a leverage effect of up to 30:1, high liquidity, narrow spreads and a minimum volume of only one barrel, this provides an alternative to futures contracts.

Cautiously optimistic about 2013

Based on various indicators, Swissquote's assessment of developments in the current year is cautiously optimistic.

For instance, in the first two months of 2013 the commission business experienced an upward trend in the number of transactions, which, on account of the higher number of clients, will automatically leverage revenues and profits. Although it is too early to speak of a trend reversal in the interest business, the signs indicate to an upturn. In the trading business 2013 brings relief from the EU's tight regulatory restrictions, as henceforth Swissquote's new Malta office can market Swissquote's forex services in all EU member states.

Once again, Swissquote targets for the year are an increase in the number of clients of between 5 and 10 percent and net new monies in the region of CHF 1 billion.

Distribution of profit to shareholders

The Board of Directors proposes that the Annual General Meeting of Swissquote Group Holding Ltd on 7 May 2013 distributes a dividend of CHF 0.60 per share.

Acknowledgements

On behalf of the Board of Directors and Group Management, we would like to thank our clients, who, by actively using our platforms and providing a wide range of informed feedback, are making a crucial contribution to Swissquote's business success and hence to Swissquote's 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 our progress.

Our thanks are also due to our shareholders for the confidence they have placed in our company and 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 to grow our business.

Mario Fontana
Chairman of the Board of Directors

Marc Bürki
Chief Executive Officer

Section 2: Financial Report 2012

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

Financial Report 2012
Consolidated Statement of Financial Positions

	Notes	31 December 2012	31 December 2011
ASSETS			
Cash and balances with central bank	1	1,612,190,388	1,274,982,572
Treasury bills and other eligible bills	1	4,825,733	6,678,547
Loans and advances to banks	1	236,956,542	300,794,570
Derivative financial instruments	2	29,087,367	43,051,092
Trading assets	3	5,358,622	3,846,407
Loans and advances to customers	4	91,728,176	100,615,748
Investment securities	5	718,914,914	748,377,322
Deferred income tax assets	12	156,800	168,000
Intangible assets	6	22,215,204	22,983,918
Information technology systems	7	21,743,823	21,529,047
Property, plant and equipment	8	45,792,263	33,147,276
Other assets	9	30,635,888	29,529,756
Total assets		**2,819,605,720**	**2,585,704,255**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	1	10,561,838	9,510,283
Derivative financial instruments	2	7,904,195	9,921,620
Due to customers	10	2,533,756,648	2,310,092,305
Other liabilities	11	16,658,992	19,488,059
Current income tax liabilities	12	3,282,996	1,150,970
Deferred tax liabilities	12	894,235	1,105,896
Provisions	13	3,899,016	4,689,497
Total liabilities		**2,576,957,920**	**2,355,958,630**
Equity			
Ordinary shares	15.1	2,927,674	2,927,674
Share premium		39,496,150	39,418,265
Share option reserve	15.2	3,003,351	2,785,238
Other reserve	15.3	2,319,405	(1,574,167)
Treasury shares	15.4	(9,184,665)	(9,444,191)
Retained earnings		204,085,885	195,632,806
Total equity		**242,647,800**	**229,745,625**
Total liabilities and equity		**2,819,605,720**	**2,585,704,255**

The notes on pages 16 to 106 are integral part of these financial statements

All amounts in Swiss Francs

Financial Report 2012
Consolidated Income Statement

	Notes	2012	2011
Fee and commission income	16	58,716,419	72,272,507
Fee and commission expense	16	(6,994,382)	(7,606,890)
Net fee and commission income		51,722,037	64,665,617
Interest income	17	22,272,490	22,159,157
Interest expense	17	(5,173,560)	(6,093,660)
Net interest income		17,098,930	16,065,497
Net trading income	18	42,670,562	47,713,020
Operating income		**111,491,529**	**128,444,134**
Operating expenses	19	**(83,924,433)**	**(88,431,031)**
Operating profit		**27,567,096**	**40,013,103**
Income tax expense	12	(4,903,499)	(8,606,114)
Net profit		**22,663,597**	**31,406,989**
Earning per share	*20*	*1.57*	*2.18*
Diluted earning per share	*20*	*1.57*	*2.18*
Weighed average number of shares	*20*	*14,462,730*	*14,394,858*

The notes on pages 16 to 106 are integral part of these financial statements

All amounts in Swiss Francs 11

Financial Report 2012
Consolidated Statement of Comprehensive Income

	Notes	2012	2011
Net profit for the period		**22,663,597**	**31,406,989**
Other comprehensive income: **Gains / (losses) recognised directly in equity**			
Items to be recycled			
Available-for-sale financial assets	5	4,883,629	(1,212,901)
Income tax relating to components of other comprehensive income (AFS assets)		(957,191)	271,326
Hedge reserve		6,670	23,009
Income tax relating to components of other comprehensive income (Hedge reserve)		(1,492)	(5,147)
Currency translation differences		(83,643)	-
Items not to be recycled		-	-
Other comprehensive income for the period (net of tax)		**3,847,973**	**(923,713)**
Total comprehensive income for the period		**26,511,570**	**30,483,276**

The notes on pages 16 to 106 are integral part of these financial statements

All amounts in Swiss Francs

Financial Report 2012
Consolidated Statement of Changes in Equity

	Notes	Share capital	Share premium	Share option reserve	Other reserve	Treasury shares	Retained earnings	Total
Balance at 1 January 2012		**2,927,674**	**39,418,265**	**2,785,238**	**(1,574,167)**	**(9,444,191)**	**195,632,806**	**229,745,625**
Net profit of the period		-	-	-	-	-	22,663,597	**22,663,597**
Available-for-sale financial assets	5	-	-	-	4,883,629	-	-	**4,883,629**
Hedge reserve		-	-	-	6,670	-	-	**6,670**
Income tax relating to components of other comprehensive income		-	-	-	(958,683)	-	-	**(958,683)**
Currency translation differences		-	-	-	(83,643)	-	-	**(83,643)**
Total comprehensive income for the period		**-**	**-**	**-**	**3,847,973**	**-**	**22,663,597**	**26,511,570**
Dividend / Pay out		-	-	-	-	-	(15,045,034)	**(15,045,034)**
Currency translation differences		-	-	-	45,599	-	-	**45,599**
Employee stock option plan: Value of services provided		-	-	1,052,629	-	-	-	**1,052,629**
Reclassification of value of services provided for stock options exercised, lapsed or expired in the period		-	-	(834,516)	-	-	834,516	-
Purchase of treasury shares	15.4	-	-	-	-	(264,839)	-	**(264,839)**
Sale of treasury shares	15.4	-	77,885	-	-	524,365	-	**602,250**
Balance at 31 December 2012		**2,927,674**	**39,496,150**	**3,003,351**	**2,319,405**	**(9,184,665)**	**204,085,885**	**242,647,800**

The notes on pages 16 to 106 are integral part of these financial statements

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Financial Report 2012
Consolidated Statement of Changes in Equity (continued)

	Notes	Share capital	Share premium	Share option reserve	Other reserve	Treasury shares	Retained earnings	Total
Balance at 1 January 2011		2,927,674	40,011,434	2,455,677	(604,855)	(17,808,463)	172,029,134	199,010,601
Net profit of the period		-	-	-	-	-	31,406,989	**31,406,989**
Available-for-sale financial assets	5	-	-	-	(1,212,901)	-	-	**(1,212,901)**
Hedge reserve		-	-	-	23,009	-	-	**23,009**
Income tax relating to components of other comprehensive income		-	-	-	266,179	-	-	**266,179**
Total comprehensive income for the period		-	-	-	**(923,713)**	-	**31,406,989**	30,483,276
Dividend		-	-	-	-	-	(8,607,208)	**(8,607,208)**
Currency translation differences		-	-	-	(45,599)	-	-	**(45,599)**
Employee stock option plan:								
Value of services provided		-	-	1,133,452	-	-	-	**1,133,452**
Reclassification of value of services provided for stock options exercised, lapsed or expired in the period		-	-	(803,891)	-	-	803,891	-
Purchase of treasury shares	15.4	-	-	-	-	(6,742,290)	-	**(6,742,290)**
Sale of treasury shares	15.4	-	(593,169)	-	-	15,106,562	-	**14,513,393**
Balance at 31 December 2011		2,927,674	39,418,265	2,785,238	(1,574,167)	(9,444,191)	195,632,806	229,745,625

The notes on pages 16 to 106 are integral part of these financial statements

All amounts in Swiss Francs

Financial Report 2012
Consolidated Statement of Cash Flow

	Notes	2012	2011
Cash flow from / (used in) operating activities:			
Fees and commission receipts		58,508,596	75,710,850
Fees and commission paid		(6,838,656)	(7,566,470)
Interest receipts		21,968,690	12,780,157
Interest paid		(5,257,829)	(6,093,660)
Net trading income		42,054,312	57,607,214
Income tax paid		(4,580,046)	(4,495,035)
Cash payments to employees and suppliers		(55,428,236)	(61,709,129)
Cash flow from operating profit before changes in operating assets and liabilities		**51,426,831**	**66,233,927**
Net (increase) / decrease in operating assets and net increase / (decrease) in operating liabilities:			
Loans and advances to customers		8,887,572	18,061,575
Derivative financial instrument assets		13,963,725	(18,687,078)
Trading assets		(1,512,215)	(2,213,963)
Derivative financial instruments liabilities		(2,017,425)	4,582,590
Due to customers		223,664,343	217,981,792
Other liabilities		(3,251,789)	(7,391,568)
Net cash from operating activities		**291,161,042**	**278,567,275**
Cash flow from / (used in) investing activities:			
Purchase of Property, plant and equipment and Information technology systems	7/8	(23,097,003)	(24,124,702)
Proceeds from sale and reimbursement of investment securities	5	455,750,702	287,218,909
Purchase of investment securities	5	(438,641,699)	(383,081,599)
Net cash used in investing activities		**(5,988,000)**	**(119,987,392)**
Cash flow from / (used in) financing activities:			
Purchase of treasury shares		(264,839)	(6,742,290)
Sale of treasury shares		602,250	14,513,393
Dividend and payments out of reserves		(15,045,034)	(8,607,208)
Net cash from financing activities		**(14,707,623)**	**(836,105)**
Increase in cash and cash equivalents		**270,465,419**	**157,743,778**
Movements in cash and cash equivalents:			
Balance at beginning of year		1,572,945,406	1,415,201,628
Increase		270,465,419	157,743,778
Balance at 31 December	1	**1,843,410,825**	**1,572,945,406**

The notes on pages 16 to 106 are integral part of these financial statements

All amounts in Swiss Francs 15

Financial Report 2012
Notes to the Consolidated Financial Statements

SECTION I: GENERAL INFORMATION

Swissquote Group Holding Ltd ("the Company") and its subsidiaries ("the Group") provide Online Financial Services that mainly consist of the services provided by Swissquote Bank Ltd ("the Bank") through its financial web portal www.swissquote.ch. The Group foreign subsidiaries which are based in United Arab Emirates (Dubai) and Europe (Malta) are responsible for the sales of the Group services in respective markets.

The Group's headquarters are located in Gland (Canton de Vaud) in Switzerland. The operations are located in Switzerland (Gland, Bern and Zürich), in the United Arab Emirates (Dubai) and in Europe (Malta). The Group employed 368 employees (full time equivalent) at the end of December 2012 (31 December 2011: 358). 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 1,067,586 and the ISIN Number is CH0010675863.

The issued share capital at 31 December 2012 consists of 14,638,370 ordinary shares of CHF 0.20 nominal value each (2011: 14,638,370 ordinary shares of CHF 0.20 nominal value). There is also a conditional share capital and an authorised share capital. Details are stated in Note 15.1.

The main shareholders (in the sense of art. 20 Stock Exchange Act - SESTA) at 31 December are:

	2012	2011
Mr. Marc Bürki	13.11%	13.09%
Mr. Paolo Buzzi	13.10%	13.06%
Mr. Mario Fontana	5.16%	5.16%
Basellandschaftliche Kantonalbank	4.99%	4.99%
Alken Fund European Opportunities	<3%	3.06%
BlackRock, Inc.	<3%	3.03%
Treasury Shares:		
Swissquote Group Holding Ltd	1.20%	1.25%

Except the above-mentioned shareholders, no other shareholder registered in the Share Register owns 3% or more of the issued share capital at 31 December 2012. All shares are freely tradable. SIX Swiss Exchange Regulations however provide that individual shareholdings exceeding 5% (save inter alia for 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 at 31 December 2012 is 68.63% (2011: 68.70%). Further information is provided in note 23 of section VII.

The Group also operates equity-settled, shares-based compensation plans (see note 15.2).

The Consolidated Financial Statements were approved for issue by the Board of Directors on 22 February 2013.

Financial Report 2012
Notes to the Consolidated Financial Statements

SECTION II: SCOPE OF OPERATIONS OF THE GROUP & REPORTABLE SEGMENTS

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

- Until 1996, service Group active in the development of banking software in the field of portfolio valuation and web design;
- 1996: creation of the financial information website www.swissquote.ch;
- 1999: addition of Introducing brokerage operations in cooperation with a third party bank;
- 2000: listing of the Group at the SIX Swiss Exchange;
- 2001: grant of a banking license by the FINMA and operation of a bank with focus on online brokerage services;
- 2002-2003: consolidation of the online brokerage market in Switzerland. In this context the Group acquired the operations of several competitors, one of which had started a special service directed towards independent asset managers and financial advisors. Disposal of web design operations;
- 2007: grant of the authorisation by the FINMA to carry out the Swiss regulated Custodian Bank function for Swiss regulated investment funds as well as the authorisation to carry out quantitative asset management services;
- 2008: launch of an eForex platform and of dynamic saving accounts;
- 2009: launch of quantitative asset management services and of the Swissquote Quant investment funds function;
- June 2010: acquisition and subsequent merger into Swissquote Bank Ltd of Tradejet Ltd, a competing introducing broker in Switzerland;
- August 2010: launch of ePrivate Banking services, which consist in automated quantitative equity portfolio management systems for private individuals;
- October 2010: acquisition and subsequent merger into Swissquote Bank Ltd of ACM Advanced Currency Markets Ltd, an online Forex broker, and its Dubai based operations as well as its white label technology;
- November 2010: launch of individual pension saving accounts (3A pillar, tax sponsored);
- June 2011: distribution of online mortgages funded by Basellandschaftliche Kantonal Bank (eMortgage);
- April 2012: addition of the WTI crude oil trading to the current online trading platforms;
- May 2012: launch of Swiss DOTS, an innovative services for OTC derivatives trading in Switzerland;
- June 2012: set up of a new subsidiary, Swissquote Bank MEA Ltd, based in Dubai (UAE) and grant of a Category 4 license by the Dubai Financial Services Authority;
- July 2012: addition of access to the trading of contracts-for-differences (CFDs) in the online trading platforms;
- October 2012: set up of a new subsidiary, Swissquote Europe Ltd, based in Malta and grant of Category 3 license by the Malta Financial Services Authority allowing to market forex services in all European Union member states through its website www.swissquote.eu.

As of 31 December 2012, the Group's operations consist of:

- Operating an online bank that accepts deposits in the form of current accounts and saving accounts from its customers mainly in CHF, USD and EUR;
- Providing online securities brokerage services, custody services and eForex services to:
    - Self-directed private investors by mean of tools to route the orders to stock exchanges via the Internet against brokerage fees, as well 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;
    - To third party financial institutions under white label agreements;
- Providing quantitative asset management services (ePrivate Banking);
- Selling advertising space and providing financial information against subscription on www.swissquote.ch.

The Group does not carry out other banking activities. In particular it does not:

- 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;
- Trade financial assets and traded over the counter instruments including derivatives, where it takes positions to profit from short-term market movements in equity, interest rates and commodity prices; with the exception of spot currency positions, temporary technical nostro positions, investments in the Swissquote Quant Funds (trading assets) and investment debt securities.

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Notes to the Consolidated Financial Statements

SECTION II: SCOPE OF OPERATIONS OF THE GROUP & 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 that business complexity be broken down in various segments. Disclosure of relevant segmental information enables users of financial statements to evaluate the nature and the financial effects of the business activities in which the Group is engaged and in 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, that may comprise one operating segment or an aggregation of operating segments, that 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.

The management information system of the Group is designed and is 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 main milestones of the Group development show that the current scope of the Group operations has its origin in the www.swissquote.ch finance portal and its subsequent developments. With the development of the Business to Business clients group (mainly consisting of Asset Managers and their clients, corporations and institutional investors such as investment funds), the Group needed to design specific areas of the organisation (especially with respect to the front office) that had a focus on self directed private retail customers and other areas which were exclusively dedicated to Business to Business clients. Whereas the acquisition process of each segment of clients varies significantly, both segments substantially use the same infrastructure (information platform, back and middle office systems and organisation as well as the same premises, general services and branding activities). Beyond the consolidated results, performance measurement and trend recognition in the Group are based on direct costing for revenues and related variables and direct fixed costs. Indirect fixed costs which represent the largest portion of the operating costs are analysed in major cost centers. This approach is considered best by the Group in order to achieve transparency and accountability. Further to the acquisition of ACM Advanced Currency Markets Ltd in 2010, the Group gained a critical mass in eForex and has concluded that the eForex segment should be reported separately, as it is now closely monitored and is expected to materially contribute to Group revenues in the future. Before the acquisition of ACM, eForex segment did not meet the quantitative thresholds.

With due care to the above explanations, the Group has redesigned three reportable segments and one cost center:

- Securities - Private Clients;
- Securities - Business to Business Clients;
- eForex;
- Platform and Infrastructure Operations, which are analysed in four operating perspectives: Technology, Operations, Marketing and G&A.

Technology, Operations, Marketing and G&A do not qualify as reportable segments and thus have been aggregated in the cost center Platform and Infrastructure Operations.

The major part of the revenues and assets of Swissquote are earned with clients domiciled in Switzerland. Taking into account that the internationalisation of the Group has started at the end of 2012 with the set-up of two foreign subsidiaries, only a non-significative part of the revenues belongs to other territories.

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Notes to the Consolidated Financial Statements

SECTION II: SCOPE OF OPERATIONS OF THE GROUP & REPORTABLE SEGMENTS

Based thereon, the analysis of reportable segments and cost centers for 2012 and 2011 are as follows:

In CHFm	2012	2011
Net Revenues - Private Clients	64.5	70.8
Direct Operating Costs - Private Clients	(7.0)	(8.0)
Direct Marketing Costs - Private Clients	(4.1)	(5.6)
Direct Contribution margin - Private Clients	*53.4*	*57.2*
Net Revenues - B2B Clients	16.3	23.1
Direct Operating Costs - B2B Clients	(2.6)	(5.7)
Direct Marketing Costs - B2B Clients	(0.8)	(0.6)
Direct Contribution margin - B2B Clients	*12.9*	*16.8*
Direct Contribution margin - Securities	66.3	74.0
Net Revenues - eForex	29.8	37.7
Direct Operating Costs - eForex	(10.7)	(13.6)
Direct Marketing Costs - eForex	(3.9)	(4.5)
Direct Contribution margin - eForex	15.2	19.6
Operating Cost - Technology	(18.9)	(16.5)
Operating Cost - Operations	(19.0)	(19.3)
Operating Cost - Marketing	(3.8)	(4.2)
Operating Cost - G&A	(12.1)	(10.0)
Platform and Infrastructure Operations (cost center)	(53.8)	(50.0)
Others - Net revenues from financial instruments held at fair value	0.9	(3.1)
Others - Provisions	(1.0)	(0.5)
Operating profit	**27.6**	**40.0**
Income tax expense	(4.9)	(8.6)
Net profit	**22.7**	**31.4**

The Group does not have any client representing 10% or more of its revenues.

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Notes to the Consolidated Financial Statements

SECTION II: SCOPE OF OPERATIONS OF THE GROUP & REPORTABLE SEGMENTS

Breakdown of assets and liabilities is as follows:

In CHFm	2012	2011
Assets - Securities / Private Clients	2,170.5	1,930.1
Assets - Securities / B2B Clients	396.7	397.5
Assets - eForex	178.9	182.9
Assets - Platform and Infrastructure	73.5	75.2
Total assets	2,819.6	2,585.7
Liabilities - Securities / Private Clients	(2,116.5)	(1,879.0)
Liabilities - Securities / B2B Clients	(308.3)	(312.4)
Liabilities - eForex	(135.8)	(141.8)
Liabilities - Platform and Infrastructure	(16.4)	(22.8)
Total liabilities	(2,577.0)	(2,356.0)
Total equity	**242.6**	**229.7**

SECTION III: ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Consolidated Financial Statements for the year 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Additional information required by national regulations is included where appropriate.

(a) Standards, amendments and interpretations effective on or after 1 January 2012

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning 1 January 2012 that would be expected to have a material impact on the Group.

(b) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods and are expected to be relevant to the Group:

Standards / Interpretation	Content	Applicable for financial years beginning on / after
IAS 19 (revised)	Employee benefits	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 7 (amended)	Financial instruments: Disclosures	1 January 2013
IAS 32 (amended)	Financial instruments: Presentation	1 January 2014
IFRS 9	Financial instruments	1 January 2015

- **IAS 19 (revised), "Employee benefits"**

  The impact on the Group will be as follows: to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the defined benefit liability. The Group has assessed the full impact of the amendments and is ready to implement IAS 19 (revised). Impacts of adoption at 1 January 2013 are disclosed in note 14i.

- **IFRS 13, "Fair value measurement"**

  The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and single source of fair value measurement and disclosure requirements for use across IFRS. The Group has assessed IFRS 13 full impact and did not identify any material impact.

SECTION III: ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

- **IFRS 10, "Consolidated financial statements"**

  The standard builds on existing principles by identifying the concept of control as the determining factor whether an entity should be included within the consolidated financial statements of the parent company. The Group has assessed IFRS 10 full impact and did not identify any material impact.

- **IFRS 7, "Disclosures"**

  The amendments require an entity to disclose information about rights of set-off and related arrangements. The disclosures aim to provide users with information that is useful in evaluating the effect of the netting arrangements. The Group has assessed the full impact and is ready to adopt the amendments of IFRS 7.

- **IAS 32 (amended) and IFRS 7 (amended), "Financial instruments"**

  The amendments clarify the requirements for offsetting financial instruments and implement new disclosures to facilitate the comparison between IFRS and US GAAP. The Group assessed the impact of amendments and did not identify any material impact.

- **IFRS 9, "Financial instruments"**

  This standard is in the process to replace IAS 39 and addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The Group is ready to implement IFRS 9, but has not yet resolved on the date of adoption.

(c) Early adoption of standards

The Group did not early adopt new or amended standards in 2012.

Financial Report 2012
Notes to the Consolidated Financial Statements

SECTION IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal 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 International Financial Reporting Standards ("IFRS"). The Consolidated Financial Statements are prepared under the historical cost convention as modified by the revaluation of land and buildings, available-for-sale investment securities, financial assets and financial liabilities at fair value through profit or loss, share based payments and all derivative financial instruments.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical accounting estimates. 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 ultimately may 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 special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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.

The purchase method of accounting 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 minority 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.

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) List of consolidated subsidiaries

			Interest at 31 December	
Subsidiaries	**Headquarters / Country**	**Status**	**2012**	**2011**
Swissquote Bank Ltd	Gland / Switzerland	Active	100.0%	100.0%
Swissquote Trade Ltd	Gland / Switzerland	Dormant	100.0%	100.0%
ACM ME DMCC	Dubai / UAE	Active	100.0%	100.0%
Swissquote Institutional Ltd	Dubai / UAE	Dormant	100.0%	100.0%
Swissquote Bank MEA Ltd	Dubai / UAE	Active	100.0%	-
Swissquote Europe Ltd	Swatar / Malta	Active	100.0%	-

Swissquote Institutional Ltd and ACM ME DMCC are in liquidation process. Swissquote Bank MEA Ltd and Swissquote Europe Ltd have been respectively incorporated on 14 June 2012 and 19 October 2012.

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 Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in CHF, which is the functional and presentation currency of the parent and the swiss subsidiaries (functional and presentation currency of foreign subsidiaries being AED and EUR).

	2012		2011	
Foreign currency translation	**Closing rates**	**Average rates**	**Closing rates**	**Average rates**
EUR	1.2073	1.2040	1.2156	1.2307
USD	0.9151	0.9334	0.9393	0.8818
GBP	1.4882	1.4858	1.4589	1.4171
JPY	0.0106	0.0117	0.0122	0.0111
CAD	0.9194	0.9342	0.9220	0.8937
NOK	0.1645	0.1614	0.1571	0.1580
SEK	0.1406	0.1388	0.1365	0.1370
DKK	0.1618	0.1617	0.1636	0.1652
AUD	0.9509	0.9682	0.9607	0.9182
AED	0.2487	0.2540	0.2557	0.2396

Average rates that are disclosed in the table are indicative 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 hyper-inflationary economy) that have a functional currency different from the presentation currency are translated as follows:

- Assets and liabilities for each balance sheet 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 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 set-up of the Group's operations (i.e. integrated online brokerage services), implies that the Group operates in a three Reportable segments and one cost center:

- Securities - Private Clients;
- Securities - Business to Business Clients;
- eForex;
- Platform and Infrastructure Operations (cost center).

SECTION IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

F. Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and advances, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(F1) Financial assets at fair value through profit or loss

The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed.

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).

(F2) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

(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.

(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 financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade date (the date on which the Group commits to purchase or sell the asset). All other purchases and sales are recognised as derivative forward transactions until settlement. Loans are recognised when cash is advanced to the borrowers. 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.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. 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. 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. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

SECTION IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (and for unlisted securities), 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.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

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 loans and receivables or held-to-maturity investments carried at amortised cost has 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.

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.

SECTION IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Future cash flows in a group of financial assets that are collectively evaluated 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 all the necessary procedures have been completed and the amount of the loss has been determined. 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. 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 profit or loss – is removed from the statement of the 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 profit or loss, 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 (defined by risk policy) at the time the investment is made.

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 designates 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 profit or loss 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 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 profit or loss. The gain or loss relating to the effective portion of currency swaps and 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.

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 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

Costs associated with maintaining computer software programs are recognised as an expense as 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 three to five years.

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 (three to ten years).

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 higher of the asset's fair value less costs to sell and value in use.

Assets	Depreciation method	
Software Third Party Licences	Straightline	3 to 10 years
Proprietary Software	Straightline	3 to 5 years
Hardware & Telecom Systems	Straightline	Maximum 5 years

SECTION IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K. Property, plant and equipment

Land and building comprise mainly offices. Land and building are shown at fair value, based on periodic valuations carried-out by independent valuers at least once every five years, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less depreciation. Historical cost includes expenses that are directly attributable to the acquisition of the items.

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 associate 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.

Increases in the carrying amount arising on revaluation of land and building are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same assets are charged against other reserves 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 reserves to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated as follows:

Assets	Depreciation method	
Building	Straightline	30 years
Equipments	Straightline	5 to 10 years
Leasehold improvements	Straightline	5 to 10 years or duration of the lease if shorter

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

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 reserves are transferred to retained earnings.

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 profit and loss, 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 profit and loss, unless the relevant asset is carried at a re-valued 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 charges 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.

SECTION IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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 laws) that have been enacted or substantially 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 tax losses carried forward. Deferred tax assets relating to tax losses carried forward, are 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.

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

SECTION IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O. Pension obligations

Since 1 January 2012, the Group has merged its existing pension plans into a unique pension benefit scheme. The main amendment was a change on the old age credits, an improvement of the risk benefits (death and disability) and the introduction of different groups according to the hierarchical level. 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 19 and is therefore disclosed as a defined benefit pension plans.

The Group insures its staff with a collective foundation, which provides benefits on retirement or in the event of death, disability or termination of employment. The level of contributions to be paid by the employees and the relevant Group companies is determined by the plan rules. The pension benefits are based on the contributions paid by the insured persons and the Group (individual savings accounts). As the supreme body, 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.

For defined benefit plans, pension obligations and expenses are determined according to the projected unit credit method. The corresponding calculations are made by actuaries on a periodical basis. The pension expenses booked in the income statement correspond to the actuarially determined expense less employee contributions. The potential liability recognised in the balance sheet 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 plan 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.

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 benefit 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.

SECTION IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Q. Share capital / Share Issue costs

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options 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. Stock Option Plan

The Group operates equity-settled, share-based compensation plans. 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, 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 entity 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. 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.

S. Treasury shares

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

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.

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, who 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.

SECTION IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

X. Fiduciary activity

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

Y. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with the Swiss National Bank, amounts due from other banks and other short term highly liquid investments.

Z. Comparatives

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

SECTION V: CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

A. Critical judgments in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Section IV, circumstances may lead Management to make judgments that have most significant effect on the amounts recognised in the financial statements. At 31 December 2012, there are no such circumstances and related judgments to be reported (31 December 2011: none).

B. Critical accounting estimates and assumptions

Goodwill
Under IFRS standards, goodwill is not amortized, but is reviewed for potential impairment on an annual basis. The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

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.

C. Key sources of estimation uncertainty

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:

Pension Fund
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. The assumptions used in determining the net cost (or income) for pension include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

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 obligation.

Other key assumptions for pension obligations are based in part on current market conditions such as expected return on plan assets. Estimating future returns on plan assets is particularly subjective, as the estimate requires an assessment of possible future market returns based on the plan asset mix.

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SECTION VI: FINANCIAL RISK MANAGEMENT

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. Therefore prudent taking risk is in line with the strategic priorities and is fundamental to the Group business as provider of online and trading services.

Risk management plays an important role in the Group business planning process and is highly supported by 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 (of which foreign exchange risk and interest rate 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 are designed to identify, analyse these risks, to set appropriate risk limits and controls and to monitor the 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 and emerging best practices. Overall risk limits are set by the Board of Directors. Executive Management is responsible for supervising and directing the risk profile and recommending risk limits to the Board of Directors.

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.

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 in its responsibilities by monitoring Group’s approach with respect to financial reporting, internal controls, accounting, compliance and internal audit.

SECTION VI: FINANCIAL RISK MANAGEMENT

A2. Risk governance and Risk organisation (continued)

The Risk Committee is responsible for providing guidance regarding risk procedures and the development of the risk profile. The Risk Committee is further supported by ALM Committee which is responsible for the management of the balance sheet, capital management and liquidity. Those Committees are implemented at Executive Management level. Risk management is mainly carried out by three departments: the Trading Department, the ALM & Treasury Department and the Forex Department. Risk management is managed under policies approved by the Board and the adherence to said policies (and related limits) are controlled by the Reporting & Controlling Department.

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

Further 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"). Executive Management provides the Board of Directors with its own risk assessments and its recommendations with respect to the enhancement of the risk assessment process and to internal control.

SECTION VI: FINANCIAL RISK MANAGEMENT

B. Financial assets and liabilities categorisation

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

	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	1,612,190,388	-	-	-	1,612,190,388	1,612,190,388
Treasury bills and other eligible bills	-	4,825,733	-	-	4,825,733	4,825,733
Loans and advances to banks	236,956,542	-	-	-	236,956,542	236,956,542
Derivative financial instruments	-	-	29,087,367	-	29,087,367	29,087,367
Trading assets	-	-	5,358,622	-	5,358,622	5,358,622
Loans and advances to customers	91,728,176	-	-	-	91,728,176	91,728,176
Investment securities	-	330,126,930	7,470,900	381,317,084	718,914,914	740,569,032
Other assets	30,635,888	-	-	-	30,635,888	30,635,888
Total financial assets	**1,971,510,994**	**334,952,663**	**41,916,889**	**381,317,084**	**2,729,697,630**	**2,751,351,748**
Deferred income tax assets					156,800	
Intangible assets					22,215,204	
Information technology systems					21,743,823	
Property, plant and equipment					45,792,263	
Total non financial assets					**89,908,090**	
Total assets at 31 December 2012					**2,819,605,720**	

Classes of financial liabilities	**Fair value through profit & loss**	**Other liabilities**	**Total**	**Fair value**
Deposits from banks	-	10,561,838	10,561,838	10,561,838
Derivative financial instruments	7,904,195	-	7,904,195	7,904,195
Due to customers	-	2,533,756,648	2,533,756,648	2,533,756,648
Other liabilities	-	16,658,992	16,658,992	16,658,992
Current income tax liabilities	-	3,282,996	3,282,996	3,282,996
Total financial liabilities	**7,904,195**	**2,564,260,474**	**2,572,164,669**	**2,572,164,669**
Deferred tax liabilities			894,235	
Provisions			3,899,016	
Total non financial liabilities			**4,793,251**	
Total liabilities at 31 December 2012			**2,576,957,920**	
Net balance			*242,647,800*	

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

B. Financial assets and liabilities categorisation (continued)

Classes of financial assets	Amortised cost: Loans and advances	Amortised cost: Held-to-maturity	Fair value: Fair value through profit & loss	Fair value: Available-for-sale	Total	Fair value
Cash and balances with central bank	1,274,982,572	-	-	-	1,274,982,572	1,274,982,572
Treasury bills and other eligible bills	-	6,678,547	-	-	6,678,547	6,678,547
Loans and advances to banks	300,794,570	-	-	-	300,794,570	300,794,570
Derivative financial instruments	-	-	43,051,092	-	43,051,092	43,051,092
Trading assets	-	-	3,846,407	-	3,846,407	3,846,407
Loans and advances to customers	100,615,748	-	-	-	100,615,748	100,615,748
Investment securities	-	369,810,289	16,883,337	361,683,696	748,377,322	765,021,594
Other assets	29,529,756	-	-	-	29,529,756	29,529,756
Total financial assets	**1,705,922,646**	**376,488,836**	**63,780,836**	**361,683,696**	**2,507,876,014**	**2,524,520,286**
Deferred income tax assets					168,000	
Intangible assets					22,983,918	
Information technology systems					21,529,047	
Property, plant and equipment					33,147,276	
Total non financial assets					**77,828,241**	
Total assets at 31 December 2011					**2,585,704,255**	

Classes of financial liabilities	Fair value through profit & loss	Other liabilities	Total	Fair value
Deposits from banks	-	9,510,283	9,510,283	9,510,283
Derivative financial instruments	9,921,620	-	9,921,620	9,921,620
Due to customers	-	2,310,092,305	2,310,092,305	2,310,092,305
Other liabilities	-	19,488,059	19,488,059	19,488,059
Current income tax liabilities	-	1,150,970	1,150,970	1,150,970
Total financial liabilities	**9,921,620**	**2,340,241,617**	**2,350,163,237**	**2,350,163,237**
Deferred tax liabilities			1,105,896	
Provisions			4,689,497	
Total non financial liabilities			**5,795,393**	
Total liabilities at 31 December 2011			**2,355,958,630**	
Net balance			*229,745,625*	

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

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 trade receivables and payables is assumed to approximate their fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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 equity securities and debt instruments on stock and other exchanges (for example, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq, S&P 500). 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) quotes 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, traded loans and issued structured debt. The sources of input parameters like 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.

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:

At 31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
- Investment securities	2,323,471	5,147,429	-	7,470,900
- Derivatives held for trading	26,047,982	3,032,561	-	29,080,543
- Trading assets	5,358,622	-	-	5,358,622
Derivatives used for hedging	6,824	-	-	6,824
Financial assets designated available-for-sale				
- Investment securities	179,943,519	201,373,565	-	381,317,084
Financial assets measured at fair value	**213,680,418**	**209,553,555**	**-**	**423,233,973**
Cash and balances with central bank				1,612,190,388
Treasury bills and other eligible bills				4,825,733
Financial assets designated held-to-maturity				330,126,930
Loans and advances to banks and customers				328,684,718
Other assets				30,635,888
Total financial assets at 31 December 2012				**2,729,697,630**
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Derivatives held for trading	7,903,838	-	-	7,903,838
Derivatives used for hedging	-	357	-	357
Financial liabilities measured at fair value	**7,903,838**	**357**	**-**	**7,904,195**
Due to customers				2,533,756,648
Other liabilities (deposits from banks, other liabilities, ...)				30,503,826
Total financial liabilities at 31 December 2012				**2,572,164,669**

At 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	413,374,266	12,090,266	-	425,464,532
Total financial assets at 31 December 2011				**2,507,876,014**
Financial liabilities measured at fair value	1,428,933	8,492,687	-	9,921,620
Total financial liabilities at 31 December 2011				**2,350,163,237**

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

C. Fair value of financial assets and liabilities (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if 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, and those prices represent actual and regularly occurring market transactions on an arm's length basis. 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 (for example, over-the-counter derivatives) 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 fair value of an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated at the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

SECTION VI: FINANCIAL RISK MANAGEMENT

D. Capital management

D1. Capital management framework

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

- To comply with principles defined in the Swiss Federal Law on Banks and Savings Banks and the Implementig Ordinance on Banks and Savings Banks;
- To safeguard the Group's ability to continue as going concern so that it can continue to provide returns to the shareholders and benefits for other stakeholders; and
- To maintain a capital basis deemed adequate to support the development of its business.

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

In 2012, the Group has operated under the international capital adequacy standard known as "Basel II" set forth by the Basel Committee on Banking Supervision (Basel Committee) as implemented by FINMA (Basel II "Swiss Finish"). These standards affect the measurement of both risk-weighted assets and eligible capital.

Capital adequacy and the use of regulatory capital are projected over the strategic horizon of the Group, and monitored monthly or more often when required. The required information is filed with the Authority (Swiss National Bank and FINMA) on a monthly basis. FINMA currently requires each Swiss bank or banking group to (a) hold a minimum level of regulatory capital of CHF 10m, and (b) to maintain a coverage ratio of total regulatory capital to risk weighted assets above 120% (i.e. a coverage ratio of 9.6%).

Under Basel II, the Swissquote Group and Swissquote Bank Ltd apply:

Credit risk	Swiss Standard Approach - AS-CH (since 1 January 2013: International Standard Approach - AS-BRI)
Market risk	De Minimis Approach
Operational risk	Basic Indicator Approach

Starting 1 January 2013, revised provisions issued by FINMA implementing "Basel III" framework will enter into force. The new capital standards will be phased in from 1 January 2013 through 1 January 2019. The framework is designed to strengthen the resistance of the banking sector. The new capital standards and capital buffers will require banks to hold more capital, mainly in the form of common equity. Basel III introduces an additional 2.5% equity requirement, known as "capital conservation buffer" to absorb losses in period of financial stress. Banking groups that do not maintain this buffer will be limited in their ability to pay dividends. Basel III also imposes a supplemental countercyclical buffer of up to 2.5% that can be activated during periods of excess credit growth and subsequently desactivated by the Swiss Federal Council upon request of SNB after consultation with FINMA.

Within FINMA Basel III 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. At 31 December 2012, Swissquote Group is classified in the supervisory category 4 (category 1 being the one with the highest requirements).

SECTION VI: FINANCIAL RISK MANAGEMENT

D1. Capital management framework (continued)

Major changes are :

- Swiss banks (included in supervisory category 4) will be obliged to hold 8.0% of total capital ratio and an additional 2.5% equity requirement, known as "capital conservation buffer" (total: 10.5%), as well as a variable "anti-cyclical buffer" (up to 2.5%). The capital ratio of 10.5% being defined by FINMA as a ratio below which immediate and extensive actions would be taken under supervisory law. FINMA provisions have determined the capital adequacy target to 11.2%;
- Quality of capital will also be considered and Swiss banks will have to hold a common equity tier 1 ratio of 7.4%;
- New minimum standards for liquidity risks and unweighted leverage ratios will be progressively introduced: Liquidity Coverage Ratio (LCR) and New Stable Funding Ratio (NSFR). The LCR aims to ensure that banks have a stock of unencumbered high-quality liquid assets available to meet liquidity needs for a 30-day time horizon under a severe stress scenario. The NSFR is intended to ensure that banks maintain a structurally sound long term funding profile beyond one year and is a complementary measure to the LCR. Both ratios are not expected to be introduced respectively before 2015 and 2018;
- Swiss Standard Approach for credit risk will be replaced by International Standard Approach (as at 1 January 2013). In the meantime, capital requirements regarding large exposures to systemic banks have been increased;
- Swiss banks have to operate an adequate capital planning process over a three-year horizon.

D2. Risk-weighted assets

The balance sheet positions and off-balance sheet exposures are translated into risk-weighted assets ("RWA") that are categorised as market, credit, operational and non-counterparty risk. Market risk reflects the capital requirements of potential changes in the fair values of financial instruments in response to market movement 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 for premises and equipment.

SECTION VI: FINANCIAL RISK MANAGEMENT

D3. Eligible capital and capital ratios

Eligible capital	31 december 2012 Basel II	31 december 2011 Basel II
Ordinary shares	2,927,674	2,927,674
Share premium	39,496,150	39,418,265
Share option reserve	3,003,351	2,785,238
Other reserve	2,319,405	(1,574,167)
Treasury shares	(9,184,665)	(9,444,191)
Retained earnings	204,085,885	195,632,806
Sub-total	242,647,800	229,745,625
Items to be deducted		
Intangible assets	(22,215,204)	(22,983,918)
Total Tier 1 capital	**220,432,596**	**206,761,707**
Total Tier 2 capital	-	-
Total eligible capital	**220,432,596**	**206,761,707**

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

D3. Eligible capital and capital ratios (continued)

Risk-weighted assets	31 december 2012 Basel II	31 december 2011 Basel II
Credit risk	449,790,302	456,019,563
Non-counterparty risk	258,817,787	231,267,988
Market risk	6,821,325	12,816,225
Operational risk	236,677,477	254,218,038
Total risk weighted assets	**952,106,891**	**954,321,813**
Capital ratios	**23.2%**	**21.7%**

The Group as well as the Bank comply with the minimum Basel II capital requirement at 31 December 2012 and has done so at all times during 2011 and 2010. Surplus capital at 31 December does not account for the impact of dividends (if any) to be proposed for approval at the General Meeting of shareholders.

The Group and the Bank meet the reinforcements of Basel III at 31 December 2012 and the target ratios set up by FINMA for 2019.

E. Compliance with depositor protection rules

The Swiss Federal Banking Act states that in the event of a bank collapsing, deposits of 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 December 2008 immediate measures have been implemented to secure these privileged deposits with bank assets (Art. 37B para. 5 of Banking Act).

As a consequence, Banks are required to hold 125% of total privileged deposits with adequate eligible assets. The Group met those requirement during the year ended 2012 (coverage of 151%).

All amounts in Swiss Francs 48

SECTION VI: FINANCIAL RISK MANAGEMENT

F. Credit risk

Credit risk is 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 advances, 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, quantify, price, monitor and manage risk on a consistent 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 recognizing credit impairments.

F1. Credit risk measurement

(I) Loans and advances to customers
Loans and advances to customers are principally in the form:
- lombard loans (covered loans); and
- eForex credit lines.

These credit limits are principally used by clients for leveraging their securities trading or their eForex operations.

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. Margin loans are monitored using a real time system comparing the fair value of the collateral with the actual credit granted to each customer.

eForex credit lines: open positions of eForex clients are authorised to a maximum leverage of their equity (margin deposit). To ensure the financial losses dot not exceed eForex credit line, the Group has set up a system for the automatic closing out of open positions. The system applies as soon as the used margin of the open positions reaches the eForex credit line by a specific percentage.

(II) Loans and advances to banks
Loans and advances to banks 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. Further a minor part of the loans and advances to banks are pledged in favour of third party financial institutions in order to secure the settlement of the transactions carried-out by the Group's client. 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 conditions that include the external rating of the counterparty, the geographical region of the domicile of the counterparty and the duration of the financial instrument.

(III) Investment securities
Investment securities comprise of debt securities. Internal regulation defines the procedures for the approval, management and review of the Group exposures by the ALM Committee.

SECTION VI: FINANCIAL RISK MANAGEMENT

F1. Credit risk measurement (continued)

(IV) Derivatives
Derivatives contracts are entered into the normal course of business (clientele activity back to back to the market), as well as for own risk management need, including mitigation of interest rate and 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 a receivable, while negative replacement values a payable.

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 placing limits on the amount of risk accepted in relation to one 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.

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 when circumstances require. 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.

SECTION VI: FINANCIAL RISK MANAGEMENT

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

	Maximum exposure 2012	2011
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with central bank	1,612,190,388	1,274,982,572
Treasury bills and other eligible bills	4,825,733	6,678,547
Loans and advances to banks	236,956,542	300,794,570
Derivative financial instruments	29,087,367	43,051,092
Loans and advances to customers	91,728,176	100,615,748
Investment securities	718,914,914	748,377,322
Others (Trading assets and Other assets)	35,994,510	33,376,163
Total credit exposure on financial assets (A)	**2,729,697,630**	**2,507,876,014**
Non financial assets (no counterparty exposure)	89,908,090	77,828,241
Total assets at 31 December	2,819,605,720	2,585,704,255
Credit risk exposure relating to off balance sheet assets are as follows:		
Financial guarantees	18,990,292	34,622,179
Loan commitments (depositor protection contribution - Art. 37H BA)	24,384,000	22,290,000
Total credit exposure on off balance sheet (B)	**43,374,292**	**56,912,179**
Total credit exposure (A) + (B)	**2,773,071,922**	**2,564,788,193**

At 31 December 2012, 58.1% of total credit exposure is related to Swiss National Bank (2011: 49.7%).

	2012	2011
Collateral at fair value to support Loans and advances to customers	242,852,046	282,265,361

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

F5. Loans and advances

	31 December 2012		31 December 2011	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	91,728,176	236,956,542	100,237,687	300,794,570
Past due but not impaired	-	-	378,061	-
Impaired	376,615	-	260,000	-
Gross	**92,104,791**	**236,956,542**	**100,875,748**	**300,794,570**
Less: allowance for impairment	(376,615)	-	(260,000)	-
Balance at year end	**91,728,176**	**236,956,542**	**100,615,748**	**300,794,570**

Loans and advances to customers are spread over 17,478 (2011: 19,731) distinct customers, 87% of them are domiciled in Switzerland (2011: 87%). The largest balance at 31 December 2012 is CHF 7,731,976 (2011: CHF 10,679,257).

Loans and advances to banks are spread over 24 (2011: 24) distinct counterparties. The largest balance at 31 December 2012 is CHF 50,241,722 (2011: CHF 51,993,099).

Historically, the Group has not been impacted by any material default on loans and advances.

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F5. Loans and advances (continued)

Loans and advances to banks are further analysed as follows (based on contractual maturity):

	External Rating	Sight	0-3 months	3-12 months	Gross amount
Investment Grade	from AAA to AA-	105,218,278	-	-	105,218,278
	from A+ to A-	119,719,151	5,886,140	-	125,605,291
	from BBB+ to BBB-	3,922,535	-	-	3,922,535
Speculative Grade	from BB+ to BB-	2,210,438	-	-	2,210,438
	from B+ to B-	-	-	-	-
	from CCC+ to CCC-	-	-	-	-
	from CC+ to C-	-	-	-	-
	D	-	-	-	-
Total at 31 December 2012		**231,070,402**	**5,886,140**	-	**236,956,542**

	External Rating	Sight	0-3 months	3-12 months	Gross amount
Investment Grade	from AAA to AA-	101,417,718	16,117,520	-	117,535,238
	from A+ to A-	116,969,942	64,929,470	-	181,899,412
	from BBB+ to BBB-	-	-	-	-
Speculative Grade	from BB+ to BB-	1,359,920	-	-	1,359,920
	from B+ to B-	-	-	-	-
	from CCC+ to CCC-	-	-	-	-
	from CC+ to C-	-	-	-	-
	D	-	-	-	-
Total at 31 December 2011		**219,747,580**	**81,046,990**	-	**300,794,570**

No credit limits were exceeded during the reporting period.

At year-end, Loans and advances to banks are pledged up to CHF 159.0m (2011: CHF 140.1m) in favour of third parties mainly in order to secure the settlement of client transactions.

All amounts in Swiss Francs

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F6. Investment securities, treasury bills and other eligible bills

Investment securities (CHF 718.9m), treasury bills and other eligible bills (CHF 4.8m) are analysed as follows:

	S&P	Less than 1 year	1-2 years	2-5 years	Over 5 years	Gross amount
Investment Grade	from AAA to AA-	75,413,860	24,311,447	62,184,955	64,312,750	226,223,012
	from A+ to A-	108,432,633	82,670,151	88,946,834	9,801,487	289,851,105
	from BBB+ to BBB-	70,805,394	54,534,408	65,219,270	5,122,163	195,681,235
Speculative Grade	from BB+ to BB-	3,498,680	719,120	7,767,495	-	11,985,295
	from B+ to B-	-	-	-	-	-
	from CCC+ to CCC-	-	-	-	-	-
	from CC+ to C-	-	-	-	-	-
	D	-	-	-	-	-
Total at 31 December 2012		**258,150,567**	**162,235,126**	**224,118,554**	**79,236,400**	**723,740,647**
Cash and balances with central bank						1,612,190,388
Other assets than investment securities and treasury bills						483,674,685
Total assets at 31 December 2012						**2,819,605,720**

At 31 December 2012, the balance of CHF 12.0m identified as speculative grade mainly consist of bonds issued by Republic of Turkey (CHF 9.9m), European corporates (CHF 1.1m) and European banks (CHF 1.0m).

None of the above receivables are past due or impaired.

	S&P	Less than 1 year	1-2 years	2-5 years	Over 5 years	Gross amount
Investment Grade	from AAA to AA-	113,207,407	56,976,678	55,624,140	66,445,599	292,253,824
	from A+ to A-	112,008,641	79,825,361	99,978,114	20,273,177	312,085,293
	from BBB+ to BBB-	88,003,174	16,659,011	26,156,025	4,668,106	135,486,316
Speculative Grade	from BB+ to BB-	6,941,920	5,217,093	1,842,688	1,228,735	15,230,436
	from B+ to B-	-	-	-	-	-
	from CCC+ to CCC-	-	-	-	-	-
	from CC+ to C-	-	-	-	-	-
	D	-	-	-	-	-
Total at 31 December 2011		**320,161,142**	**158,678,143**	**183,600,967**	**92,615,617**	**755,055,869**
Cash and balances with central bank						1,274,982,572
Other assets than investment securities and treasury bills						555,665,814
Total assets at 31 December 2011						**2,585,704,255**

None of the above receivables are past due or impaired.

All amounts in Swiss Francs 54

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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 (Loans and advances to banks);
- Through debt instruments issued by foreign corporations, financial institutions and governments (Treasury bills and other eligible bills as well as Investment securities);
- To a lesser extent with clients domiciled outside of Switzerland to whom the Group has granted credit limits (Loans and advances to customers as well as Derivative financial instruments).

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

	Switzerland	Europe	USA	Others	Total
Cash and balances with central bank	1,612,190,388	-	-	-	1,612,190,388
Treasury bills and other eligible bills	-	4,825,733	-	-	4,825,733
Loans and advances to banks	73,070,139	118,591,916	41,498,185	3,796,302	236,956,542
Derivative financial instruments	14,786,858	6,367,746	3,616,501	4,316,262	29,087,367
Trading assets	5,358,622	-	-	-	5,358,622
Loans and advances to customers	3,593,771	3,459,738	11,987,187	72,687,480	91,728,176
Investment securities	154,991,210	297,059,601	111,157,736	155,706,367	718,914,914
Other assets	30,635,888	-	-	-	30,635,888
Total financial assets at 31 December 2012	**1,894,626,876**	**430,394,734**	**168,259,609**	**236,506,411**	**2,729,697,630**
Total at 31 December 2011	1,629,576,256	514,396,997	177,589,999	186,312,762	2,507,876,014

Selected European credit risk exposure is analysed below:

	Sovereign	Financial	Corporates	Total
Portugal	-	-	861,680	861,680
Italy	-	3,704,840	7,400,026	11,104,866
Ireland	-	2,155,227	-	2,155,227
Greece	-	-	-	-
Spain	-	1,811,903	1,712,312	3,524,215
Total at 31 December 2012	**-**	**7,671,970**	**9,974,018**	**17,645,988**
Total at 31 December 2011	940,240	19,294,312	11,864,241	32,098,793

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

F8. Industry sector concentration of assets

The industry sector concentration is analysed below:

	Cash and Treasury bills	Derivative financial instruments	Loans and advances to banks and customers	Investment securities	Total at 31 December 2012	Total at 31 December 2011
Banks	-	322,054	236,956,542	247,784,218	485,062,814	593,947,402
Central Banks	1,612,190,388	-	-	-	1,612,190,388	1,274,982,572
Sovereign	-	-	-	198,948,231	198,948,231	189,829,620
Sub-total	**1,612,190,388**	**322,054**	**236,956,542**	**446,732,449**	**2,296,201,433**	**2,058,759,594**
Automobiles & Parts	-	-	-	14,629,982	14,629,982	16,314,408
Basic Resources	-	-	-	2,216,327	2,216,327	5,650,131
Chemicals	-	-	-	10,648,567	10,648,567	6,646,815
Constructions & Materials	-	-	-	9,780,951	9,780,951	5,898,419
Financial Services	-	-	-	242,029	242,029	28,607,411
Food & Beverages	-	-	-	22,019,839	22,019,839	16,924,334
Health Care	-	-	-	15,978,219	15,978,219	17,702,196
Individuals	-	28,765,313	91,728,176	-	120,493,489	137,528,058
Industrials Goods & Serv.	4,825,733	-	-	29,094,782	33,920,515	20,477,903
Insurance	-	-	-	19,022,030	19,022,030	25,158,661
Media	-	-	-	-	-	913,462
Oil & Gas	-	-	-	45,077,424	45,077,424	16,786,545
Personal & Household Goods	-	-	-	7,246,228	7,246,228	6,475,352
Retail	-	-	-	14,315,285	14,315,285	15,919,219
Supranational	-	-	-	15,809,977	15,809,977	20,267,105
Telecommunications	-	-	-	15,460,778	15,460,778	16,054,250
Travel & Leisure	-	-	-	627,653	627,653	640,758
Utilities	-	-	-	50,012,394	50,012,394	57,775,230
Sub-total	**1,617,016,121**	**29,087,367**	**328,684,718**	**718,914,914**	**2,693,703,120**	**2,474,499,851**
Other assets with no industry sector concentration					125,902,600	111,204,404
Total assets					**2,819,605,720**	**2,585,704,255**

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

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.

At 31 December 2012	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Non-derivative financial liabilities						
Deposits from banks	10,561,838	-	-	-	-	10,561,838
Due to customers	2,533,756,648	-	-	-	-	2,533,756,648
Others liabilities	16,658,992	-	-	-	-	16,658,992
Current income tax liabilities	3,282,996	-	-	-	-	3,282,996
Total non-derivative financial liabilities (contractual maturity dates) - (A)	**2,564,260,474**	-	-	-	-	**2,564,260,474**
Derivative financial instruments						7,904,195
Non financial liabilities						4,793,251
Total liabilities						**2,576,957,920**
Commitments (B)	-	-	40,375,925	2,998,367	-	43,374,292
Total maturity grouping (A) + (B)	**2,564,260,474**	-	**40,375,925**	**2,998,367**	-	**2,607,634,766**
Total non-derivative financial assets (expected maturity dates)	(2,004,503,037)	(64,454,135)	(166,219,811)	(386,353,680)	(79,236,400)	(2,700,767,063)
Net balance	**559,757,437**	**(64,454,135)**	**(125,843,886)**	**(383,355,313)**	**(79,236,400)**	**(93,132,297)**

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

G2. Non-derivative cash flows (continued)

At 31 December 2011	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Non-derivative financial liabilities						
Deposits from banks	9,510,283	-	-	-	-	9,510,283
Due to customers	2,310,092,305	-	-	-	-	2,310,092,305
Others liabilities	19,488,059	-	-	-	-	19,488,059
Current income tax liabilities	1,150,970	-	-	-	-	1,150,970
Total non-derivative financial liabilities (contractual maturity dates) - (A)	**2,340,241,617**	-	-	-	-	**2,340,241,617**
Derivative financial instruments						9,921,620
Non financial liabilities						5,795,393
Total liabilities						**2,355,958,630**
Commitments (B)	-	-	42,251,654	14,660,525	-	56,912,179
Total maturity grouping (A) + (B)	**2,340,241,617**	-	**42,251,654**	**14,660,525**	-	**2,397,153,796**
Total non-derivative financial assets (expected maturity dates)	(1,731,761,300)	(47,949,100)	(250,387,795)	(342,279,110)	(92,615,617)	(2,464,992,922)
Net balance	**608,480,317**	**(47,949,100)**	**(208,136,141)**	**(327,618,585)**	**(92,615,617)**	**(67,839,126)**

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G3. Derivative cash flows

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

At 31 December 2012	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets						
Derivatives held for trading						
- Currency swaps	106,023	125,692	61,317	-	-	293,032
- Currency options	-	13,429	8,769	-	-	22,198
- Currency forwards	26,517,480	1,022,681	1,225,152	-	-	28,765,313
Derivatives held for hedging						
- Interest rate futures	-	-	-	181	6,643	6,824
- Currency swaps	-	-	-	-	-	-
Total	**26,623,503**	**1,161,802**	**1,295,238**	**181**	**6,643**	**29,087,367**
Liabilities						
Derivatives held for trading						
- Currency swaps	1,110,878	1,504,523	2,064,488	-	-	4,679,889
- Currency options	-	13,429	8,769	-	-	22,198
- Currency forwards	1,084,941	549,304	1,567,506	-	-	3,201,751
Derivatives held for hedging						
- Interest rate futures	-	-	-	357	-	357
- Currency swaps	-	-	-	-	-	-
Total	**2,195,819**	**2,067,256**	**3,640,763**	**357**	**-**	**7,904,195**

Currency forwards are mainly related to open transactions of eForex clientele at 31 December 2012.

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

G3. Derivative cash flows (continued)

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

At 31 December 2011	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets						
Derivatives held for trading						
- Currency swaps	1,021,147	2,219,053	2,877,713	-	-	6,117,913
- Currency options	16,959	3,910	-	-	-	20,869
- Currency forwards	30,957,988	422,411	5,528,529	3,382	-	36,912,310
Derivatives held for hedging						
- Interest rate futures	-	-	-	-	-	-
- Currency swaps	-	-	-	-	-	-
Total	**31,996,094**	**2,645,374**	**8,406,242**	**3,382**	**-**	**43,051,092**
Liabilities						
Derivatives held for trading						
- Currency swaps	810,905	-	-	-	-	810,905
- Currency options	-	16,959	3,910	-	-	20,869
- Currency forwards	1,425,565	1,005,822	5,449,040	3,364	-	7,883,791
Derivatives held for hedging						
- Interest rate futures	-	-	-	-	-	-
- Currency swaps	176,580	159,125	870,350	-	-	1,206,055
Total	**2,413,050**	**1,181,906**	**6,323,300**	**3,364**	**-**	**9,921,620**

Currency forwards are mainly related to open transactions of eForex clientele at 31 December 2011.

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SECTION VI: FINANCIAL RISK MANAGEMENT

G4. Off balance sheet items

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

At 31 December 2012	No later than 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	24,384,000	-	-	24,384,000
Operating lease commitments	1,658,840	2,998,367	-	4,657,207
Capital commitments	14,333,085	-	-	14,333,085
Total	**40,375,925**	**2,998,367**	**-**	**43,374,292**

At 31 December 2011	No later than 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	22,290,000	-	-	22,290,000
Operating lease commitments	1,834,516	4,121,492	-	5,956,008
Capital commitments	18,127,138	10,539,033	-	28,666,171
Total	**42,251,654**	**14,660,525**	**-**	**56,912,179**

Loan commitments are related to the Group contribution to the Depositor protection scheme (Art. 37H Banking Act).

G5. Basel III liquidity framework

Basel III international framework comprises of provisions for liquidity risk measurement, standards and monitoring. The framework included a Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR).

The LCR is expected to be introduced on 1 January 2015 (minimum ratio: 100%) following an observation period which began in 2011 in which the Group was proactively involved. The LCR addresses a liquidity risk over a 30-day period and comprises of two components: (1) the value of the stock of high quality liquid assets in stressed conditions and the total net cash outflows calculated according to specified scenario parameters.

The NSFR is expected to be introduced on 1 January 2018 (minimum ratio: 100%). The NSFR is structured to ensure that illiquid assets are funding with an appropriate amount of stable long-term funds.

The Group estimates that its LCR ratio is in excess of 100% as of the end of 2012.

All amounts in Swiss Francs

SECTION VI: FINANCIAL RISK MANAGEMENT

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.

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.

SECTION VI: FINANCIAL RISK MANAGEMENT

H1. 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 for both weekdays and weekends, which are monitored daily.

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

At 31 December 2012	CHF	USD	EUR	Others	Total
Assets					
Cash and balances with central bank	1,612,045,462	33,532	101,478	9,916	1,612,190,388
Treasury bills and other eligible bills	-	-	4,825,733	-	4,825,733
Loans and advances to banks	167,661,887	12,070,192	42,301,892	14,922,571	236,956,542
Derivative financial instruments	3,736,075	21,743,917	404,428	3,202,947	29,087,367
Trading assets	438,260	21,228	4,899,134	-	5,358,622
Loans and advances to customers	34,481,467	28,010,582	26,878,092	2,358,035	91,728,176
Investment securities	329,039,812	99,939,503	288,059,120	1,876,479	718,914,914
Others assets	20,094,692	1,527,048	8,540,446	473,702	30,635,888
Total financial assets	**2,167,497,655**	**163,346,002**	**376,010,323**	**22,843,650**	**2,729,697,630**
Liabilities					
Deposits from banks	638,070	9,887,815	19,524	16,429	10,561,838
Derivative financial instruments	7,210,165	343,385	5,281	345,364	7,904,195
Due to customers	1,672,643,715	315,802,975	475,198,627	70,111,331	2,533,756,648
Others liabilities	16,509,991	69,527	76,049	3,425	16,658,992
Current income tax liabilities	3,282,996	-	-	-	3,282,996
Total financial liabilities	**1,700,284,937**	**326,103,702**	**475,299,481**	**70,476,549**	**2,572,164,669**
Net on balance sheet financial position	**467,212,718**	**(162,757,700)**	**(99,289,158)**	**(47,632,899)**	**157,532,961**
Off balance sheet notional position	(308,944,805)	161,129,257	99,877,112	47,938,436	-
Credit commitments	-	-	-	-	-
Net exposure	**158,267,913**	**(1,628,443)**	**587,954**	**305,537**	**157,532,961**

At 31 December 2011	CHF	USD	EUR	Others	Total
Total financial assets	1,908,685,668	150,952,100	422,669,566	25,568,680	2,507,876,014
Total financial liabilities	1,522,561,625	278,743,710	485,740,615	63,117,287	2,350,163,237
Net on balance sheet financial position	**386,124,043**	**(127,791,610)**	**(63,071,049)**	**(37,548,607)**	**157,712,777**
Off balance sheet notional position	(226,517,097)	126,483,943	62,995,307	37,037,847	-
Credit commitments	-	-	-	-	-
Net exposure	**159,606,946**	**(1,307,667)**	**(75,742)**	**(510,760)**	**157,712,777**

All amounts in Swiss Francs

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.

At 31 December 2012	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
Assets						
Cash and balances with central bank	1,612,190,388	-	-	-	-	1,612,190,388
Treasury bills and other eligible bills	4,825,733	-	-	-	-	4,825,733
Loans and advances to banks	236,956,542	-	-	-	-	236,956,542
Derivative financial instruments	27,785,305	1,295,238	181	6,643	-	29,087,367
Trading assets	5,358,622	-	-	-	-	5,358,622
Loans and advances to customers	91,728,176	-	-	-	-	91,728,176
Investment securities	132,589,405	151,272,183	355,816,926	79,236,400	-	718,914,914
Others assets	30,635,888	-	-	-	-	30,635,888
Total financial assets	**2,142,070,059**	**152,567,421**	**355,817,107**	**79,243,043**	**-**	**2,729,697,630**
Liabilities						
Deposits from banks	10,561,838	-	-	-	-	10,561,838
Derivative financial instruments	4,263,075	3,640,763	357	-	-	7,904,195
Due to customers	2,533,756,648	-	-	-	-	2,533,756,648
Others liabilities	16,658,992	-	-	-	-	16,658,992
Current income tax liabilities	3,282,996	-	-	-	-	3,282,996
Total financial liabilities	**2,568,523,549**	**3,640,763**	**357**	**-**	**-**	**2,572,164,669**
Net on balance sheet	**(426,453,490)**	**148,926,658**	**355,816,750**	**79,243,043**	**-**	**157,532,961**
Off balance sheet	-	-	-	-	-	-
Total interest sensitivity gap	**(426,453,490)**	**148,926,658**	**355,816,750**	**79,243,043**	**-**	**157,532,961**

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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.

At 31 December 2011	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
Assets						
Cash and balances with central bank	1,274,982,572	-	-	-	-	1,274,982,572
Treasury bills and other eligible bills	6,678,547	-	-	-	-	6,678,547
Loans and advances to banks	300,794,570	-	-	-	-	300,794,570
Derivative financial instruments	34,641,468	8,406,242	3,382	-	-	43,051,092
Trading assets	3,846,407	-	-	-	-	3,846,407
Loans and advances to customers	100,615,748	-	-	-	-	100,615,748
Investment securities	176,536,088	195,741,601	283,484,016	92,615,617	-	748,377,322
Others assets	29,529,756	-	-	-	-	29,529,756
Total financial assets	**1,927,625,156**	**204,147,843**	**283,487,398**	**92,615,617**	**-**	**2,507,876,014**
Liabilities						
Deposits from banks	9,510,283	-	-	-	-	9,510,283
Derivative financial instruments	3,594,956	6,323,300	3,364	-	-	9,921,620
Due to customers	2,310,092,305	-	-	-	-	2,310,092,305
Others liabilities	19,488,059	-	-	-	-	19,488,059
Current income tax liabilities	1,150,970	-	-	-	-	1,150,970
Total financial liabilities	**2,343,836,573**	**6,323,300**	**3,364**	**-**	**-**	**2,350,163,237**
Net on balance sheet	**(416,211,417)**	**197,824,543**	**283,484,034**	**92,615,617**	**-**	**157,712,777**
Off balance sheet	-	-	-	-	-	-
Total interest sensitivity gap	**(416,211,417)**	**197,824,543**	**283,484,034**	**92,615,617**	**-**	**157,712,777**

All amounts in Swiss Francs

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

		Sensitivity analysis			
		+ 5% EUR + 5% USD		- 5% EUR - 5% USD	
	Carrying amount CHF'000	Profit / (Loss) CHF'000	Other movements in equity CHF'000	Profit / (Loss) CHF'000	Other movements in equity CHF'000
Financial assets					
Cash and balances with central bank	1,612,190	7	-	(7)	-
Treasury bills and other eligible bills	4,826	241	-	(241)	-
Loans and advances to banks	236,957	2,719	-	(2,719)	-
Loans and advances to customers	91,728	2,744	-	(2,744)	-
Investment securities	718,915	19,400	-	(19,400)	-
Others (Derivatives, Trading assets and Other assets)	65,082	1,856	-	(1,856)	-
Total impact on financial assets		**26,967**	-	**(26,967)**	-
Financial liabilities					
Deposits from banks	10,562	(495)	-	495	-
Due to customers	2,533,757	(39,550)	-	39,550	-
Others (Derivatives and Other payables)	24,563	(24)	-	24	-
Total impact on financial liabilities		**(40,069)**	-	**40,069**	-
Total impact on balance sheet positions		**(13,102)**	-	**13,102**	-
Impact on off balance sheet positions		13,050	-	(13,050)	-
Net impact before income tax expense		**(52)**	-	**52**	-
Income tax expense		10	-	(10)	-
Net impact after income tax expense		**(42)**	-	**42**	-

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

		Sensitivity analysis			
		+100 bp		-100 bp	
	Carrying amount CHF'000	Profit / (Loss) CHF'000	Other movements in equity CHF'000	Profit / (Loss) CHF'000	Other movements in equity CHF'000
Financial assets					
Cash and balances with central bank	1,612,190	7,729	-	-	-
Treasury bills and other eligible bills	4,826	35	-	(14)	-
Loans and advances to banks	236,957	3,629	-	(2,123)	-
Loans and advances to customers	91,728	893	-	(107)	-
Investment securities (AFS)	718,915	183	(4,648)	(2,402)	3,910
Total impact on financial assets		**12,469**	**(4,648)**	**(4,646)**	**3,910**
Financial liabilities					
Deposits from banks	10,562	(93)	-	-	-
Due to customers	2,533,757	(9,316)	-	2,089	-
Total impact on financial liabilities		**(9,409)**	**-**	**2,089**	**-**
Net impact before income tax expense		**3,060**	**(4,648)**	**(2,557)**	**3,910**
Income tax expense		(600)	-	501	-
Total Increase / (decrease)		**2,460**	**(4,648)**	**(2,056)**	**3,910**

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SECTION VI: FINANCIAL RISK MANAGEMENT

H4. Equity market risk

Equity market risk represents exposures to securities that represent equity indices related instruments. In addition, a part of the Group exposure is related to equity markets via contract-for-differences positions (since 2012).

As at 31 December 2012, instruments that would lead to this exposure are limited to Trading assets of CHF 5.4m (2011: CHF 3.8m). Trading assets are related to investment funds that are invested in stock included in major stock exchange indices (Swiss Performance Index, DJ Euro Stoxx and S&P 500).

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 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. This impact could be exacerbated if expected hedging or pricing correlations are compromised by the disproportionate demand or lack of demand for certain instruments.

I. Fiduciary activities

As mentioned above, the Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. 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 6.1 bn (2011: CHF 5.3 bn).

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SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and cash equivalents

	2012	2011
Cash and balances with central bank	1,612,190,388	1,274,982,572
Treasury bills and other eligible bills	4,825,733	6,678,547
Loans and advances to banks	236,956,542	300,794,570
Deposits from banks	(10,561,838)	(9,510,283)
Total net	**1,843,410,825**	**1,572,945,406**
Less: Due from other banks above 3 months	-	-
Cash and cash equivalents	**1,843,410,825**	**1,572,945,406**

Loans and advances to banks are pledged (2012 CHF 159.0m - 2011 CHF 140.1m) in favour of third parties mainly in order to secure the settlement of client transactions.

Deposits from banks are related to collateral deposits required by the Group to banking counterparties.

All amounts in Swiss Francs 70

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Derivative financial instruments

	31 December 2012		
	Fair value		Contract
	Assets	Liabilities	Notional amount
Derivatives held for trading			
- Currency swaps	293,032	(4,679,889)	304,038,196
- Currency options	22,198	(22,198)	1,956,419
- Currency forwards	28,765,313	(3,201,751)	845,147,722
Total derivatives held for trading	**29,080,543**	**(7,903,838)**	**1,151,142,337**
Derivatives held for hedging			
Derivatives designated as fair value hedge:			
- Interest rate futures	6,824	(357)	43,211,965
- Currency swaps	-	-	-
Total derivatives held for hedging	**6,824**	**(357)**	**43,211,965**
Total derivatives financial instruments	**29,087,367**	**(7,904,195)**	**1,194,354,302**
Current	26,623,503	(2,195,819)	
Non-current	2,463,864	(5,708,376)	

Derivatives held for trading are linked to clients' transactions. Derivatives held for hedging are related to the Group's own transactions.

	31 December 2011		
	Fair value		Contract
	Assets	Liabilities	Notional amount
Derivatives held for trading			
- Currency swaps	6,117,913	(810,905)	265,371,262
- Currency options	20,869	(20,869)	2,954,994
- Currency forwards	36,912,310	(7,883,791)	405,073,222
Total derivatives held for trading	**43,051,092**	**(8,715,565)**	**673,399,478**
Derivatives held for hedging			
Derivatives designated as cash flow hedge:			
- Interest rate futures	-	-	-
- Currency swaps	-	(1,206,055)	17,227,920
Total derivatives held for hedging	**-**	**(1,206,055)**	**17,227,920**
Total derivatives financial instruments	**43,051,092**	**(9,921,620)**	**690,627,398**
Current	31,996,094	(2,413,050)	
Non-current	11,054,998	(7,508,570)	

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Trading assets

Trading assets comprise of investment funds principally invested in stocks and included in major stock indices, respectively DJ Euro Stoxx, Swiss Performance Index and S&P 500.

	2012	2011
European equities	5,073,908	3,174,611
Swiss equities	217,472	203,744
US equities	67,242	468,052
Total	**5,358,622**	**3,846,407**

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and advances to customers

Loans and advances to customers mainly consist of advances covered by the pledging of the customers portfolio consisting of cash and securities (lombard loans), which are held with Swissquote Bank Ltd.

	2012	2011
Loans and advances		
Covered loans	91,728,176	100,237,687
Overdrafts	376,615	638,061
Total	**92,104,791**	**100,875,748**
Impairment allowance	(376,615)	(260,000)
Balance at 31 December	**91,728,176**	**100,615,748**
Collateral to support Loans and advances to customers	*242,852,046*	*282,265,361*

	2012	2011
Impairment allowance		
Balance at 1 January	260,000	130,000
Increase	200,000	130,000
Bad debts written-off	(83,385)	-
Balance at 31 December	**376,615**	**260,000**

All amounts in Swiss Francs

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5. Investment securities

Investment securities consist exclusively of listed bonds.

	Fair value through P&L	Available for-sale	Held-to-maturity	Total
At 1 January 2012	**16,883,337**	**361,683,696**	**369,810,289**	**748,377,322**
Exchange difference on monetary assets	(217,256)	(2,446,115)	(2,511,173)	(5,174,544)
Additions	4,423,786	416,520,494	17,697,419	438,641,699
Premium / (discount)	(259)	(9,125,917)	(3,142,539)	(12,268,715)
Disposals (sale and redemption)	(13,824,933)	(390,198,703)	(51,727,066)	(455,750,702)
Gains / (losses) from changes in fair value	206,225	4,883,629	-	5,089,854
At 31 December 2012	**7,470,900**	**381,317,084**	**330,126,930**	**718,914,914**

	Fair value through P&L	Available for-sale	Held-to-maturity	Total
At 1 January 2011	-	**268,986,563**	**401,168,756**	**670,155,319**
Exchange difference on monetary assets	119,617	(584,792)	(4,644,297)	(5,109,472)
Additions	19,808,388	359,270,848	4,002,363	383,081,599
Premium / (discount)	(552)	(5,515,737)	(3,514,514)	(9,030,803)
Disposals (sale and redemption)	(756,605)	(259,260,285)	(27,202,019)	(287,218,909)
Gains / (losses) from changes in fair value	(2,287,511)	(1,212,901)	-	(3,500,412)
At 31 December 2011	**16,883,337**	**361,683,696**	**369,810,289**	**748,377,322**

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Investment securities (continued)

	31 December 2012			Recognition as per IAS 39		
	Carrying value	Fair value	Unrealised gains/ (losses)	Comprehensive income	Income Statement	Not recognised
Fair value through profit & loss	7,470,900	7,470,900	(2,081,286)	-	*(2,081,286)*	-
Available-for-sale	381,317,084	381,317,084	2,955,613	*2,955,613*	-	-
Held-to-maturity	330,126,930	351,781,048	21,654,118	-	-	*21,654,118*
	718,914,914	**740,569,032**	**22,528,445**	***2,955,613***	***(2,081,286)***	***21,654,118***

In 2012, CHF 4,883,629 of unrealised gains arised from changes in fair value of available-for-sale assets have been recognised in the statement of comprehensive income (2011: unrealised loss of CHF 1,212,901). The cumulated balance recorded in comprehensive income represents CHF 2,955,613 (2011: CHF 1,928,016), gross of deferred tax impact.

	31 December 2011			Recognition as per IAS 39		
	Carrying value	Fair value	Unrealised gains/ (losses)	Comprehensive income	Income Statement	Not recognised
Fair value through profit & loss	16,883,337	16,883,337	(2,287,511)	-	*(2,287,511)*	-
Available-for-sale	361,683,696	361,683,696	(1,928,016)	*(1,928,016)*	-	-
Held-to-maturity	369,810,289	386,454,561	16,644,272	-	-	*16,644,272*
	748,377,322	**765,021,594**	**12,428,745**	***(1,928,016)***	***(2,287,511)***	***16,644,272***

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Investment securities (continued)

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

2012

	Unrealised gains/ (losses) at 31.12.2012	Change versus 2011
Fair value through profit & loss	(2,081,286)	206,225
Available-for-sale	2,955,613	4,883,629
Held-to-maturity	21,654,118	5,009,846
	22,528,445	**10,099,700**

2011

	Unrealised gains/ (losses) at 31.12.2011	Change versus 2010
Fair value through profit & loss	(2,287,511)	(2,287,511)
Available-for-sale	(1,928,016)	(1,212,901)
Held-to-maturity	16,644,272	5,625,590
	12,428,745	**2,125,178**

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6. Intangible assets

	Customer relationships	Goodwill	Total
At 1 January 2012			
Cost	3,300,000	20,029,472	23,329,472
Accumulated depreciation	(345,554)	-	(345,554)
Net book amount	**2,954,446**	**20,029,472**	**22,983,918**
Year ended 31 December 2012			
Opening net book amount	2,954,446	20,029,472	22,983,918
Amortisation / depreciation	(198,714)	-	(198,714)
Impairment	(570,000)	-	(570,000)
Closing net book amount	**2,185,732**	**20,029,472**	**22,215,204**
At 31 December 2012			
Cost	3,300,000	20,029,472	23,329,472
Accumulated depreciation	(1,114,268)	-	(1,114,268)
Net book amount	**2,185,732**	**20,029,472**	**22,215,204**

During 2012, an impairment loss of CHF 570,000 on the intangible asset – represented by the customer relationships acquired during Tradejet Ltd business combination in 2010 – was recognised in the income statement because of the decrease in profitability.

	Customer relationships	Goodwill	Total
At 1 January 2011			
Cost	3,300,000	20,029,472	23,329,472
Accumulated depreciation	(125,347)	-	(125,347)
Net book amount	**3,174,653**	**20,029,472**	**23,204,125**
Year ended 31 December 2011			
Opening net book amount	3,174,653	20,029,472	23,204,125
Amortisation / depreciation	(220,207)	-	(220,207)
Closing net book amount	**2,954,446**	**20,029,472**	**22,983,918**
At 31 December 2011			
Cost	3,300,000	20,029,472	23,329,472
Accumulated depreciation	(345,554)	-	(345,554)
Net book amount	**2,954,446**	**20,029,472**	**22,983,918**

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Intangible assets (continued)

The Group performed impairment tests of goodwill at the end of the financial year 2012. For the purpose of impairment testing, goodwill has been allocated to cash generating units which are expected to benefit from the synergies of the corresponding business combination.

For the goodwill allocated to cash generating units, the impairment tests are based on calculations of value in use. Cash flow projections are based on actual operating results and next year's business plans. 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 risk that are specific to the cash generating unit tested for impairment. As at 31 December 2012, 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:

Business acquired	Tradejet Ltd	ACM Advanced Currency Markets Ltd
Year of acquisition	2010	2010
Carrying amount of intangible asset	CHF 2,185,732	CHF 20,029,472
Depreciation method	15 years	Indefinite useful life
Reportable segment	Securities	eForex
Basis for recoverable amount	Value in use	Value in use
Type	Customer relationships	Goodwill
Cash flow projections	15 years	5 years + terminal value
Main assumptions	Assets under Custody	eForex volume + Net margin

Sensitivity analysis: At 31 December 2012, the annual testing for impairment demonstrated that either an increase of +1.0% in the discount rate used for the calculation of value in use or a decrease of - 5.0% in main revenue driver would not result in the recognition of an impairment loss.

All amounts in Swiss Francs 78

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Information technology systems

	Software Third Party Licences	Proprietary Software	Hardware & Telecom Systems	Total
At 1 January 2012				
Cost	9,083,255	24,286,964	6,823,698	40,193,917
Accumulated depreciation	(3,303,095)	(10,967,736)	(4,394,039)	(18,664,870)
Net book amount	**5,780,160**	**13,319,228**	**2,429,659**	**21,529,047**
Year ended 31 December 2012				
Opening net book amount	5,780,160	13,319,228	2,429,659	21,529,047
Addition	1,373,822	6,307,079	679,077	8,359,978
Amortisation / depreciation	(1,872,196)	(5,020,459)	(1,252,547)	(8,145,202)
Closing net book amount	**5,281,786**	**14,605,848**	**1,856,189**	**21,743,823**
At 31 December 2012				
Cost	10,457,077	30,594,043	7,502,775	48,553,895
Accumulated depreciation	(5,175,291)	(15,988,195)	(5,646,586)	(26,810,072)
Net book amount	**5,281,786**	**14,605,848**	**1,856,189**	**21,743,823**

	Software Third Party Licences	Proprietary Software	Hardware & Telecom Systems	Total
At 1 January 2011				
Cost	6,064,952	16,793,074	5,740,774	28,598,800
Accumulated depreciation	(1,416,810)	(6,763,292)	(2,813,808)	(10,993,910)
Net book amount	**4,648,142**	**10,029,782**	**2,926,966**	**17,604,890**
Year ended 31 December 2011				
Opening net book amount	4,648,142	10,029,782	2,926,966	17,604,890
Addition	3,018,303	7,493,890	1,082,924	11,595,117
Amortisation / depreciation	(1,886,285)	(4,204,444)	(1,580,231)	(7,670,960)
Closing net book amount	**5,780,160**	**13,319,228**	**2,429,659**	**21,529,047**
At 31 December 2011				
Cost	9,083,255	24,286,964	6,823,698	40,193,917
Accumulated depreciation	(3,303,095)	(10,967,736)	(4,394,039)	(18,664,870)
Net book amount	**5,780,160**	**13,319,228**	**2,429,659**	**21,529,047**

Additions to Information technology systems include an amount of CHF 5.8m (2011: CHF 6.8m) representing own costs capitalised in connection with the development of the systems of the bank and in particular with the development of eForex online trading platforms and white label technology.

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Property, plant and equipment

	Land & Building	Leasehold Improvements	Equipments	Total
At 1 January 2012				
Cost	31,854,907	3,228,977	3,250,547	38,334,431
Accumulated depreciation	(2,399,165)	(1,373,420)	(1,414,570)	(5,187,155)
Net book amount	**29,455,742**	**1,855,557**	**1,835,977**	**33,147,276**
Year ended 31 December 2012				
Opening net book amount	29,455,742	1,855,557	1,835,977	33,147,276
Addition	14,645,499	30,510	61,016	14,737,025
Amortisation / depreciation	(559,174)	(921,305)	(611,559)	(2,092,038)
Closing net book amount	**43,542,067**	**964,762**	**1,285,434**	**45,792,263**
At 31 December 2012				
Cost	46,500,406	3,259,487	3,311,563	53,071,456
Accumulated depreciation	(2,958,339)	(2,294,725)	(2,026,129)	(7,279,193)
Net book amount	**43,542,067**	**964,762**	**1,285,434**	**45,792,263**

	Land & Building	Leasehold Improvements	Equipments	Total
At 1 January 2011				
Cost	19,887,898	2,960,459	2,956,489	25,804,846
Accumulated depreciation	(1,842,202)	(730,538)	(854,769)	(3,427,509)
Net book amount	**18,045,696**	**2,229,921**	**2,101,720**	**22,377,337**
Year ended 31 December 2011				
Opening net book amount	18,045,696	2,229,921	2,101,720	22,377,337
Addition	11,967,009	268,518	294,058	12,529,585
Amortisation / depreciation	(556,963)	(642,882)	(559,801)	(1,759,646)
Closing net book amount	**29,455,742**	**1,855,557**	**1,835,977**	**33,147,276**
At 31 December 2011				
Cost	31,854,907	3,228,977	3,250,547	38,334,431
Accumulated depreciation	(2,399,165)	(1,373,420)	(1,414,570)	(5,187,155)
Net book amount	**29,455,742**	**1,855,557**	**1,835,977**	**33,147,276**

Additions to Property, plant and equipment include an amount of CHF 0.29m (2011: CHF 0.21m) representing own costs capitalised in connection with development of property.

All amounts in Swiss Francs 80

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Property, plant and equipment (continued)

Land and Building is further analysed as follows:

	Land	Building in operation	Building under construction	Total Land & Building
At 1 January 2012				
Cost	2,319,210	15,506,936	14,028,761	31,854,907
Accumulated depreciation	-	(2,399,165)	-	(2,399,165)
Net book amount	**2,319,210**	**13,107,771**	**14,028,761**	**29,455,742**
Year ended 31 December 2012				
Opening net book amount	2,319,210	13,107,771	14,028,761	29,455,742
Addition	-	-	14,645,499	14,645,499
Amortisation / depreciation	-	(559,174)	-	(559,174)
Closing net book amount	**2,319,210**	**12,548,597**	**28,674,260**	**43,542,067**
At 31 December 2012				
Cost	2,319,210	15,506,936	28,674,260	46,500,406
Accumulated depreciation	-	(2,958,339)	-	(2,958,339)
Net book amount	**2,319,210**	**12,548,597**	**28,674,260**	**43,542,067**

	Land	Building in operation	Building under construction	Total Land & Building
At 1 January 2011				
Cost	2,319,210	15,476,330	2,092,358	19,887,898
Accumulated depreciation	-	(1,842,202)	-	(1,842,202)
Net book amount	**2,319,210**	**13,634,128**	**2,092,358**	**18,045,696**
Year ended 31 December 2011				
Opening net book amount	2,319,210	13,634,128	2,092,358	18,045,696
Addition	-	30,606	11,936,403	11,967,009
Amortisation / depreciation	-	(556,963)	-	(556,963)
Closing net book amount	**2,319,210**	**13,107,771**	**14,028,761**	**29,455,742**
At 31 December 2011				
Cost	2,319,210	15,506,936	14,028,761	31,854,907
Accumulated depreciation	-	(2,399,165)	-	(2,399,165)
Net book amount	**2,319,210**	**13,107,771**	**14,028,761**	**29,455,742**

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Property, plant and equipment (continued)

Land consist of 7,100 sqm located in Gland (Switzerland) on which the building in operation and the building under construction are erected.

On 19 October 2010, Swissquote Bank Ltd entered into a contract with a construction company, the purpose of which is the realisation of the extension of its offices. The value of the contract is CHF 42.2m, including applicable VAT. At 31 December 2012, the amount payable to the construction company is CHF 14.3m in 2013 (2012: CHF 28.7m). The extension will consist of 6,700 sqm office space, storage rooms and parking, and is scheduled to be delivered end of 2013. Depreciation is expected to start once the construction is delivered (Q4-2013)..

9. Other assets

	2012	2011
Accrued income and other receivables	27,364,789	25,904,034
Prepaid expenses	1,418,513	1,975,243
Withholding tax to be recovered and other taxes	1,852,586	1,650,479
Total	**30,635,888**	**29,529,756**

All amounts in Swiss Francs 82

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Due to customers

	2012	2011
Due to customers - saving accounts	442,044,659	450,814,697
Due to customers - others	2,091,711,989	1,859,277,608
Total	**2,533,756,648**	**2,310,092,305**

Due to customers - others comprise of cash deposited through trading and eForex accounts.

The Swiss Federal Banking Act states that in the event of a bank collapsing, deposits of 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.

As a consequence, Swiss banks are required to hold 125% of total privileged deposits with adequate eligible assets. The Group met those requirement during the year ended 2012 (coverage of 151%).

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Other liabilities

	2012	2011
Accrued expenses	7,130,035	11,127,964
Account payables	7,497,660	6,818,832
Social security and other taxes	1,023,046	300,177
Deferred revenues	1,008,251	1,241,086
Total	**16,658,992**	**19,488,059**

12. Taxation

a) Deferred income tax assets

	Sources of deferred taxes		
	Tax losses carried forward	Provisions	Total
Balance at 1 January 2012	-	168,000	168,000
In connection with acquisition of subsidiaries	-	(11,200)	(11,200)
In connection with tax losses of subsidiaries	-	-	-
Balance at 31 December 2012	-	156,800	156,800
Balance at 1 January 2011	6,963,987	168,000	7,131,987
In connection with acquisition of subsidiaries	(6,046,207)	-	(6,046,207)
In connection with tax losses of subsidiaries	(917,780)	-	(917,780)
Balance at 31 December 2011	-	168,000	168,000

Movement in deferred income tax assets of CHF 11,200 were linked to the change of applicable tax rate.

All amounts in Swiss Francs 84

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Taxation (continued)

b) Deferred tax liabilities

	Temporary differences	Total
Balance at 1 January 2012	**1,105,896**	**1,105,896**
Movements with counterparty in Income tax expense		
In connection with change in applicable tax rate compared to date of recognition	(63,700)	(63,700)
In connection with depreciation of fair valued assets at date of acquisition of subsidiaries	(201,961)	(201,961)
In connection with differences in the capitalisation and depreciation policies in the books of Swissquote Bank Ltd	54,000	54,000
Balance at 31 December 2012	**894,235**	**894,235**
Balance at 1 January 2011	**1,155,919**	**1,155,919**
Movements with counterparty in Income tax expense		
In connection with change in applicable tax rate compared to date of recognition	-	-
In connection with depreciation of fair valued assets at date of acquisition of subsidiaries	(96,406)	(96,406)
In connection with differences in the capitalisation and depreciation policies in the books of Swissquote Bank Ltd	46,383	46,383
Balance at 31 December 2011	**1,105,896**	**1,105,896**

	2012	2011
Difference in valuation of treasury shares and gain on treasury shares sold	11,673	11,673
Acquisition of subsidiaries	550,142	815,803
Different capitalisation and depreciation method in accounting policies	332,420	278,420
Total	**894,235**	**1,105,896**

Deferred income taxes are calculated on all temporary differences under the liability method using various tax rates (depending on the tax status applicable to the subsidiary consolidated). The average tax rate applied for deferred taxes is 19.60% (2011: 22.37%). Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. Due to the fact that Swissquote Group Holding Ltd benefits from the Swiss holding tax regime, no deferred income tax liabilities is required for the unremitted earnings of its subsidiaries.

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Taxation (continued)

c) Current income tax liabilities

	2012	2011
Related to parent company	360,589	534,712
Related to subsidiaries	2,922,407	616,258
Total	**3,282,996**	**1,150,970**

d) Income tax expense

	2012	2011
Current year income tax expense	5,126,360	1,692,150
Change in deferred income tax assets	(11,200)	6,963,987
Change in deferred tax liabilities	(211,661)	(50,023)
Total	**4,903,499**	**8,606,114**

Reconciliation of taxes	**2012**	**2011**
Operating profit	27,567,096	40,013,103
Income tax expense computed at statutory rate (19.60%)	5,403,151	8,950,931
Increase / (decrease) in income taxes resulting from:		
Lower taxed income	(715,091)	(992,578)
Non-deductible expenses and others	215,439	647,761
Income tax expense	**4,903,499**	**8,606,114**

In 2012, the Group met specific conditions that make Swissquote Bank Ltd eligible to a preferred tax rate at Swiss cantonal level for a period of maximum 10 years (reduction of 25% on ordinary tax rate until 2019). These conditions have to be met during the full period. In 2012, the applied tax rate is 19.60% (2011: 22.37%).

All amounts in Swiss Francs 86

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Provisions

	2012	2011
Balance at 1 January	**4,689,497**	**8,126,044**
Increase	800,000	400,000
Used	(1,548,832)	(3,856,968)
Exchange differences	(41,649)	20,421
Balance at 31 December	**3,899,016**	**4,689,497**

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Pension

a) Pension plan

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 defined benefit plans under IAS 19;
- 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 pensions 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 2012, the rate was 2.0% per annum (2011: 2.0% per annum) as the minimal interest rate set by the Government was 1.5% in 2012.

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

	2012	2011
Discount Rate	1.90%	2.50%
Rate of future increase in compensations	1.00%	1.00%
Rate of future increase in current pensions	0.50%	0.50%
Interest rate credited on savings accounts	2.00%	2.00%
Expected long-term rate of return on plan assets	3.00%	3.25%
Mortality tables	BVG 2010G	BVG 2010G
Retirement age	65 (male) / 64 (female)	65 (male) / 64 (female)
Turnover	20% on average	20% on average

b) Funded status of the pension plans

According to IAS 19, pension plan assets have been estimated at market fair value and liabilities have been calculated according to the « Projected Unit Credit » method.

	Actuarial figures				
(all amounts in thousands CHF)	2012	2011	2010	2009	2008
Fair value of plan assets	19,897	17,281	12,474	9,986	8,283
Defined benefit obligation	(22,373)	(17,930)	(11,074)	(9,640)	(8,513)
Funded status	**(2,476)**	**(649)**	**1,400**	**346**	**(230)**
Unrecognised gains/(losses) at end of the year	2,046	381	(1,400)	(346)	230
Unrecognised prior service benefit/(cost)	436	-	-	-	-
Net asset/(liability) recognised	**6**	**(268)**	**-**	**-**	**-**

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Pension (continued)

c) Defined benefit obligation

	Actuarial	
(all amounts in thousands CHF)	**2012**	**2011**
Defined benefit obligation at beginning of the year	(17,930)	(11,074)
Service cost and employees' contributions	(3,048)	(2,254)
Interest cost	(437)	(274)
Actuarial gains / (losses)	(1,762)	(1,920)
Liabilities assumed in a business combination	-	(2,668)
Plan amendments	(555)	-
Benefit payments	1,359	260
Defined benefit obligation at end of the year	**(22,373)**	**(17,930)**

d) Plan assets

	Actuarial	
(all amounts in thousands CHF)	**2012**	**2011**
Fair value of plan assets at beginning of the year	17,281	12,474
Expected return on plan assets	551	440
Employees' contributions	1,553	1,170
Group contribution	1,774	1,185
Plan assets gains / (losses)	97	(128)
Assets assumed in a business combination	-	2,400
Benefit payments	(1,359)	(260)
Fair value of plan assets at end of the year	**19,897**	**17,281**

e) Unrecognised gains/(losses) at end of year

	Actuarial	
(all amounts in thousands CHF)	**2012**	**2011**
Unrecognised gains / (losses) at beginning of the year	(381)	1,400
Recognised gains / (losses)	-	267
Actuarial gains / (losses)	(1,762)	(1,920)
Plan assets gains / (losses)	97	(128)
Unrecognised gains / (losses) at end of the year	**(2,046)**	**(381)**

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Pension (continued)

f) Components of total pension costs

The annual actuarial Company pension cost according to IAS 19 is as follows:

(all amounts in thousands CHF)	2012	2011
Service cost and employees' contributions	(3,048)	(2,254)
Interest cost	(437)	(274)
Expected return on plans assets	551	439
Employees' contributions	1,553	1,170
Prior service cost / (gain) recognised in year	(119)	-
Net actuarial losses/(gains) recognised in year	-	(404)
Variation of asset ceiling	-	138
Company's pension cost (included in Operating expenses)	**(1,500)**	**(1,185)**

The actuarial pension cost compares with the actual Group's contribution as follows:

(all amounts in thousands CHF)	2012	2011
Beginning of year	(268)	-
Group's pension cost (actuarial)	(1,500)	(1,185)
Group's pension contribution (financial)	1,774	1,185
Business combination	-	(268)
Net asset / (liability) recognised in financial statements	**6**	**(268)**

The analysis of the reported pension obligation is summarised as follows:

(all amounts in thousands CHF)	2012	2011
Beginning of year	(268)	-
Difference net periodic pension cost and group contributions	274	-
Business combination	-	(268)
End of year (balance recognised in financial statements)	**6**	**(268)**

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Pension (continued)

g) Reconciliation of funded status

The reconciliation between funded status and prepaid pension cost is as follows:

(all amounts in thousands CHF)	2012	2011
Funded status	(2,476)	(649)
Unrecognised prior service (cost) / benefit	436	-
Unrecognised (gain) / loss	2,046	381
Reported prepaid/(payable) pension cost	**6**	**(268)**

h) Return on plan assets

The actual return on plan assets is as follows:

(all amounts in thousands CHF)	2012	2011
Expected return on plan of assets	551	440
Plan assets gains / (losses)	97	(128)
Actual return on plan assets	**648**	**312**

The categories of plan assets and their expected return are as follows:

	2012 proportion in %	2012 expected return	2011 proportion in %	2011 expected return
Cash	26.7%	2.0%	29.0%	2.0%
Bonds	56.4%	2.5%	51.9%	2.8%
Equities	16.1%	6.5%	14.2%	7.0%
Real estate	0.3%	4.5%	0.4%	4.5%
Other	0.5%	3.0%	4.5%	2.0%
Total	**100.0%**	**3.0%**	**100.0%**	**3.3%**

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Pension (continued)

i) IAS 19 (revised) transition

The Group is ready to implement revised IAS 19 standard (IAS 19R) on 1 January 2013. The impact of adoption on next year opening balances are summarized as follows:

	Defined benefit obligation - Actuarial -	To be recognised in financial statements		
		Net asset/ (liability)	Pension reserve - Comprehensive income -	Payroll expenses - Income statement -
Balance reported at 1 January 2012 (before adoption of IAS 19R)	(17,930)	(268)	-	-
Effects of IAS 19R adoption on opening balance	219	(162)	-	-
Balance adjusted at 1 January 2012 (within IAS 19R framework)	(17,711)	(430)	-	-
Changes in defined benefit obligation already recognised in 2012 before adoption of IAS 19R (as per notes 14c and 14f)	(4,443)	274	-	-
Effects of adoption of IAS 19R during the year 2012 (*):				
- Past service cost (plan amendments)	-	(436)	-	(436)
- Change in actuarial gains / (losses)	663	(1,099)	(1,099)	-
- Other effects	(290)	(193)	191	(384)
Balance reported at 1 January 2013 after adoption of IAS 19R	**(21,781)**	**(1,884)**	**(908)**	**(820)**
Fair value of plan assets	19,897			
Net asset / (liability)	**(1,884)**			

* Under IAS 19 revised framework, all actuarial gains and losses related to changes in funded status are to be recognised immediately through other comprehensive income. The current option to defer the recognition under the corridor method and amortisation is abolished by IAS 19 (revised). As at 1 January 2012, the pension liability would have increased of CHF 162k because of the removal of corridor method. In the meantime, the changes in the defined benefit obligation due to plan changes are recognised immediately. During 2012, CHF 436k out of CHF 820k would have been related to the immediate recognition of past service cost from a plan change.

All amounts in Swiss Francs 92

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Equity

15.1 Share capital

a) Number of Shares in 2012

	1 January	Change	31 December
Issued shares			
Ordinary share capital			
Number of shares	14,638,370	-	**14,638,370**
Nominal value per share (CHF)	0.20	-	**0.20**
Total nominal value (CHF)	2,927,674	-	**2,927,674**
Unissued shares			
Conditional capital			
Number of conditional shares	750,000	-	**750,000**
Nominal value per share (CHF)	0.20	-	**0.20**
Total nominal value (CHF)	150,000	-	**150,000**
Authorised capital			
Number of authorised shares	3,500,000	-	**3,500,000**
Nominal value per share (CHF)	0.20	-	**0.20**
Amount authorised (CHF)	700,000	-	**700,000**

b) Number of Shares in 2011

	1 January	Change	31 December
Issued shares			
Ordinary share capital			
Number of shares	14,638,370	-	**14,638,370**
Nominal value per share (CHF)	0.20	-	**0.20**
Total nominal value (CHF)	2,927,674	-	**2,927,674**
Unissued shares			
Conditional capital			
Number of conditional shares	211,060	538,940	**750,000**
Nominal value per share (CHF)	0.20	0.20	**0.20**
Total nominal value (CHF)	42,212	107,788	**150,000**
Authorised capital			
Number of authorised shares	4,000,000	(500,000)	**3,500,000**
Nominal value per share (CHF)	0.20	0.20	**0.20**
Amount authorised (CHF)	800,000	(100,000)	**700,000**

The Annual General Meeting approved on 6 May 2011 the increase of the conditional capital to 750,000 conditional shares for a nominal value of CHF 150,000 and the decrease of the authorised capital to an authorised amount of CHF 700,000 (corresponding to 3,500,000 authorised shares). The provision ruling the utilisation of authorised share capital provides that the Board of Directors is authorised until 6 May 2013 to increase the share capital.

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Equity (continued)

15.2 Share option reserve

a) Components of share option reserve

	31 December 2012	31 December 2011
Value of services to be reclassified to accumulated profits when outstanding options will lapse, expire or be exercised	3,839,990	4,105,943
Value of services to be amortised through income statement over the residual vesting periods of options	(836,639)	(1,320,705)
Share options reserve	**3,003,351**	**2,785,238**

b) Stock option plan

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 fourteenth allocation schemes have been offered. The terms of the non-lapsed allocations at 31 December 2012 are summarised below. Optionees whose work contract is terminated loose their rights to options outstanding unless the Board resolves otherwise.

The terms and maturities of the non-lapsed allocations at 31 December 2012 are summarised below.

				Exercise Period		Analysis of status		
Allocation	Tranche	Strike Price	Number Options	Start	End	In the money	In exercise period	In the money & exercise period
10	3/3	47.00	40,553	August-11	July-13	-	**40,553**	-
11	2/3	63.24	25,312	August-11	July-13	-	**25,312**	-
	3/3		25,312	August-12	July-14	-	**25,312**	-
12	1/3	47.50	41,025	September-11	August-13	-	**41,025**	-
	2/3		41,025	September-12	August-14	-	**41,025**	-
	3/3		41,025	September-13	August-15	-	-	-
13	1/3	34.27	75,803	September-12	August-14	-	**75,803**	-
	2/3		75,803	September-13	August-15	-	-	-
	3/3		75,803	September-14	August-16	-	-	-
14	1/3	32.20	67,010	September-13	August-15	-	-	-
	2/3		67,010	September-14	August-16	-	-	-
	3/3		67,010	September-15	August-17	-	-	-
Total			**642,691**			-	**249,030**	-

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Equity (continued)

c) Fourteenth 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 3 years. Other inputs into the model are the risk free interest rate and the dividend yield (respectively 0.1% and 1% for the 2012 allocation). One option grants the right to acquire one share.

Date of Grant	07.08.2012
Strike price [CHF]	32.20
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 (*)	201,480
Of which granted to Board	8,250
Of which granted to Executive Management	18,000
Of which granted to Others employees	175,230
Spot price at grant [CHF]	26.85
Volatility	32.25%
Fair value per option (average of all tranches and including assumption of lapse rate) [CHF]	3.16
Of which:	
Tranche 1	*2.99*
Tranche 2	*3.19*
Tranche 3	*3.30*

(*) 25% of the options granted are assumed to lapse in the vesting period

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

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Equity (continued)

d) Movement in stock options

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

	Allocation							Conditional shares available for exercise
	8th & 9th	10th	11th	12th	13th	14th	Total	
Balance at 1 January 2011	**78,078**	**111,971**	**81,720**	**132,495**	**-**	**-**	**404,264**	**211,060**
Increase of conditional capital								538,940
Grants	-	-	-	-	237,657	-	237,657	
Exercised								
Covered by:								
the issue of new shares	-	-	-	-	-	-	-	
treasury shares	(10,315)	(27,859)	-	-	-	-	(38,174)	
Lapsed	(37,005)	(15,973)	(4,104)	(6,300)	(420)	-	(63,802)	
Balance at 31 December 2011	**30,758**	**68,139**	**77,616**	**126,195**	**237,237**	**-**	**539,945**	**750,000**
Balance at 1 January 2012	**30,758**	**68,139**	**77,616**	**126,195**	**237,237**	**-**	**539,945**	**750,000**
Increase of conditional capital								-
Grants	-	-	-	-	-	201,480	201,480	
Exercised								
Covered by:								
the issue of new shares	-	-	-	-	-	-	-	
treasury shares	-	-	-	-	-	-	-	
Lapsed	(30,758)	(27,586)	(26,992)	(3,120)	(9,828)	(450)	(98,734)	
Balance at 31 December 2012	**-**	**40,553**	**50,624**	**123,075**	**227,409**	**201,030**	**642,691**	**750,000**

Less options outstanding	*(642,691)*	
Intermediary balance (including conditional shares)	*107,309*	
Number of treasury shares available at 31 December 2012		*107,309*
		175,133
Balance shares available for future grants		*282,442*

	8th	9th	10th	11th	12th	13th	14th
Strike price	34.00	75.00	47.00	63.24	47.50	34.27	32.20
Share price at 31.12.2012	28.70	28.70	28.70	28.70	28.70	28.70	28.70

All amounts in Swiss Francs 96

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Equity (continued)

The movement (fair value) in stock options is the following:

	Allocation						
	8th & 9th	10th	11th	12th	13th	14th	Total
Balance at 1 January 2011	**720,410**	**800,433**	**1,027,416**	**1,142,237**	**-**	**-**	**3,690,496**
Grants	-	-	-	-	1,219,339	-	1,219,339
Exercise: new shares	-	-	-	-	-	-	-
Exercise: treasury shares	(78,667)	(179,674)	-	-	-	-	(258,341)
Lapsed	(334,471)	(103,017)	(51,596)	(54,312)	(2,155)	-	(545,551)
Balance at 31 December 2011	**307,272**	**517,742**	**975,820**	**1,087,925**	**1,217,184**	**-**	**4,105,943**
Balance at 1 January 2012	**307,272**	**517,742**	**975,820**	**1,087,925**	**1,217,184**	**-**	**4,105,943**
Grants	-	-	-	-	-	636,813	636,813
Exercise: new shares	-	-	-	-	-	-	-
Exercise: treasury shares	-	-	-	-	-	-	-
Lapsed	(307,272)	(198,225)	(318,526)	(26,897)	(50,424)	(1,422)	(902,766)
Balance at 31 December 2012	**-**	**319,517**	**657,294**	**1,061,028**	**1,166,760**	**635,391**	**3,839,990**

e) Strike value of stock options outstanding and movements

	Allocation						
	8th & 9th	10th	11th	12th	13th	14th	Total
Balance at 1 January 2011	**5,348,270**	**5,262,637**	**5,167,973**	**6,293,513**	**-**	**-**	**22,072,393**
Grants	-	-	-	-	8,144,505	-	8,144,505
Exercise: new shares	-	-	-	-	-	-	-
Exercise: treasury shares	(350,710)	(1,309,373)	-	-	-	-	(1,660,083)
Lapsed	(2,690,710)	(750,731)	(259,537)	(299,250)	(14,393)	-	(4,014,621)
Balance at 31 December 2011	**2,306,850**	**3,202,533**	**4,908,436**	**5,994,263**	**8,130,112**	**-**	**24,542,194**
Balance at 1 January 2012	**2,306,850**	**3,202,533**	**4,908,436**	**5,994,263**	**8,130,112**	**-**	**24,542,194**
Grants	-	-	-	-	-	6,487,656	6,487,656
Exercise: new shares	-	-	-	-	-	-	-
Exercise: treasury shares	-	-	-	-	-	-	-
Lapsed	(2,306,850)	(1,296,542)	(1,706,974)	(148,200)	(336,806)	(14,490)	(5,809,862)
Balance at 31 December 2012	**-**	**1,905,991**	**3,201,462**	**5,846,063**	**7,793,306**	**6,473,166**	**25,219,988**

All amounts in Swiss Francs

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SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Equity (continued)

15.3 Other reserve

	Available-for-sale financial assets	Hedge reserve	Currency translation differences	Total
Balance at 1 January 2012	**(1,523,390)**	**(5,178)**	**(45,599)**	**(1,574,167)**
Revaluation of AFS - gross	4,883,629	-	-	4,883,629
Revaluation of AFS - tax	(957,191)	-	-	(957,191)
Cash flow hedge - fair value gains/(losses)	-	6,670	-	6,670
Cash flow hedge - tax	-	(1,492)	-	(1,492)
Foreign currency translation differences	-	-	(38,044)	(38,044)
Balance at 31 December 2012	**2,403,048**	**-**	**(83,643)**	**2,319,405**
Balance at 1 January 2011	**(581,815)**	**(23,040)**	**-**	**(604,855)**
Revaluation of AFS - gross	(1,212,901)	-	-	(1,212,901)
Revaluation of AFS - tax	271,326	-	-	271,326
Cash flow hedge - fair value gains/(losses)	-	23,009	-	23,009
Cash flow hedge - tax	-	(5,147)	-	(5,147)
Foreign currency translation differences	-	-	(45,599)	(45,599)
Balance at 31 December 2011	**(1,523,390)**	**(5,178)**	**(45,599)**	**(1,574,167)**

15.4 Treasury shares

	2012	2011
Beginning of the year (shares)	**183,621**	**303,404**
Acquisition - shares	**8,012**	**147,814**
unit price ranging from CHF	24.92 to 42.40	29.67 to 61.70
Disposal - shares	**(16,500)**	**(229,423)**
unit price ranging from CHF	36.50	46.86 to 58.91
Remittance to optionees - shares	**-**	**(38,174)**
unit price ranging from CHF	-	34.00 to 47.00
End of the period - 31 December (shares)	**175,133**	**183,621**
Total cost (in CHF)	**9,184,665**	**9,444,191**
% of the issued shares	1.20%	1.25%

All amounts in Swiss Francs 98

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Equity (continued)

15.5 Retained earnings (dividend)

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.

16. Net fee and commission income

	2012	2011
Brokerage and related	44,152,660	59,393,959
Custody and others	11,256,608	9,221,109
Advertising and subscription fees	3,307,151	3,657,439
Total fee and commission income	**58,716,419**	**72,272,507**
Fee and commission expenses	(6,994,382)	(7,606,890)
Total net fee and commission income	**51,722,037**	**64,665,617**

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Net interest income

	2012	2011
Interest income		
Cash and short-term funds	578,209	2,415,573
Investment securities	16,392,251	15,845,027
Currency derivatives revaluation	2,270,941	412,501
Loans to customers	3,031,089	3,486,056
	22,272,490	**22,159,157**
Interest expense		
Banks	(31,188)	(26,388)
Customers - trading accounts	(2,685,688)	(1,855,580)
Customers - saving accounts	(2,456,684)	(4,211,692)
	(5,173,560)	**(6,093,660)**
Total net interest income	**17,098,930**	**16,065,497**

18. Net trading income

	2012	2011
Foreign exchange revenues		
- eForex	29,805,821	37,663,439
- Others foreign exchange income	10,402,943	13,218,139
	40,208,764	**50,881,578**
Unrealised fair value gains/(losses)		
- From Investment securities	206,225	(2,287,511)
- From Trading assets	567,306	(811,341)
	773,531	**(3,098,852)**
Realised gains / (losses)		
- From financial assets	1,072,017	(69,706)
Others		
- Other income	616,250	-
Total net trading income	**42,670,562**	**47,713,020**

A contingent consideration arising from the acquisition of ACM Advanced Currency Markets Ltd in 2010 of CHF 616,250 was released during the period under review and recognised as Other income.

All amounts in Swiss Francs 100

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Operating expenses

	2012	2011
Payroll & related expenses	37,707,809	39,743,050
Other operating expenses	21,616,414	23,599,380
Marketing expenses	12,594,256	14,907,788
Depreciation and amortisation	10,435,954	9,650,813
Impairment on intangible assets	570,000	-
Provisions	1,000,000	530,000
Total	**83,924,433**	**88,431,031**

Payroll and related expenses consist of:

	2012	2011
Wages and salaries	38,278,211	41,608,481
Social security costs	3,789,834	3,699,033
Pension costs	1,763,363	1,439,861
	43,831,408	**46,747,375**
Less: capitalised costs	(6,123,599)	(7,004,325)
Total	**37,707,809**	**39,743,050**
Average headcount	366	357

The costs were capitalised in connection with the inhouse development of the Group's IT systems and the realisation of the building under construction in Gland (Switzerland).

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Earning 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.

	2012	2011
Weighted average number of ordinary shares in issue	14,462,730	14,394,858
Net Profit	22,663,597	31,406,989
Earning per share	**1.57**	**2.18**

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.

	2012	2011
Weighted average number of ordinary shares	14,462,730	14,394,858
Adjustments for share options	-	-
Weighted average number of ordinary shares for diluted earnings per share options	14,462,730	14,394,858
Net Profit	22,663,597	31,406,989
Diluted earning per share	**1.57**	**2.18**

All amounts in Swiss Francs 102

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Related party transactions

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

	2012	2011
Key Management compensation		
Short term employee benefits	1,815,750	2,163,728
Post-employment benefits	229,271	231,613
Total	**2,045,21**	**2,395,341**
Of which:		
Share based payment	82,950	188,528
Loans and advances to customers	772,074	668,314
Due to customers	13,566,797	30,714,734
Interest income	5,040	44,925
Interest expenses	13,704	10,468

22. Commitments

Operating leases: Operating lease commitments consist of office space leases.

Payable	2012	2011
Not later than 1 year (*)	15,991,925	19,961,654
Later than 1 year and not later than 5 years	2,998,367	14,660,525
Total	**18,990,292**	**34,622,179**

(*) including Capital Expenditures Committed:

	2013	2014	2015	2016
New building	14,333,085	-	-	-

Loan commitments:

Loan commitments of CHF 24,384,000 (2011: CHF 22,290,000) are related to the Group contribution to the Swiss depositor protection scheme (Art. 37H Banking Act). The depositor scheme is responsible for ensuring that clients' deposits at Swiss banks are protected. In the event of a bank going bankrupt, all Swiss banks have to transfer within five days the amounts required. As per FINMA guidelines, the payment obligation has to be recognised for as an irrevocable commitment under the off-balance sheet transactions.

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Disclosure of compensation of the Board of Directors and Executive Management in accordance with Art. 663b^bis and Art. 663c CO

In compliance with Art. 663b^bis and Art. 663c of Swiss Obligation Code (effective since 1 January 2007), the following table summarises all compensations, loans granted and participations held by each member of the Board of Directors and of Executive Management:

a) Compensations 2012

All amounts in CHF	Base compensation		Variable compensation		Other Compensation (*2)	Total	Number of share options granted (*1)
	Cash	Shares (fair value)	Cash bonus	Share option (fair value) (*1)			
Board of Directors							
Mario Fontana, Chairman	120,000	-	-	7,110	2,000	129,110	2,250
Paul E. Otth, member	80,000	-	-	4,740	2,000	86,740	1,500
Markus Dennler, member	80,000	-	-	4,740	2,000	86,740	1,500
Martin Naville, member	80,000	-	-	4,740	2,000	86,740	1,500
Adrian Bult, member	80,000	-	-	4,740	2,000	86,740	1,500
Total Board of Directors	**440,000**	**-**	**-**	**26,070**	**10,000**	**476,070**	**8,250**
Executive Management							
Marc Bürki, CEO	410,000	-	-	18,960	18,000	446,960	6,000
Paolo Buzzi, CTO	410,000	-	-	18,960	18,000	446,960	6,000
Michael Ploog, CFO	410,000	-	-	18,960	16,800	445,760	6,000
Total Executive Management	**1,230,000**	**-**	**-**	**56,880**	**52,800**	**1,339,680**	**18,000**

The performance-related component (variable compensation) of Executive Management represented 4.6% of their total base compensation (2011: 29.5%).

Total compensation is reported based on the base compensation paid in 2012, the value of the options granted in 2012 (value at grant date) and the accrual in 2012 of the bonus payable in 2013, based on the 2012 results.

(*1) The fair value of the options has been determined based on the valuation method and the parameters used for the 14th allocation (see Note 15.2). The number of options granted in 2012 is stated in the last column of the above table. The amounts stated correspond to the total value of options granted.

(*2) Other compensation consists of discretionary allowances for out-of-pocket expenses.

All amounts in Swiss Francs 104

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Disclosure of compensation of the Board of Directors and Executive Management (continued)

b) Compensations 2011

All amounts in CHF	Base compensation		Variable compensation		Other Compensation	Total	Number of share options granted (*2)
	Cash	Shares (fair value)	Cash bonus (*1)	Share option (fair value) (*2)			
Board of Directors					(*3)		
Mario Fontana, Chairman	120,000	-	-	16,160	2,000	138,160	3,150
Paul E. Otth, member	80,000	-	-	10,773	2,000	92,773	2,100
Markus Dennler, member	80,000	-	-	10,773	2,000	92,773	2,100
Martin Naville, member	80,000	-	-	10,773	2,000	92,773	2,100
Adrian Bult, member	80,000	-	-	10,773	2,000	92,773	2,100
Total Board of Directors	**440,000**	**-**	**-**	**59,252**	**10,000**	**509,252**	**11,550**
Executive Management					(*4)		
Marc Bürki, CEO	410,000	-	78,000	43,092	21,600	552,692	8,400
Paolo Buzzi, CTO	410,000	-	78,000	43,092	21,600	552,692	8,400
Michael Ploog, CFO	410,000	-	78,000	43,092	18,000	549,092	8,400
Total Executive Management	**1,230,000**	**-**	**234,000**	**129,276**	**61,200**	**1,654,476**	**25,200**

The performance-related component (variable compensation) of Executive Management represented 29.5% of the total base compensation (2010: 36.5%).

Total compensation is reported based on their base compensation paid in 2011, the value of the options granted in 2011 (value at grant date) and the accrual in 2011 of the bonus payable in 2012, based on the 2011 results.

(*1) Cash bonus consists of the bonus payable in 2012 based on the performance of the 2011 financial year.

(*2) The fair value of the options has been determined based on the valuation method and the parameters used for the 13th allocation. The number of options granted in 2011 is stated in the last column of the above table. The amounts stated correspond to the total value of options granted.

(*3) Other compensation consists of discretionary allowances for out-of-pocket expenses.

(*4) Other compensation consists of Bel-étage funding contributions and discretionary allowances for out-of-pocket expenses.

All amounts in Swiss Francs

SECTION VII: OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Disclosure of compensation of the Board of Directors and Executive Management (continued)

c) Loans and credits

As per 31 December 2012, the following loans and credits were granted to and are still outstanding with current and former members of the Board of Directors and Executive Management:

All amounts in CHF	2012	2011
Mario Fontana, Chairman of the Board	-	-
Paul E. Otth, member	772,074	668,314
Markus Dennler, member	-	-
Martin Naville, member	-	-
Adrian Bult, member	-	-
Marc Bürki, CEO	-	-
Paolo Buzzi, CTO	-	-
Michael Ploog, CFO	-	-
Closely related persons	-	-
Former members	-	-
Total	**772,074**	**668,314**

d) Participations

	Number of shares 2012	Number of shares 2011	Number of share options expiring				
			2013	2014	2015	2016	2017
Mario Fontana, Chairman of the Board	592,500	512,500	2,350	2,400	2,550	1,800	750
Mario Fontana, closely related persons (*1)	164,011	244,011	-	-	-	-	-
Paul E. Otth, member	73,700	73,700	1,567	1,600	1,700	1,200	500
Markus Dennler, member	26,666	26,666	1,567	1,600	1,700	1,200	500
Martin Naville, member	6,122	6,122	1,567	1,600	1,700	1,200	500
Adrian Bult, member	-	-	1,567	1,600	1,700	1,200	500
Marc Bürki, CEO	1,918,670	1,916,670	6,267	6,400	6,800	4,800	2,000
Paolo Buzzi, CTO	1,916,975	1,912,475	6,267	6,400	6,800	4,800	2,000
Michael Ploog, CFO	67,650	67,650	6,267	6,400	6,800	4,800	2,000
Closely related persons (*2)	164,961	161,328	-	-	-	-	-
Total	**4,931,255**	**4,921,122**	**27,419**	**28,000**	**29,750**	**21,000**	**8,750**

(*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 its best knowledge of the number of shares owned by close relatives of the members of the Board and members of Executive Management. Close relatives consist of spouse, children, father and mother as well as sisters and brothers. At 31 December 2012 and 31 December 2011, closely related persons are mainly related to Paolo Buzzi (CTO) and Marc Bürki (CEO).

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Report of the statutory auditor
to the general meeting of
Swissquote Group Holding Ltd
Gland

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Swissquote Group Holding Ltd, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 16 to 106), for the year ended 31 December 2012.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers SA

Philippe Bochud Audit expert Auditor in charge	Eric Maglieri Audit expert

Geneva, 22 February 2013

Financial Report 2012
Statutory Financial Statements

STATUTORY FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011 OF SWISSQUOTE GROUP HOLDING LTD

Financial Report 2012
Statutory Balance Sheet

	Notes	2012	2011
ASSETS			
Current assets			
Cash and banks		77,115	77,321
Receivables and prepayments		120,755	198,093
Securities (treasury shares)	3	5,026,317	5,976,344
Total current assets		**5,224,187**	**6,251,758**
Non-current assets			
Investments in subsidiaries	4	77,112,780	75,298,952
Receivable from subsidiaries - current account	5	31,146,678	32,308,662
Receivable from subsidiaries - subordinated loan	5	22,500,000	22,500,000
Total non-current assets		**130,759,458**	**130,107,614**
Total assets		**135,983,645**	**136,359,372**
LIABILITIES AND EQUITY			
Current liabilities			
Creditors and accrued liabilities		115,473	126,754
Income tax payable		427,804	649,895
Total current liabilities		**543,277**	**776,649**
Equity			
Share capital	6	2,927,674	2,927,674
General reserve (share premium)	7	4,868,256	4,608,730
Capital contribution reserve	7	247,402	15,292,436
Reserve for own shares	3/7	9,184,665	9,444,191
Retained earnings	7	118,212,371	103,309,692
Total equity		**135,440,368**	**135,582,723**
Total liabilities and equity		**135,983,645**	**136,359,372**

The notes on pages 112 to 116 are integral part of these financial statements

All amounts in Swiss Francs

Financial Report 2012
Statutory Statement of Operations

	2012	2011
Income		
Revenues from investments	493,001	985,068
Realised gain on treasury shares	77,885	-
Fair value adjustment of treasury shares	-	2,064,217
Interest income	1,034,385	911,184
Royalties	5,573,219	6,422,207
Dividend received from subsidiaries	10,000,000	12,500,000
Total	**17,178,490**	**22,882,676**
Expenses		
Realised loss treasury shares	-	593,169
Fair value adjustement of treasury shares	690,501	-
Operating expenses	1,025,063	1,489,437
Tax expense	560,247	649,895
Total	**2,275,811**	**2,732,501**
Net profit of the year	**14,902,679**	**20,150,175**

The notes on pages 112 to 116 are integral part of these financial statements

All amounts in Swiss Francs

Financial Report 2012
Notes to the Statutory Financial Statements

1. Introduction

Swissquote Group Holding Ltd ("The Company") was formed on 12 August 1999. It is registered in the Canton de Vaud, Switzerland, with headquarters in Gland. Swissquote Group Holding Ltd is the parent of Group companies that are active in online financial services (main operating subsidiary being Swissquote Bank Ltd).

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 1,067,586 and the ISIN Number is CH0010675863.

The main shareholders (in the sense of art. 20 Stock Exchange Act - SESTA) are:

	2012	2011
Mr. Marc Bürki	13.11%	13.09%
Mr. Paolo Buzzi	13.10%	13.06%
Mr. Mario Fontana	5.16%	5.16%
Basellandschaftliche Kantonalbank	4.99%	4.99%
Alken Fund European Opportunities	<3%	3.06%
BlackRock, Inc.	<3%	3.03%
Treasury Shares:		
Swissquote Group Holding Ltd	1.20%	1.25%

The Statutory Financial Statements were approved for issue by the Board of Directors of the Company on 22 February 2013.

2. Corporate governance, risk assessment and disclosure of compensation in accordance with art 663b ^{bis} and 663c CO

The detailed Corporate Governance Report established in compliance with the SIX Swiss Exchange Directive on Information relating to Corporate Governance is included in Section 3 of the 2012 Annual Report of Swissquote Group Holding Ltd and subsidiaries. The Board of Directors is composed of MM Mario Fontana (Chairman of the Board and Chairman of the Nomination and Remuneration Committee), Paul E. Otth (Chairman of the Audit & Risk Committee), Markus Dennler (member of the Nomination & Remuneration Committee), Martin Naville (member of the Audit & Risk Committee), and Adrian Bult (member of the Audit & Risk Committee). Executive Management is composed of MM Marc Bürki (CEO), Paolo Buzzi (CTO) and Michael Ploog (CFO).

The Board met nine times in 2012, out of which three meetings were held via telephone conference and six were physical meetings. One meeting was the Annual Conference on Risks dedicated to an in-depth review of risks and of risk management processes and attended by the full Board, the Executive Management, the Heads of department of Swissquote Bank Ltd who are involved in specific risk management functions, Internal Audit and External Audit. Each body / person submitted to the Board its own independent assessment and, based thereon and on its own assessment the Board concluded on the adequacy of risk management and, when required, resolved on enhancements to the risk assessment process and to internal control.

The compensation of the Board of Directors and of Executive Management (Art. 663b^{bis} and 663c CO) is disclosed in Note 23 (Section VII) of the 2012 Consolidated Financial Statements of Swissquote Group Holding Ltd and subsidiaries.

3. Securities (Treasury shares)

	2012	2011
Beginning of the year (shares)	**183,621**	**303,404**
Acquisition - shares	**8,012**	**147,814**
Unit price ranging	24.92 to 42.40	29.67 to 61.70
Disposal - shares	**(16,500)**	**(229,423)**
Unit price ranging	36.50	46.86 to 58.91
Remittance to optionees - shares	-	**(38,174)**
Unit price ranging	-	34.00 to 47.00
End of the period - 31 December (shares)	**175,133**	**183,621**
% of the issued shares	1.20%	1.25%

	2012	2011
Total cost (Reserve for own shares)	**9,184,665**	**9,444,191**
Share price at year end	28.70	33.00
Strike prices (non lapsed allocations)	32.20 to 75.00	34.00 to 75.00
Total Securities (Treasury shares)	**5,026,317**	**5,976,344**

The Treasury shares are primarily acquired for the purpose of covering the employee stock option plan. The voting rights on the Treasury shares and the rights associated therewith are suspended. As per Swiss law (art. 659a Swiss Obligation Code), the Company must set aside an amount equivalent to the cost of acquiring its owns shares as a separate reserve (reserve for own shares).

Treasury shares are valued at the lowest of cost or a lower amount in the following cases:

When the market value is below both the cost and the expected strike price of options outstanding (options are out-of the money):	Valuation at market value
When the market value is above the strike price of options outstanding (options in the money), but the strike price is below the cost	Valuation at the strike of options outstanding

Treasury shares in excess of share options to be covered are valued at the lowest either the cost either the market price.

All amounts in Swiss Francs

4. Investments in subsidiaries

Investments in subsidiaries consist of:

	2012		2011	
Swissquote Bank Ltd	100.0%	75,060,002	100.0%	75,060,002
Swissquote Trade Ltd	100.0%	238,950	100.0%	238,950
Swissquote Europe Ltd	99.9%	1,813,828	-	-
Total		**77,112,780**		**75,298,952**

Swissquote Europe Ltd is an investment services company based in Malta and has been incorporated on 19 October 2012. The subsidiary is regulated by the Malta Financial Services Authority (MFSA) under the licence number IS/57936. The initial share capital of the Company is divided into 999,999 ordinary shares owned by Swissquote Group Holding Ltd and 1 ordinary share owned by Swissquote Bank Ltd.

5. Receivables from subsidiaries

The current account of CHF 31,146,678 (2011: CHF 32,308,662) is related to cash deposited by Swissquote Group Holding Ltd into a bank account opened with Swissquote Bank Ltd.

The subordinated loan of CHF 22,500,000 is due by Swissquote Bank Ltd. The terms of the subordinated loan comply with the provisions of Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO). The subordinated loan agreement is renewed annually as long as no party terminates it as per 31 December of the relevant year. When the termination is notified by one party to the other, the agreement terminates five years after the first day of the year following the 31 December as per which the termination is notified. The interest rate is set annually and is based on the standards issued by the Swiss Tax Authorities. None of the parties notified the termination of the subordinated loan at 31 December 2012.

6. Share capital

	2012	2011
Ordinary issued share capital		
Number of shares in issue	14,638,370	14,638,370
Nominal value of each share (Registered shares)	0.20	0.20
Ordinary share capital	**2,927,674**	**2,927,674**
Unissued share capital		
Conditional share capital	150,000	150,000
Authorised share capital	700,000	700,000

Authorised Share capital

The provision ruling the utilisation of the Authorised share capital provides that the Board of Directors is authorised until 6 May 2013 to increase the share capital of the Company by a maximum of CHF 700,000 by issuing no more than 3,500,000 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.

All amounts in Swiss Francs 114

7. General reserve (share premium), Reserve for own shares, Capital contribution reserve and Retained earnings

	2012	2011
General reserve (share premium):		
At beginning of year	4,608,730	11,536,894
Allocation from Reserve for own shares	259,526	8,364,272
Allocation to Capital contribution reserve	-	(15,292,436)
At end of year	**4,868,256**	**4,608,730**
Capital contribution reserve:		
At beginning of year	15,292,436	-
Allocation from General reserve (share premium)	-	15,292,436
Payments out of reserve	(15,045,034)	-
At end of year	**247,402**	**15,292,436**
Reserve for own shares:		
At beginning of year	9,444,191	17,808,463
Allocation from Retained earnings	-	-
Allocation to General reserve (share premium)	(259,526)	(8,364,272)
At end of year	**9,184,665**	**9,444,191**
Retained earnings:		
At beginning of year	103,309,692	91,766,725
Dividend paid	-	(8,607,208)
Allocation for own shares	-	-
Net profit of the year	14,902,679	20,150,175
Available Retained earnings, end of year	**118,212,371**	**103,309,692**

8. Disclosure of compensation of the Board of Directors and Management Board in accordance with Art. 663b^{bis} and 663c CO

See Note 23 of the 2012 Consolidated Financial Statements in section VII “Notes to the Consolidated Financial Statements”.

All amounts in Swiss Francs

Financial Report 2012
Proposed Appropriation of Retained Earnings

PROPOSAL OF THE BOARD OF DIRECTORS FOR APPROPRIATION OF RETAINED EARNINGS AT 31 DECEMBER 2012

Allocation of available retained earnings

The Board of Directors proposes to the Annual General Meeting to utilise retained earnings available for appropriation as follows:

In CHF	2012
Available retained earnings at 31 December 2012	118,212,371
Proposed dividend (CHF 0.60 per share)	(8,783,022)
Retained earnings to be carried forward at 1 January 2013	**109,429,349**

Amount of proposed dividend is based on the number of shares issued at 31 December 2012.

All amounts in Swiss Francs 116

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

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Swissquote Group Holding Ltd, which comprise the balance sheet, income statement, and notes (pages 112 to 116), for the year ended 31 December 2012.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers SA

Philippe Bochud Audit expert Auditor in charge	Eric Maglieri Audit expert

Geneva, 22 February 2013

Section 3: Corporate Governance Report
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Corporate Governance Report
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Corporate Governance Report

Introduction

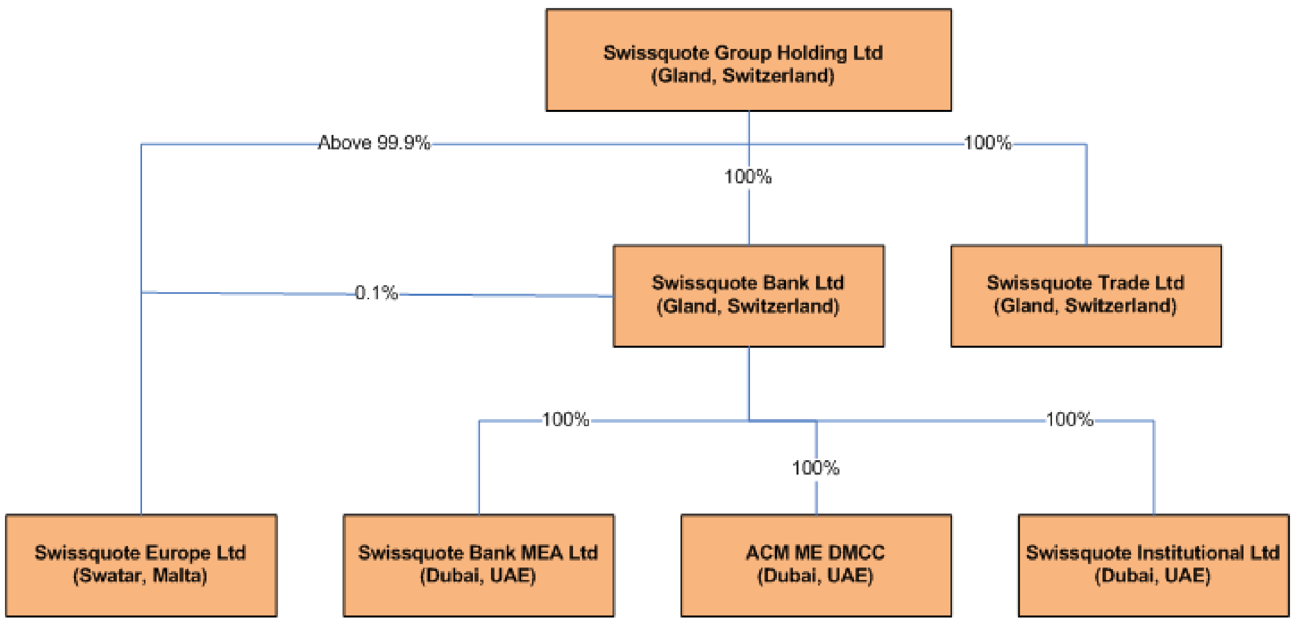
The Swissquote Group ("the Group") is fully committed to meeting the highest standards of corporate governance and acts in compliance with the standards established by the "SIX Swiss Exchange Directive on Information Relating to Corporate Governance" and the "Swiss Code of Best Practice for Corporate Governance".

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 presents as follows:



Corporate Governance Report

Swissquote Group Holding Ltd ("the Company") is the listed vehicle of the Group. Its shares have been listed on SIX Swiss Exchange since 29 May 2000 with the symbol SQN, the security number 1,067,586 and the ISIN number CH0010675863. At 31 December 2012, the market capitalisation for the Company amounted to CHF 420,121,219. The Group headquarters are located in Gland, Canton de Vaud, Switzerland. Details on the capital are provided in section 2.

Swissquote Bank Ltd ("the Bank"), the fully owned subsidiary of the Company, is a bank under the supervision of the Swiss Financial Market Supervisory Authority FINMA. The main office of Swissquote Bank Ltd is also located in Gland, Canton de Vaud, Switzerland with a branch in Zürich. The share capital of Swissquote Bank Ltd amounts to CHF 30,000,000 (5,000,000 registered shares with par value of CHF 6).

Swissquote Trade Ltd is a dormant company, whose share capital amounts to CHF 100,000 (10,000 registered shares with par value of CHF 10).

ACM ME DMCC is a limited liability company incorporated in and under the supervision of the Dubai Multi Commodities Centre (DMCC) and the laws of United Arab Emirates (UAE). ACM ME DMCC is a broker member of the Dubai Gold and Commodity Exchange (DGCX) and is regulated by the UAE Securities and Commodities Authority (SCA). ACM ME DMCC share capital amounts to AED 2,500,000. ACM ME DMCC is in the process of being liquidated.

Swissquote Institutional Ltd (formerly ACM Institutional Markets Ltd) is a dormant company limited by shares and was incorporated in the Dubai International Financial Centre (DIFC) on 26 December 2007. The share capital of Swissquote Institutional Ltd amounts to USD 611,898. Swissquote Institutional Ltd is in the process of being liquidated.

Swissquote Bank MEA Ltd is a limited liability company incorporated in the Dubai International Financial Center (DIFC) since 14 June 2012. Swissquote Bank MEA Ltd was granted a Category 4 license and is under the supervision of the Dubai Financial Services Authority (DFSA). The share capital of Swissquote Bank MEA Ltd amounts to USD 220,000 (220 registered shares with a nominal value of USD 1,000).

Swissquote Europe Ltd is a limited liability company incorporated in Malta since 19 October 2012. Swissquote Europe Ltd is an investment services company under the supervision of the Malta Financial Services Authority (MFSA), from which it was granted a Category 3 licence. The share capital of Swissquote Europe Ltd amounts to EUR 1,000,000, divided into 999,999 Ordinary Class A shares with par value of EUR 1 (held by "the Company") and 1 Ordinary Class B share with par value of EUR 1 (held by "the Bank").

Additional information is provided in Swissquote Group's annual report, in section II of the Notes to the Consolidated Financial Statements of the Financial Report.

1.2 Significant shareholders

Under the Swiss Federal Act on Stock Exchanges and Securities Trading Act (SESTA) 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%, 33 1/3%, 50%, or 66 2/3% of the voting rights.

According to the information received by the Company, the shareholders with an interest in the Company above 3% in the sense of art. 20 SESTA as at 31 December 2012 were:

	2012	2011
Mr. Marc Bürki	13.11%	13.09%
Mr. Paolo Buzzi	13.10%	13.06%
Mr. Mario Fontana	5.16%	5.16%
Basellandschafliche Kantonalbank	4.99%	4.99%
Alken Fund European Opportunities	<3%	3.06%
BlackRock, Inc.	<3%	3.03%
Treasury Shares:		
Swissquote Group Holding Ltd	1.20%	1.25%

The following table reports the main information pertaining to the disclosures of shareholdings made in accordance with art. 20 SESTA in 2012:

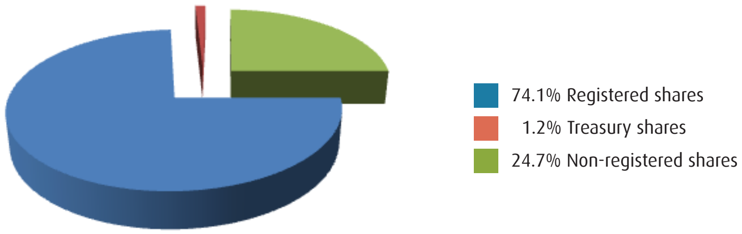
Date	Shareholder / Group	Indirect holder	Action	New total amount of shares held	New percentage of voting rights
27.01.2012	BlackRock, Inc	Various companies of the group	Sale	424,785	2.90%
03.02.2012	Alken Fund - European Opportunities (subfund of Alken Fund)	Alken Luxembourg S.a.r.l (formerly named Virmont S.a.r.l)	Sale	435,623	2.98%
10.04.2012	BlackRock, Inc	Various companies of the group	Acquisition	440,333	3.01%
18.05.2012	BlackRock, Inc	Various companies of the group	Sale	432,064	2.95%
15.10.2012	Credit Suisse Funds AG	-	Acquisition	441,738	3.02%
05.11.2012	Credit Suisse Funds AG	-	Sale		<3%

A full list of past disclosures of shareholding made in accordance with art. 20 SESTA (including all details) is available on the website of SIX Swiss Exchange using the following link:

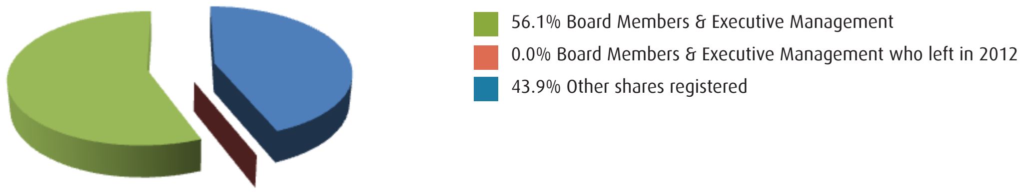
http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

The Company is not aware of any relevant shareholder's agreements.

As at 31 December 2012, the issued share capital consisted of 14,638,370 ordinary registered shares of CHF 0.20 nominal value each. The registered shareholders held 10,854,159 shares and the Company owned 175,133 treasury shares. The distribution of the shareholdings in the Company as of 31 December 2012 is reflected below:



Further the registered shareholders at 31 December 2012 are analysed as follows:



1.3 Cross-shareholdings

There are no cross-shareholdings.

2. Capital structure

2.1 Capital

Under Swiss Company Law, shareholders have to approve in a General Meeting of Shareholders any increase in the total number of issued shares, which may be an ordinary share capital increase or the creation of conditional or authorised capital.

At 31 December 2012, the share capital of the Company amounted to CHF 2,927,674 (14,638,370 shares with par value of CHF 0.20). The Company itself owned 175,133 treasury shares. Further a conditional share capital amounting to CHF 150,000 and consisting of 750,000 ordinary conditional shares of CHF 0.20 nominal value and an authorised capital of CHF 700,000 consisting of 3,500,000 authorised shares of CHF 0.20 nominal value each remained outstanding as of 31 December 2012.

All issued shares as at 31 December 2012 were freely tradable (i.e. there is no lock-up in place). SIX Swiss Exchange Regulations however provide that individual shareholdings exceeding 5% (save inter alia for 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 at 31 December 2012 was 68.63% (2011: 68.70%).

2.2 Conditional and authorised capital in particular

The purpose of the conditional capital is to allow the coverage of the exercise of the options granted to Group employees and Board members in accordance with the Group stock option plan. Art. 4bis of the Articles of Association on the utilisation of the conditional capital provides that the Board of Directors is authorised to increase the share capital of the Company by a maximum of CHF 150,000 by issuing no more than 750,000 new registered shares with a nominal value of CHF 0.20 each.

Art. 4ter of the Articles of Association governing the utilisation of the authorised capital provides that the Board of Directors is authorised until 6 May 2013 to increase the share capital of the Company by a maximum of CHF 700,000 by issuing no more than 3,500,000 new registered shares with a nominal value of CHF 0.20 each. 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 is determined by the Board of Directors. An increase in tranches or a partial increase is also possible. The amount of the increase must be fully paid-up in accordance with procedures to be defined by the Board of Directors. The provisions of the Articles of Association relating to the restriction on the transferability of shares shall also apply to the new shares. The General Meeting of Shareholders may decide to abolish preferential subscription rights in the sole event that the increase in share capital is adopted with a view to acquiring another undertaking or parts of undertakings or holdings in accordance with the terms of Art. 652b, paragraph 2 of the Swiss Code of Obligations (CO). In other instances of increases in share capital decided within the framework of this provision, preferential subscription rights may be exercised by shareholders in proportion to their previous holding. Regarding preferential subscription rights assigned but not exercised, the Board of Directors may, without having to put it to a General Meeting of Shareholders first, either allow these to lapse or else offer them – respectively, to offer the corresponding new shares – wholly or in part to other shareholders in proportion to their previous holding, wholly or in part to one or more third parties, under such conditions as it sees fit to decide. Only shareholders listed in the share register may exercise their preferential subscription right. The Board of Directors shall determine the conditions of registration of shareholders who purchased shares in the Company prior to the decision of the Board of Directors to increase the share capital, but who have not yet been registered the share register. The Board of Directors may require the subscription in trust by a third party and may define the corresponding procedure as it sees fit.

2.3 Changes in capital

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

Number of shares	Ordinary Shares Issued	Unissued Shares Conditional Capital	Unissued Shares Authorised Capital	Total Shares Issued and Unissued
At 1 January 2010	**14,638,370**	**211,060**	**4,000,000**	**18,849,430**
Exercise of employees' Stock Options	-	-	-	-
At 31 December 2010	**14,638,370**	**211,060**	**4,000,000**	**18,849,430**
At 1 January 2011	**14,638,370**	**211,060**	**4,000,000**	**18,849,430**
Exercise of employees' Stock Options	-	-	-	-
Increase/(decrease) in capital	-	538,940	(500,000)	38,940
At 31 December 2011	**14,638,370**	**750,000**	**3,500,000**	**18,888,370**
At 1 January 2012	**14,638,370**	**750,000**	**3,500,000**	**18,888,370**
Exercise of employees' Stock Options	-	-	-	-
Increase/(decrease) in capital	-	-	-	-
At 31 December 2012	**14,638,370**	**750,000**	**3,500,000**	**18,888,370**

All amounts in Swiss Francs 126

The following table summarises the change of equity in the last three financial years:

	Share capital	Share premium	Share option reserve	Other reserve	Treasury shares	Retained earnings	Total
Balance at 1 January 2010	**2,927,674**	**38,314,296**	**2,042,605**	**(1,306,820)**	**(26,518,573)**	**158,781,171**	**174,240,353**
Net profit	-	-	-	-	-	21,156,635	21,156,635
Pay-out							
Dividend	-	-	-	-	-	(8,548,519)	(8,548,519)
Transaction costs related to capital increase	-	(342,426)	-	-	-	-	(342,426)
Currency translation differences	-	28,432	-	-	-	-	28,432
Other movements (*1)	-	2,011,132	413,072	701,965	8,710,110	639,847	12,476,126
Balance at 31 December 2010	**2,927,674**	**40,011,434**	**2,455,677**	**(604,855)**	**(17,808,463)**	**172,029,134**	**199,010,601**
Balance at 1 January 2011	**2,927,674**	**40,011,434**	**2,455,677**	**(604,855)**	**(17,808,463)**	**172,029,134**	**199,010,601**
Net profit	-	-	-	-	-	31,406,989	31,406,989
Pay-out							
Dividend	-	-	-	-	-	(8,607,208)	(8,607,208)
Currency translation differences	-	-	-	(45,599)	-	-	(45,599)
Other movements (*1)	-	(593,169)	329,561	(923,713)	8,364,272	803,891	7,980,842
Balance at 31 December 2011	**2,927,674**	**39,418,265**	**2,785,238**	**(1,574,167)**	**(9,444,191)**	**195,632,806**	**229,745,625**
Balance at 1 January 2012	**2,927,674**	**39,418,265**	**2,785,238**	**(1,574,167)**	**(9,444,191)**	**195,632,806**	**229,745,625**
Net profit	-	-	-	-	-	22,663,580	22,663,580
Pay-out							
Dividend	-	-	-	-	-	(15,045,034)	(15,045,034)
Currency translation differences	-	-	-	45,599	-	-	45,599
Other movements (*1)	-	77,885	218,113	3,847,973	259,526	834,516	5,238,013
Balance at 31 December 2012	**2,927,674**	**39,496,150**	**3,003,351**	**2,319,405**	**(9,184,665)**	**204,085,868**	**242,647,783**

(*1) See Consolidated Statement of Changes in Shareholders' Equity for the years ended 2012, 2011 and 2010 for further details.

All amounts in Swiss Francs

2.4 Shares and participation certificates

As at 31 December 2012, the share capital consisted of 14,638,370 registered shares. Each of the Company's registered shares (par value CHF 0.20) carries one voting right at the General Meeting of Shareholders. Registered shareholders can only execute their voting rights if they are entered in the share register as owner and beneficiary.

The share capital of the Company is fully paid up and the dividend entitlement is in accordance with par value of the share. More information is provided in section 6.

The Company does not issue any participation certificates.

2.5 Profit sharing certificates

The Company does not issue any profit sharing certificates.

2.6 Limitations on transferability and nominee registrations

Art. 6bis of the Articles of Association stipulates that, subject to Art. 685d of the Swiss Code of Obligations, the transfer of nominative shares is subject to the approval of the Board of Directors. Art. 6ter of the Articles of Association stipulates that the Board of Directors is entitled to refuse to give its approval if, despite the Company's request, the buyer of the shares does not expressly represent that he / she acquires the shares on his / her behalf and account.

Nominees cannot be registered with voting right.

Decisions related to the restriction of the transferability of registered shares can only be taken at the General Meeting of Shareholders and require a qualified majority vote (two-thirds of the votes attributed to the shares represented and the absolute majority of the par value of the shares represented).

2.7 Convertible bonds and warrants / options

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

Information on Group's stock option plans are provided in section 5.5.

3. Board of Directors

The Board of Directors is the most senior body of the Company with the ultimate responsibility for the strategy and the management of the Company and for the supervision of its Executive Management. The Articles of Association stipulate that the Board of Directors shall be composed of a minimum of three members. At 31 December 2012, the Board of Directors 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 General Meeting of Shareholders on 8 May 2012, all Board members seeking their re-election were re-elected.

Mario Fontana (1946 / Swiss national, domiciled in Switzerland)
Member of the Board of Swissquote Group Holding Ltd since April 2001
Chairman of the Board of Swissquote Group Holding Ltd since April 2002
Chairman of the Board of Swissquote Bank Ltd since April 2004
Chairman of the Nomination & Remuneration Committee

Educational Background

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

Executive Experience

1970 – 1977	IBM Switzerland, Sales Representative and International Account Manager
1977 – 1980	Brown Boveri Brazil, Chief of Staff and CIO. Since 1997 is part of ABB
1981 – 1983	Storage Technology Switzerland, Country General Manager
1984 – 1993	Hewlett-Packard Switzerland, Country General Manager
1993 – 1995	Hewlett-Packard Germany, General Manager Computer Business
1995 – 1997	Hewlett-Packard Europe, General Manager Computer Business
1997 – 1999	Hewlett-Packard USA, General Manager Financial Services worldwide

Previous Board Mandates

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

Current Board Mandates

Since 2001	Swissquote, Chairman
Since 2005	Dufry, Member of the Board
Since 2006	Hexagon, Sweden, Member of the Board
Since 2010	Regent Lighting, Chairman

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 2012. To the exception of the above-mentioned activities, he has no significant business connections with the Company or one of the Company's subsidiaries.

Paul E. Otth (1943 / Swiss national, domiciled in Switzerland)
Member of the Board of Swissquote Group Holding Ltd since April 2002
Vice Chairman of the Board of Swissquote Bank Ltd since March 2004
Chairman of the Audit & Risk Committee

Educational Background

1972	Swiss Certified Public Accountant

Executive Experience

1962 - 1965	Elektrodenfabrik Oerlikon Bührle, Financial and Cost Accounting
1965 - 1967	Zürcher Kantonalbank, Traditional Banking and Internal Audit
1968 - 1974	Neutra Treuhand, Consulting and Auditing
1974 - 1988	Corange Group (Boehringer Mannheim):
	1974 - 1977 and 1980 - 1982 International Division, Head of Organisation, Consulting, Internal Audit
	1978 - 1979 Boehringer Mannheim France, Co-General Manager, Finance and Administration
	1982 - 1988 Corange Group, Head of Corporate Controlling and Holding Treasurer
1988 - 1989	Budliger Treuhand, Partner
1989 - 1996	Landis & Gyr
	1989 - 1994 Division Building Control, Head of Finance and Controlling
	1994 Landis & Gyr Europe, Head of Finance and Controlling and Informatics
	1994 - 1996 CFO and member of the Group Executive Board
1996 - 1998	Elektrowatt Group, CFO and member of the Group Executive Board
1998 - 2000	Siemens Building Technologies, CFO and member of the Group Executive Board
2000 - 2002	Unaxis, CFO and member of the Group Executive Board

Previous Board Mandates

1998 - 2008	SBB, Swiss Railways, Member of the Board and Chairman of the Audit Committee
2000 - 2001	Elma, Member of the Board
2000 - 2004	Esec, Member of the Board
2000 - 2012	Inficon, Vice-Chairman

Current Board Mandates

Since 1999	EAO, Chairman
Since 2002	Ascom, Vice-Chairman and Chairman of the Audit Committee
Since 2002	Swissquote, Member of the Board

Paul E. Otth has not held official functions or political posts in 2012. To 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
Member of the Board of Swissquote Bank Ltd since March 2005
Member 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	Credit Suisse, Various assignments
1994 - 1996	CS Columna, Delegate to the Board of Directors
1997 - 1998	Winterthur Columna, CEO
1998 - 2000	Winterthur Insurance, Member of the Corporate Executive Board and Head of Individual and Group Life Division
2000 - 2003	Credit Suisse, Member of the Executive Board of CSFS and responsible for the operational global Life & Pensions business

Previous Board Mandates

2005 - 2006	Batigroup, Chairman
2005 - 2007	Converium, Chairman
2007 - 2010	Jelmoli, Member of the Board
2006 - 2013	Petroplus, Member of the Board

Current Board Mandates

Since 2003	British Swiss Chamber of Commerce, Councillor
Since 2005	Swissquote, Member of the Board
Since December 2012	Allianz Suisse, Chairman (2006 - November 2012: Vice-Chairman)
Since October 2011	Implenia, Chairman (2006 - September 2011: Vice-Chairman)

Markus Dennler has not held official functions or political posts in 2012. To 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

Educational Background

1979 – 1984	University Zurich, Master of the Laws

Executive Experience

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

Current Board Mandates

Since 2004	Zoo Zurich Inc., Chairman (2002 - 2004: Member of the Board)
Since 2006	Lombard International, Luxemburg, Member of the Board
Since 2007	Swissquote, Member of the Board
Since 2012	Friends Provident International, Isle of Man, Member of the Board

Martin Naville has not held official functions or political posts in 2012. To the exception of the above-mentioned activities, he has no significant business connections with the Company or one of the Company’s subsidiaries.

Adrian Bult (1959 / Swiss national, domiciled in Switzerland)
Member of the Board of Swissquote Group Holding Ltd since April 2008
Member of the Board of Swissquote Bank Ltd since April 2008
Member of the Audit & Risk Committee

Educational Background

1978 – 1983	University St. Gallen, MBA in Economics and Marketing

Executive Experience

1984 – 1987	IBM (Switzerland) Zurich, Marketing Assistant, Sales Representative
1988 – 1989	IBM United Kingdom, Industry Specialist
1989 – 1994	IBM (Switzerland) Zurich, Head of Market Development Banking, Head of Profit Center Banking
1995 – 1996	IBM (Switzerland), IBM (Austria), Head of Profit Center Switzerland, Austria and Eastern Europe and member of the management board IBM (Switzerland)
1997	IBM (Switzerland), Head of Region Switzerland, Austria, Eastern Europe, Germany
1997 - 1998	Telecom PTT (prior to the IPO), Head of IT
1998 – 2000	Swisscom AG, Chief Information Officer, member of the management board
2001 – 2006	Swisscom Fixnet AG, Bern (wire line company), CEO and member of the management board Swisscom AG
2006 – 2007	Swisscom Mobile AG, Bern, CEO and member of the management board of Swisscom AG
2007 – 2012	COO Avaloq Evolution AG, Zurich, Member of the management team, shareholder

Current Board Mandates

Since December 2012	Swissgrid AG, Switzerland, Chairman of the Board (2007 - November 2012: Member of the Board)
Since 2008	Swissquote, Member of the Board
Since 2010	Regent Lighting, Switzerland, Member of the Board
Since 2012	Alfred Müller AG, Switzerland, Member of the Board
Since 2012	AdNovum AG, Switzerland, Member of the Board
Since 2012	Enkom AG, Switzerland, Chairman of the Board (since 2011: Member of the Board)

Other Mandates

Since 2006	Swiss Marketing Association, Member of the Board

Adrian Bult has not held official functions or political posts in 2012. To 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 other than the ones described under 3.1.

3.3 Elections and terms of office

The Board of Directors shall have a minimum of three members elected at the General Meeting of Shareholders for a one-year term. The Board members are eligible for re-election.

Since 2008 the Board has been comprised of five non-executive members. The Board of Swissquote Group Holding Ltd acts at the same time as the Board of Swissquote Bank Ltd.

The time of the first election is mentioned under 3.1.

3.4 Internal organisational structure

3.4.1 Generalities

The Board is the supreme management body of the Company. It consists of at least three members and may form one or several advisory committees.

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 of Directors and of the Executive Management. The Company's internal regulation framework consists of a cohesive set of by-laws, regulations and policies 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 required are the following:

- Both the General Meeting of Shareholders and the FINMA;
- The General Meeting of Shareholders;
- Both the Board and the FINMA;
- The Board;
- The Executive Management; and
- The Management.

The determination of the level of competence for making decisions in the Company (including according to levels of financial materiality) is summarised in a single document, the Regulation on Competences.

After each Annual General Meeting of Shareholders the Board elects its Chairman, Vice Chairman and 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. Such Committees must report to the Board on a regular basis, at least once a year. In 2012, there were two such Committees at the level of the Group: the Audit & Risk Committee and 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 program including presentations of the firm-wide considerations by the Executive Management and presentations by the Managers of each department. Further new Board members receive a manual including the Company's internal regulations and by-laws.

The Board meets as often as business requires, 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 2012 the Board met nine times, out of which one meeting was a two-day strategy session and another one, the so-called Annual Conference on Risks (see section 3.6). In average an ordinary meeting lasts four to five hours. At various occasions, decisions were taken by means of circular resolutions and ratified at the next Board meeting.

3.4.2 Functions of the Board of Directors

The Board of Directors has the ultimate responsibility for the strategic direction of the Group, for the appointments and dismissals of members of the Executive Management, for the approval of the overall organisation of the Group as well as its risk principles and risk capacities. Board members may not act alone on behalf of the Company and may not give instructions on their own, except where the Articles of Association, the internal regulations or a resolution of the Board provide otherwise.

The Board has the power to decide on all matters, which are not vested in the General Meeting of Shareholders' or in any other body by law, Articles of Association or Internal Regulations. Furthermore, it is the Board's responsibility to perform the following functions:

- Choose the Chairman of the Board and the Chairman of the Committees;
- Act as the ultimate direction of the Company;
- Define and modify the strategy of the Company as well as approve resolutions regarding the implementation or cessation of business activities;
- Establish the overall organisation;
- Based on the proposal of the Nomination & Remuneration Committee, decide on the appointment, suspension and dismissal of the Executive Management and of other signatories of the Company;
- Define the finance and investment policy;
- Approve the annual budget;
- Based on the proposal of the Audit & Risk Committee, approve the financial planning and financial controls, determine the applicable accounting standards and decide on accounting issues where the accounting standards allow the Company to choose between different solutions;
- Approve the financial disclosure policy;
- Approve the Annual Financial Statements and regular Interim financial reporting prior to their disclosure and after clearance by the Audit & Risk Committee;
- Approve the organisation of the risk identification and monitoring as well as supervise the internal control function;
- Supervise the Executive Management, especially with respect to compliance with laws, Articles of Association, internal directives and instructions;
- Prepare the Annual Report and the General Meeting of Shareholders (invitations included) as well as to execute its decisions;
- Pass resolutions in connection with a capital increase pursuant to Art. 651a, 652g, 653g CO and make decisions pursuant to Art. 634a para. I CO (contributions on shares not fully paid up) and 651 para. IV CO (increase of share capital in the case of authorised capital);
- Approve mass dismissal of employees in the sense of Art. 335d CO or similar foreign regulations;
- Approve those matters for which the Executive Management have to seek approval by the Board;
- Notify the judge pursuant to Art. 725 CO 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.

3.4.3 Functions delegated to the Chairman

The Chairman performs the following functions:

- Chair the meetings of the Board and the General Meeting of Shareholders;
- Represent the Board vis-à-vis the public at large, public officials and the shareholders;
- Supervise the execution of measures, which the Board has enacted.

3.4.4 Rules governing decisions

Valid decisions can only be taken if a majority of all Board members participate in the meeting. Should this quorum not be met, the Board of Directors may pass contingent resolutions under the condition that all members of the Board of Directors shall unanimously approve the resolutions in writing after such a Board meeting.

The Chairman has the casting vote. For decisions regarding capital reductions and capital increases (ordinary, conditional and authorised increases) including the statutory modifications corresponding to these decisions, the presence of one member of the Board of Directors is sufficient.

3.4.5 Group Audit & Risk Committee

Board members on the Committee: Paul E. Otth, Martin M. Naville, Adrian Bult.

The principal duty of the Audit & Risk Committee is to supervise the regular financial reporting, the risk management and the audit functions of the Group. In particular, the Audit & Risk Committee performs the following functions and reports thereon to the Board:

- Overview the entire financial reporting;
- Review significant accounting issues and propose changes of accounting standards;
- Review the audit results and supervise the actions taken by the management on the auditor’s management letters;
- Advise the Board on whether the existing or new Auditors shall be proposed to the General Meeting of Shareholders;
- Check the independence of the Auditors;
- Review the audit plan; and
- Assess the qualification of Auditors and the quality of their audit work.

The Audit & Risk Committee meets at least twice a year and in 2012 it met five times. The average length of the meetings was 2.5 hours. At each meeting held in 2012, Executive Management, Internal Audit and the Auditors were present. With few exceptions, all other Board members attended the meetings as well. No external counsels attended the meetings.

The Audit & Risk Committee has no decision-making powers. It only acts in an advisory or preparatory capacity.

3.4.6 Group Nomination & Remuneration Committee

Board members on the Committee: Mario Fontana, Markus Dennler.

The Nomination & Remuneration Committee performs the following functions and reports thereon to the Board:

- Propose to the Board the compensation of the Executive Management and the members of the Board;
- Propose to the Board the terms and conditions of employee shares or option plans (ESOP) and new profit sharing, bonus or incentive schemes;
- Propose to the Board a succession planning for the Executive Management (emergency and long-term planning);
- Propose to the Board the appointment of new members of the Board;
- Propose to the Board the appointment, suspension and dismissal of the Executive Management and of other signatories of the Company;
- Provide guidance in relation to overall management development.

The Committee meets at least twice a year and in 2012 it met four times. The average length of the meetings was 1.5 hours. At each meeting held in 2012 the Executive Management was present, except where there was a review of the personal situation of the members of Executive Management. With few exceptions, all other Board members attended the meetings as well. No external counsels attended the meetings.

The Nomination & Remuneration Committee has no decision-making powers. It only acts in an advisory or preparatory capacity.

3.5 Definitions of areas of responsibility

The Executive Management bears the business management responsibility of the Group. All executive functions within the Group not reserved for the Board or the Chairman are delegated to the Executive Management. The Executive Management is responsible for the implementation of the business strategies approved by the Board of Directors 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 as embedded in the corporate values approved by the Board. The Executive Management is accountable to the Board of Directors for the Company's results.

The Executive Management 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;
- Delegate competences to committees;
- Draft the internal regulations for Board approval;
- Propose the organisation chart to the Board;
- Hire the employees and set their employment conditions and loans according to the guidelines issued by the Board;
- Propose the budget to the Board;
- Prepare the financial statements;
- Ensure that the stock exchange journal is properly maintained and that transactions are properly reported to the stock exchange;
- Ensure that the IT systems are adequate;
- Implement the instructions of the Board related to internal controlling;
- Report to the Board material information on the risk evolution and provide its own risk analysis;
- Determine the commissions, interest rates and other business conditions applicable to the Bank's clients.

The delegation process to General Management is documented in the Internal Regulations («Règlement interne») approved by the FINMA and the Board has an overview of the delegation process through the summary provided in the Regulation on Competences.

The following business functions, organised in departments led by Directors and seconded by Vice Directors, report to:

- Marc Bürki: B2B Sales, Forex and Dubai entities
- Paolo Buzzi: Back-office & Banking Applications, Development, Information Technology & Security and Quantitative Asset Management
- Michael Ploog: ALM & Treasury, Customer Care, Legal & Compliance, Maltese entity, Reporting & Controlling and Trading
- Executive Management: Human Resources

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

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

The Group operates a comprehensive Management Information System that provides Executive Management with all data required to monitor and control the business and to report relevant information to the Board.

The Board periodically reviews the nature of the formal reporting prepared by Executive Management and the frequency of the respective reports:

- Monthly reports typically focus on the development of the operations and on the list of counterparties that exceed 10% of the capital, if any;
- Quarterly reporting includes a full set of Interim Condensed Consolidated Financial Statements, which are reviewed by the Auditors, 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 compliance environment. Furthermore the Board receives summary reports on key human resources and compensation issues as well as an update on important projects, statistics on the development of the revenues and comments on the operations and the business environment;
- Half-year reporting also includes interim statutory reports;
- Yearly reporting includes the review of the audited Consolidated and Statutory Financial Statements.

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

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

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

The position of the Internal Auditor reporting directly and independently to the Board of Directors of Swissquote Bank Ltd is outsourced to BDO SA, Genève. The duties of the Internal Auditor are governed by the Federal Law on Banks and Saving Banks and the internal regulations. The Internal Auditor screens the compliance of business activities with legal and regulatory requirements and with 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 by the Internal Auditor in past reports and includes all 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 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.

In terms of risk management, the Company fully complies with the requirements of the FINMA Circular 2008/24 on supervision and internal control. In particular the Company operates an integrated risk management system called the "Core Manual", which deals with the risks related to a banking activity (credit risk, settlement risk, reputation risk, operational risk, technical risk, interest risk, market risk, legal risk, etc.). This system continues to evolve based on the experiences encountered by the Group. The Core Manual addresses inter alia the following matters:

- Objectives of the document, organisation of the Company as well as duties and responsibilities pertaining to the various organisation levels and the functioning of the committees;
- Risk identification process;
- Key procedures to control and / or mitigate risks.

4. Executive Management

4.1 Members of the Executive Management

The Executive Management consists of Marc Bürki, Chief Executive Officer, Paolo Buzzi, Chief Technology Officer and Michael Ploog, Chief Financial Officer. Marc Bürki and Paolo Buzzi are founding shareholders of Swissquote and were major shareholders as at 31 December 2012. All three members have been in their current positions at this level of the Group since its formation in 1999. They have assumed the same functions at Swissquote Bank Ltd since 2002.

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	Swiss Federal Institute of Technology (EPFL), Lausanne, degree in electrical engineering

Professional Experience

1987 – 1990	European Space Agency, Nordweijk, Netherlands, telecommunication specialist
1990 – 2002	Marvel Communications Ltd, Co-Managing Director
Since 1999	Swissquote Group Holding Ltd, Chief Executive Officer (co-CEO, shared responsibility)
Since 2002	Swissquote Bank Ltd, Chief Executive Officer
Since 2011	ACM ME DMCC and Swissquote Institutional Ltd, Dubai (UAE), Chairman of the Board
Since 2012	Swissquote Bank MEA Ltd, Dubai (UAE), Chairman of the Board
Since 2012	Swissquote Europe Ltd, Malta, Chairman of the Board

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	Swiss Federal Institute of Technology (EPFL), Lausanne, degree of Engineer in micro-engineering

Professional Experience

1988 – 1990	Rolm Systems, Santa Clara, USA, Software Engineer and New Technology Integration Engineer
1990 – 2000	Marvel Communications Ltd, Co-Managing Director
2000 – 2002	Swissquote Info Ltd, Chief Executive Officer
Since 1999	Swissquote Group Holding Ltd, Chief Executive Officer (co-CEO, shared responsibility) and Chief Technology Officer
Since 2002	Swissquote Bank Ltd, Chief Technology Officer
Since 2011	ACM ME DMCC and Swissquote Institutional Ltd, Dubai (UAE), Member of the Board
Since 2012	Swissquote Bank MEA Ltd, Dubai (UAE), Member of the Board
Since 2012	Swissquote Europe Ltd, Malta, Vice-Chairman of the Board

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	University of Lausanne, Hautes Etudes Commerciales
1986 - 1990	Swiss Institute of Certified Accountant, Lausanne, Swiss Certified Accountant

Professional Experience

1983 – 1985	University of Lausanne, Chair of Financial and Cost Accounting, Graduate Teaching Assistant
1986 – 1998	Deloitte & Touche, Senior Manager (1995)
	Geneva, Audit (1994)
	London, Corporate Finance (1994-1996)
	Lausanne, Management Advisory Services (1996-1998)
1998 – 1999	PricewaterhouseCoopers, Lausanne, Senior manager
	Transaction Services Group & Corporate Finances
Since 1999	Swissquote Group Holding Ltd and Swissquote Bank Ltd, Chief Financial Officer
Since 2011	ACM ME DMCC and Swissquote Institutional Ltd, Dubai (UAE), Vice-Chairman of the Board
Since 2012	Swissquote Bank MEA Ltd, Dubai (UAE), Vice-Chairman of the Board
Since 2012	Swissquote Europe Ltd, Malta, Member of the Board

Other Mandates

Secretary of the Board of Directors of Swissquote Group Holding Ltd and Swissquote Bank Ltd.

4.2 Other activities and vested interests

None of the members of Executive Management has other activities and vested interests as defined in the corresponding SIX Swiss Exchange regulations.

4.3 Management contracts

The Company has not entered into management contracts with third parties.

5. Compensation

5.1 Group Nomination & Remuneration Committee

The Group Nomination & Remuneration Committee is composed of two non-executive, independent members of the Board. As at 31 December 2012 these were Mario Fontana (Chairman) and Markus Dennler.

The Group Nomination & Remuneration Committee is in particular entrusted with the responsibility to regularly examine and review the adequacy of the firm's compensation systems and policies with the current and future needs of the Company, and to report its conclusions and recommendations to the Board. The Nomination & Remuneration Committee has no decision-making powers. It only acts in an advisory or preparatory capacity.

No external advisors have been consulted by the Company with respect to the structuring of compensation and share-ownership program.

5.2 Content and method of determining the compensation and the shareholding programs (compensation policy)

5.2.1 Generalities

Swissquote's compensation policy is one of the components of the corporate framework and has the ultimate purpose to deliver sustainable growth and performance to shareholders, to provide a favourable development ground for the Company's employees and to induce a responsible and ethical behaviour vis-à-vis the Company and the community. Swissquote's compensation policy is designed to attract and retain employees, and to reward merit as well as medium and long term performance, with due care to the Company's success and its stage of development as well as in alignment with the interest of shareholders. With due care to labour market constraints, the Company seeks to keep multiples between lowest and highest paid employees within sensible ranges.

Although not submitted to the FINMA Circular 10/1 on remuneration systems in the banking and insurance industries, which sets out mandatory rules for institutions that have equity capital requirements of at least CHF 2 billion, Swissquote's compensation policy is materially in line with the FINMA Circular 10/1.

5.2.2 Components

Regardless the level of responsibilities, the compensation for all employees at Swissquote is structured into four components: (i) the base salary, (ii) the level of pension benefits, (iii) the variable compensation and (iv) the medium term participation of employees in the growth of the stock price of the Company offered in the form of stock options. The compensation of Board members has only two components: a base fee and stock options.

The base salary depends on the level of seniority and the area in which an employee exercises his / her function. Pension benefits depend on level of management, age, and base salary.

Variable compensation
The variable compensation is structured as follows:
- Annual Executive Management's variable compensation (see section 5.3);
- Annual variable compensation for all employees except the Executive Management and employees paid on commissions ("General Variable Compensation").

The General Variable Compensation, if any, allocated to each eligible employee is the result of an amount called "Profit Award" multiplied by a factor called "Multiplier":

- The Profit Award is a percentage of the salary of the concerned eligible employee (examples: 150% of his/her monthly salary, 80% of his/her monthly salary, etc.), which is set at the discretion of the Board based on its assessment of the success of the Company.
  Success is a broader measurement basis than profitability (although a key factor): the assessment of success also encompasses the examination of the context in which the Company has developed and performed in the period under review;
- The Multiplier is a factor that depends on (i) the level of management (from member of the General Management to staff member) and / or experience of the concerned employee and on (ii) the assessment of the level of collective achievement of the objectives set at the beginning of each year by the Executive Management. Executive Management's assessment is ratified by the Board. The objectives set by the Executive Management are generally related to growth, profitability, compliance and the development of new services. The Company seeks to maintain a sensible ratio between the lowest Multiplier and the highest one.

The amount of the General Variable Compensation is approved by the Board based on the recommendations of the Nomination & Remuneration Committee.

Stock option plans

The Group operates two stock option plans: one for the employees (including management) and the other for the Board. The difference between the two plans mainly lies in the fact that the Board's plan provides that all options granted are vested at the date of grant whereas the Employees' plan provides that options are vested at the date of exercise. As a result, employees holding options who leave the Company before their options become exercisable lose their right to exercise their options. The Board is solely responsible for deciding at its own discretion on the terms of the options and the number of options offered. Although terms have varied over the past years, the Company's practice has converged to an annual grant to all eligible employees and Board members. Since 1999, a total of fourteen allocation schemes have been made. The terms of the options in the ordinary course of business generally 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 generally 2 years.

Since 2007 and in ordinary business circumstances, the maximum number of options that can be offered in a single calendar year is determined based on a set ratio expressing the percentage of the fair value of the options offered compared to the base salary payroll costs. The ratio was 1.7% in 2012 (2.9% in 2011, 3,9% in 2010). In ordinary business circumstances of the business, the allocation of options to individual employees is made based on the level of an employee in the organisation structure. All employees belonging to the same level of the organisation are offered the same number of options.

The Board seeks to maintain a sensible ratio between number of options offered to individual employees, individual members of the Executive Management and individual Board members.

Data on the stock option plan is provided in section 5.5.

5.3 Executive Management compensation

The employment contract of the members of the Executive Management provides that their compensation consists of a base salary, the entitlement to a bonus subject to meeting specific performance related conditions and the eligibility to annual grants of stock options, all of these items being at the discretion of the Board. The termination period of the labour contract is 6 months and there is no provision in it that would entitle the Executive Management to a "golden parachute". Members of the Executive Management do not attend the part of the Board meeting, where their compensation is decided on.

The base salary of the members of the Executive Management is assessed annually by the Board and when needed, is adjusted by the Board at its own discretion. Base salary remained unchanged in 2012.

Each year the Board sets a list of objectives for Executive Management as a whole that will be measured against actual achievements in the coming year. Objectives typically include business development targets, target profitability ratios and objectives relating to the strengthening of the organisation (risk management, compliance, people development, etc.). The level of achievements of the objectives is measured on a scale ranging from missed to largely over-achieved. The performance review is carried out by the Nomination & Remuneration Committee, shortly before the Auditors deliver their Audit Report on the Consolidated Financial Statements of the year under review. A percentage weighting is established for each objective and the maximum bonus (100% of the base salary) is reached when all objectives are largely over-achieved. The Board resolves on the level of the bonus in response to the recommendation of the Nomination & Remuneration Committee.

The audited details of the compensation of the Executive Management are disclosed in Note 23 to the Consolidated Financial Statements (Section VII) in a format compliant with the provisions of Art. 663b^{bis} and Art. 663c of the Swiss Code of Obligations.

5.4 Board compensation

The remuneration of the Chairman of the Board and other Board members comprises a cash component and a Swissquote Group Holding Ltd stock option component. The cash component, which is reviewed annually, is set at its own discretion by the entire Board of Directors in response to a proposal by the Nomination & Remuneration Committee. The same procedure applies to the grant of stock options.Board members attend the part of the Board meeting, where their compensation is decided on, and, except otherwise requested by a Board member, resolve on all recommendations of the Nomination & Remuneration Committee regarding Board compensation in one vote.

The review of the compensation of the Board takes several factors into consideration, such as the trends in compensation of Board members in Switzerland and / or in companies that are comparable (industry / size) according to publicly available information. Further the Board seeks to keep a sensible relation between the cash compensation of Board members and the base salary of the Executive Management.

Board members are elected for one year terms, which are renewable. There are no "golden parachutes".

Since 2008, Board members have been entitled to an annual grant of stock options (whereas in the past the entitlement was every three years). Terms provide that Board stock options granted are vested at grant.

The audited details of the compensation of the members of the Board are disclosed in Note 23 to the Consolidated Financial Statements (Section VII) in a format compliant with the provisions of Art. 663b^{bis} and Art. 663c of the Swiss Code of Obligations.

5.5 Stock option plan

The movement in options granted, exercised and lapsed is reported below:

	Allocation								Conditional shares available
	8th	9th	10th	11th	12th	13th	14th	Total	for exercise
Year of grant	2006	2007	2008	2009	2010	2011	2012		
Strike [CHF per option]	34.00	75.00	47.00	63.24	47.50	34.27	32.20		
Number of options									
Board		2,000	11,000	6,600	8,250	11,550	8,250		
Executive Management	24,000	24,000	24,000	14,400	18,000	25,200	18,000		
Other employees	61,770	89,550	112,840	64,152	106,485	200,907	175,230		
	Number of options								
At 1 January 2010	**31,052**	**102,000**	**125,284**	**85,032**	-	-	-	**444,238**	**211,060**
Grants	-	-	-	-	132,735	-	-	132,735	
Exercised									
Covered by the issue of new shares	-	-	-	-	-	-	-	-	
Covered by treasury shares	(18,672)	-	(9,009)	-	-	-	-	(128,551)	
Lapsed	-	(36,302)	(4,304)	(3,312)	(240)	-	-	(44,158)	
At 31 December 2010	**12,380**	**65,698**	**111,971**	**81,720**	**132,495**	-	-	**404,264**	**211,060**
At 1 January 2011	**12,380**	**65,698**	**111,971**	**81,720**	**132,495**	-	-	**404,264**	**211,060**
Increase of conditional capital									538,940
Grants	-	-	-	-	-	237,657	-	237,657	
Exercised									
Covered by the issue of new shares	-	-	-	-	-	-	-	-	
Covered by treasury shares	(10,315)	-	(27,859)	-	-	-	-	(38,174)	
Lapsed	(2,065)	(34,940)	(15,973)	(4,104)	(6,300)	(420)	-	(63,802)	
At 31 December 2011	-	**30,758**	**68,139**	**77,616**	**126,195**	**237,237**	-	**539,945**	**750,000**
At 1 January 2012	-	**30,758**	**68,139**	**77,616**	**126,195**	**237,237**	-	**539,945**	
Grants	-	-	-	-	-		201,480	201,480	
Exercised									
Covered by the issue of new shares	-	-	-	-	-	-	-	-	
Covered by treasury shares	-	-	-	-	-	-	-	-	
Lapsed	-	(30,758)	(27,586)	(26,992)	(3,120)	(9,828)	(450)	(98,738)	
At 31 December 2012	-	-	**40,553**	**50,624**	**123,075**	**227,409**	**201,030**	**642,691**	**750,000**
Exercise periods of balance options at 31 December 2012									
August 2011 to July 2013	-	-	*40,553*	*25,312*	*41,025*	-	-	*106,890*	
August 2012 to July 2014	-	-	-	*25,312*	*41,025*	*75,803*	-	*142,140*	
September 2013 to August 2015	-	-	-	-	*41,025*	*75,803*	*67,010*	*183,838*	
September 2014 to August 2016	-	-	-	-	-	*75,803*	*67,010*	*142,813*	
September 2015 to August 2017	-	-	-	-	-	-	*67,010*	*67,010*	

Further details on the terms of the respective allocations are provided in Note 15.2 to the Consolidated Financial Statements (Section VII).

6. Shareholders's participation

6.1 Generalities

Shareholders in Swiss corporations have extended participatory and protective rights. Protective rights include the right to inspection and information (Art. 696, 697 CO), the right to a special audit (Art. 697a CO), the right to call a General Meeting of Shareholders (Art. 699 para. 3 CO), motion rights (Art. 699 para. 3 CO), the right of appeal (Art. 706 CO) and the right to instigate liability proceedings (Art. 752 ff CO). Participatory rights primarily include the right to participate at General Meetings of Shareholders, the right to express an opinion and voting rights (Art. 694 CO).

All shareholders listed in the share register as having voting rights are permitted to attend and vote at General Meetings of Shareholders. For organisational reasons, no further entries are permitted 20 days prior to the General Meeting of Shareholders. Shareholders who dispose of their shares prior to the General Meeting of Shareholders are no longer entitled to vote.

The General Meeting of Shareholders is the highest body of the Company. Its non-delegable rights include:

- The adoption and the amendment of the Articles of Association;
- The election of the members of the Board of Directors;
- The election of the Auditors;
- The approval of the Annual Report, including the Consolidated Financial Statements;
- The approval of the Annual Financial Statements, as well as the resolution regarding the use of the balance sheet profit, in particular the amount of the dividend;
- The release of the members of the Board of Directors;
- Passing any resolution on matters which are by law or by the Articles of Association reserved to the General Meeting of Shareholders.

The Chairman of the Board presides over the General Meeting of Shareholders, or if absent, another member of the Board does, or otherwise a chairman, who shall not necessarily be a shareholder, is elected by the General Meeting of Shareholders. In principle, ballots are made via electronic systems. In case of system failure, they are made via open ballot, unless one or more shareholders representing an aggregate of at least 5% of the voting rights request a secret ballot.

Minutes of each General Meeting of Shareholders shall be kept. They are signed by the Chairman and the Secretary. Minutes shall include:

- The number of shares present or represented broken down by votes from the shareholders, the company's representative, the independent representative and the depositary representative;
- The resolution and results of elections;
- The requests of information and the respective replies;
- The statements for records made by shareholders; and
- The total number of shares present and represented detailed by the number of shares represented by present shareholders, by the company's representative and by the independent representative of shareholders.

6.2 Voting rights and representation restrictions

Art. 12 of the Articles of Association provides that one registered share gives the right to one vote. The Articles of Association do not include any percentage clause or group limitation clause.

Registered shareholders can be represented at a General Meeting of Shareholders. Art. 11 of the Articles of Association sets out no restriction. The invitation to General Meetings of Shareholders provides instructions as to how a representation must be formalised in order to be validly recognised by the Company.

6.3 Statutory quorums

Where a General Meeting of Shareholdes has been convened in accordance with the provisions of the law and Articles of Association, decisions may be taken, irrespective of the number of shares / shareholders present or represented at the General Meeting of Shareholders. There is no quorum set in the Articles of Association.

Except when law and / or the Articles of Association provide otherwise, the decisions are made based on the simple majority of the votes, corresponding to the shares validly represented. In the event of an even ballot, a second round is organised and if there is still no majority, the Chairman of the Board casts the decisive vote.

A qualified majority (two-thirds of the votes attributed to the shares represented and the absolute majority of the par value of the shares represented) is required for resolutions on the following matters:

- The change in the Company’s purpose;
- The creation of shares incorporating privileged rights;
- The restriction of the transferability of registered shares;
- The creation or the increase of conditional and / or authorised share capital;
- An increase of the share capital out of equity, or by means of a contribution in kind, or for the purpose of the acquisition of assets or in exchange for the grant of special benefits;
- The limitation or withdrawal of preemptive rights;
- The relocation of the Company’s domicile;
- The dissolution of the Company without liquidation;
- The conversion of registered shares into bearer shares and conversely.

6.4 Convocation of the General Meeting of Shareholders

The General Meeting of Shareholders is convened to meet by the Board of Directors in the normal course of business or otherwise by the Auditors or the Liquidator. The General Meeting of Shareholders can also be called by one or more shareholders who represent in aggregate 10% or more of the share capital. Further details are provided in the Articles of Association.

An ordinary General Meeting of Shareholders must be held within 6 months from the date of the financial year-end. Extraordinary General Meetings are called whenever required. If all shareholders or their representatives are present, the shareholders can validly hold a meeting, even if the form provided by the Articles of Association has not been met.

A General Meeting must be convened respecting a notice period of at least 20 days. Invitations to meetings are valid if made in the form of a publication of the invitation in the Swiss Official Gazette of Commerce (“FOSC”/ ”SHAB”) or by mail to each shareholder. The invitation to the ordinary General Meeting of Shareholders shall state that the Annual Report is available for the shareholders at the Company’s headquarters.

6.5 Agenda

No decision can be made by the General Meeting on matters that are not stated in the agenda, except if all shareholders or their representatives are present or except on a motion to convene an Extraordinary General Meeting or to instigate a special audit.

One or more shareholders representing in aggregate 5% or more of the share capital can have an item included on the agenda (Art. 699 para. 3 CO). Written requests for the inclusion of items on the agenda must be submitted to the Company at least 45 days prior to the General Meeting of Shareholders. Further details are provided in the Articles of Association.

6.6 Inscriptions into the share register

Art. 6 of the Articles of Association provides that the Company shall maintain a share register that shall include for each shareholder having requested his / her registration, his / her name and address, and the number of shares owned. The Board has mandated ShareCommService AG, Europastrasse 29, CH-8152 Glattbrugg, to maintain the Company's share register.

The registration of an acquirer of the Company's shares is made on the request of the acquirer, who must at the request of the Company, represent that the acquisition was made on his / her behalf and account. Nominees cannot be registered with voting rights. If the above-mentioned representation is not received, the Board may refuse to proceed with a registration. For practical reasons, no new registration is made in the share register for a period up to 20 days before a Meeting. Registered shareholders who sell their shares prior to the General Meeting of Shareholders are no longer entitled to exercise their votes.

7. Changes of control and defence measures

7.1 Duty to make an offer

Art. 32 of the Federal Act on Stock Exchanges and Securities Trading (SESTA) states that any person who directly or indirectly acquires equity securities, and thereby exceeds the threshold of 33 1/3 per cent of the voting rights of a target company, whether or not such rights can be exercised, is obliged to submit an offer to acquire all listed equity securities of that company. Art. 29 SESTA outlines the Board of Directors' 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 of Shareholders.

The Company has no opting out / opting up clause in its Articles of Association.

7.2 Clauses on changes of control

None of the members of the Board of Directors, the members of Executive Management or other employees benefit from change of control clauses.

8. Auditors

8.1 Generalities

The duties of the Auditors are to report to the General Meeting of Shareholders the results of their audit, the objective of which is to verify that the Financial Statements, the Annual Report and the proposed appropriation of retained earnings comply with the law and with the Articles of Association.

The Auditors recommend the approval, with or without qualification, or rejection of the Annual Financial Statements. Further, when the Company is required to deliver Consolidated Financial Statements, the Auditors shall report compliance with the law and the accounting principles adopted for the consolidation. Auditors must be present at General Meetings of Shareholders, unless a unanimous resolution of the shareholders provides otherwise.

The Consolidated Financial Statements and the Statutory Financial Statements of the Company and its subsidiaries have been audited by PricewaterhouseCoopers SA since 1999, which has been re-elected each year since then. Since 2008, Philippe Bochud has been responsible for the audit of the Group.

The Auditors shall 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 the Swiss Financial Market Supervisory Authority FINMA), the Group uses consultants who are independent from the Auditors.

In addition to their audit opinions, the Auditors are requested to provide specific information such as their audit findings, comments on accounting issues and audit fee proposals to the Audit & Risk Committee.

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 of Shareholders and are eligible for re-election. They were re-elected on 8 May 2012. The rotation frequency of the lead auditor is 7 years.

8.3 Auditing fees and additional fees

The total fee charged by the Auditors to the Group in 2012 is analysed as follows:

in CHF	**2012**	**2011**
Auditing fees	500,000	449,200
Additional fees:		
Audit-related services	10,600	3,000
Tax	59,400	90,300
Total	**570,000**	**542,500**

The auditing fees are agreed upon for the audits of the Consolidated and Statutory Financial Statements of the Group companies, including the regulatory audit of the bank, for the year ended 31 December 2012. Audit-related services mainly consist of reports examining the Group's compliance with provisions of agreements, such as the Qualified Intermediary Agreement with the US Internal Revenue Service, or the compliance with private regulations, such as the regulations related to Swissquote Bank Ltd's membership to SIX Swiss Exchange; audit-related services may also consist of due diligence services.

All amounts in Swiss Francs 148

8.4 Informational instruments pertaining to the Auditors

The Auditors are requested to meet at least twice a year with the Audit & Risk Committee. In 2012, the Auditors met five times with the Audit & Risk Committee.

Year-round the Auditors provide inter alia the Audit & Risk Committee and / or the Board with the following reports:

- Each quarter: Report on the Review of the Condensed Consolidated Interim Financial Information (balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity, cash flow statement and notes);
- Each year:
    - Audit Report on Consolidated Financial Statement as well as on Swissquote Group Holding Ltd and Swissquote Bank Ltd Statutory Financial Statements;
    - Audit Plan to the Audit & Risk Committee;
    - Regulatory Audit Report;
    - Report on the Financial Audit.

The Regulatory Audit Report and the Report on the Financial Audit are part of the ordinary reporting to the Swiss Financial Market Supervisory Authority FINMA and are commented by the Auditors during the Audit & Risk Committee. The Board of Directors takes note of them. The Regulatory Audit Report examines the overall compliance and adequacy of the organisation and assesses matters such as the independence and the qualification of the Board as a body, the professional qualification of Internal Auditor and the adequacy and quality of the planning, execution and reporting of internal audit. The Report on the Financial Audit examines inter alia the financial strength of the Company, its compliance with minimal financial ratios set by law and the adequacy of capital.

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 Group'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 admissibility and conflicts of interest.

At each Audit & Risk Committee the Auditors provide a written report on their findings, if any, and comment on the development of the regulatory and accounting frameworks. Further the Auditors participate in the Annual Conference on Risks, where they provide the Board with the Audit Plan for the coming year. The Audit Plan in particular includes an analysis of audit fees (including audit-related services) as well as an assessment of specific and mandatory audit risks based on Auditor's report "Risk Analysis / Audit Strategy" (based on the FINMA's standards). The Audit Plan is discussed in depth at the Annual Conference on Risks and is updated from time to time throughout the course of the year depending on the circumstances.

Once a year the Audit & RIsk Committee reviews the qualification 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 also assesses whether the amount and trend in audit fees appears reasonable. In this respect changes to audit 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 retain the Auditors in place at the General Meeting of Shareholders or to start a process for the selection of new Auditors.

The Auditors confirm their independence to the Audit & Risk Committee at least once a year. The Audit & Risk Committee assesses the Auditors' independence on the basis of their confirmation and also based on its own assessment of the various reports addressed to its attention or of which it received a copy (incl. reports related to additional services).

9. Information Policy

9.1 General principles

The Company aims primarily to promote confidence in its disclosure policy. Thereby it intends to create a better understanding of its business and to develop and maintain 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 Listing Rules on ad hoc publicity. The Company aims to provide the financial market with consistent, accurate and complete information evenly during profitable and / or difficult periods and ensures that the investment community has fair access to such information.

It is the Company's policy not to release explicit 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 shall 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 to 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 SIX Exchange Regulation and / or SIX department shall be informed at least 90 minutes prior to the release of such information. In situations where it cannot be avoided that material information is to be disclosed during trading hours, the CEO and CFO shall 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 the 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 within 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 rumors and speculations.

9.2 Regular reporting

9.2.1 Annual reporting

The Company announces its annual revenues and results in a press release shortly after the Board of Directors has approved the audited Annual Financial Statements. This announcement is normally scheduled in February, followed by a press conference and / or a telephone conference for analysts and media. At this occasion the Annual Report (incl. the Corporate Governance Report and the Compensation Report) is released on the Company's website or in print format at the Board's discretion.

The ordinary General Meeting of Shareholders normally takes place between March and May.

9.2.2 Quarterly reporting

The quarterly results are published by a press release shortly after the Board of Directors has approved them. The press release is followed by a call-in conference for analysts and media and a press conference for the half-year results. The quarterly reports are released on the Company's website.

The releases of the quarterly results in 2013 are scheduled as follows:

Quarter 1 Interim Financial Statements at 31 March 2013:	6 May 2013
Quarter 2 Interim Financial Statements at 30 June 2013:	26 July 2013
Quarter 3 Interim Financial Statements at 30 September 2013:	5 November 2013

9.3 Communication channels and contact addresses

Press releases (incl. ad hoc notices) and reports as well as other information made public are accessible on www.swissquote.ch under the section "The Company". An e-mail service is available for subscription in the same section of the Company's website and allows any interested party to automatically receive by e-mail all information made public by the Company.

Contact addresses can be found in Section 5 after the Compensation Report.

Section 4: Compensation Report
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Compensation Report

1. Scope

This report summarizes the 2012 compensations received in cash or in the form of other entitlements by the members of the Board of Directors and Executive Management of Swissquote Group, as well as the principles guiding the metrics of such compensation. The report further provides a perspective on the development of the individual and aggregate compensations of the members of the Board of Directors and of Executive Management.

The scope of this report does not cover the compensation of other classes of employees. Further information on global compensation systems is provided in section 5 of the Corporate Governance Report.

In contrast with the Corporate Governance Report, which is a requirement for a listed company on the SIX Swiss Exchange, there is no legal requirement for the Group to release a Compensation Report.

The Board however considers that the disclosure of a Compensation Report on a voluntary basis is a positive contribution to the development of Group's overall corporate governance framework. This report is prepared in light of the FINMA circular 10/1 on remuneration systems in the banking and insurance industries, which sets out mandatory rules for institutions that have equity capital requirements of at least CHF 2 billion.

2. Compensation policy

Swissquote's compensation policy is one of the components of the corporate framework of which the ultimate purpose is:

- To deliver sustainable growth and performance to shareholders;
- To provide a favourable development ground for the Group's employees;
- To promote a responsible and ethical behaviour vis-à-vis the Group and the community.

Swissquote's compensation policy is designed to attract and retain employees, and to reward merit as well as medium and long term performance, with due care to the Group's success and its stage of development as well as in alignment with the interest of shareholders. With due care to specific industry features and labour market constraints, the Group seeks to keep multiples between lowest and highest paid employees within sensible ranges.

3. Organisation and competencies

The Board is competent to decide on all relevant issues related to compensation, in particular on:

- Swissquote's compensation policy;
- The compensation of Executive Management and the Board members;
- The annual bonus; and
- The stock option plans.

The Board of Directors makes its decisions based on the proposals of the Group Nomination & Remuneration Committee, which is composed of two non-executive, independent members of the Board.

As at 31 December 2012, these members were Mario Fontana (Chairman) and Markus Dennler. The Nomination & Remuneration Committee has no decision-making powers and only acts in an advisory and preparatory capacity.

No permanent external advisors are consulted by the Group in respect of the structuring of compensation or otherwise.

More information is provided in the Corporate Governance Report, in sections 3.4.6 and 5.

4. Compensation for members of the Board

The compensation of the Chairman of the Board and other Board members comprises a cash component and a stock option component. Members of the Board receive a fixed indemnity covering their estimated out-of-pocket expenses (hereafter referred to "Other compensation").

The cash component, which is reviewed annually, is set at the discretion of the entire Board of Directors in response to a proposal by the Nomination & Remuneration Committee. The review of the compensation of the Board takes several factors into consideration, such as the trends in compensation of Board members in Switzerland and / or in companies that are comparable (industry / size) according to publicly available information. Further the Board seeks to compose a sensible relation between the cash compensation of Board members and the base salary of Executive Management. The same principles apply to the grant of stock options. The Board's stock options are vested at grant.

None of the Board members is provided with a "golden parachute". Board members are afforded the same benefits on the consumption of services provided by the Group than all employees. The aggregate amount of such benefits is not considered material and is therefore not reported in this report.

5. Executive Management compensation

The employment contracts of the members of Executive Management provide that their compensation consists of:

- A base salary;
- An annual bonus capped at 100% of the base salary;
- An annual grant of stock options; and
- A indemnity covering out-of-pocket expenses included in "Other compensation".

All of these items are set at the discretion of the Board and are reviewed in the absence of members of the Executive Management.

Whereas the Board considers that the capping of bonuses at 100% of the base salary ensures that no inadequate or excessive risk taking is rewarded - and therefore makes it unnecessary to differ the payment of cash bonuses -, stock options are viewed by the Board as the appropriate deferred compensation instrument that links effective management performance to medium and long-term growth in the value of the Company.

The base salary of the members of Executive Management is assessed annually by the Board and, when necessary, is adjusted by the Board at its discretion. The base salary of the members of Executive Management was not increased in 2012 (last in 2011).

Each year the Board sets a list of objectives to the Executive Management that will be measured against actual achievements. Objectives typically include growth and profitability targets as well as objectives relating to the strengthening of the organisation (risk management, compliance, people development, etc.).

The level of achievement of the objectives is measured on a scale ranging from missed to largely over-achieved. The performance review is carried out by the Nomination & Remuneration Committee. A percentage weighting is established for each objective and the maximum bonus (100% of the base salary) is granted when all objectives are largely over-achieved. The Board resolves on the level of the bonus in response to the recommendation of the Nomination & Remuneration Committee.

The Board is solely responsible for making discretionary decisions with respect to the terms of the options and the number of options offered. The decision is based on general considerations inter alia linked with the stage of development of the Group. The terms of the options in the ordinary course of business generally 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 generally 2 years.

Compensation Report

The Board seeks to maintain a sensible ratio between number of options offered to individual members of Executive Management and individual Board members, as well as between the number of options offered to Executive Management and those offered to members of the respective levels of the organisation. Stock options granted to Executive Management members are vested at the date of exercise.

None of the members of the Executive Management benefit from a "golden parachute". The members of Executive Management enjoy the same benefits on the consumption of services provided by the Group as all the other employees. The aggregate amount of such benefits is not considered material and is not reported in this report.

6. Summary of 2012 Compensation

The following table shows the audited details of the compensation of the members of the Board and Executive Management in a format compliant with the provisions of Art. 663b^{bis} and Art. 663c of the Swiss Code of Obligations.

All amounts in CHF	Base compensation		Variable compensation		Other Compensation (*2)	Total	Number of share options granted (*1)
	Cash	Shares (fair value)	Cash bonus	Share option (fair value) (*1)			
Board of Directors							
Mario Fontana, Chairman	120,000	-	-	7,110	2,000	129,110	2,250
Paul E. Otth, member	80,000	-	-	4,740	2,000	86,740	1,500
Markus Dennler, member	80,000	-	-	4,740	2,000	86,740	1,500
Martin Naville, member	80,000	-	-	4,740	2,000	86,740	1,500
Adrian Bult, member	80,000	-	-	4,740	2,000	86,740	1,500
Total Board of Directors	**440,000**	**-**	**-**	**26,070**	**10,000**	**476,070**	**8,250**
Executive Management							
Marc Bürki, CEO	410,000	-	-	18,960	18,000	446,960	6,000
Paolo Buzzi, CTO	410,000	-	-	18,960	18,000	446,960	6,000
Michael Ploog, CFO	410,000	-	-	18,960	16,800	445,760	6,000
Total Executive Management	**1,230,000**	**-**	**-**	**56,880**	**52,800**	**1,339,680**	**18,000**

(*1) The fair value of the options has been determined based on the valuation method and the parameters used for the 14th allocation (see Note 15.2). The number of options granted in 2012 is stated in the last column of the above table. The amounts stated correspond to the total value of options granted.
(*2) Other Compensation consists of discretionary allowances for out-of-pocket expenses.

All amounts in Swiss Francs

7. Development of compensation: 2008 to 2012

The compensation of the Chairman of the Board of Directors, each of the other Board members and each of the members of Executive Management has developed as follows since 2008:

a) Compensation 2012

All amounts in CHF'000	Base Salary	Other Compensation	Cash bonus	Stock options	Total
Board of Directors					
Mario Fontana, Chairman	120.0	2.0	-	7.1	129.1
Paul E. Otth, member	80.0	2.0	-	4.7	86.7
Markus Dennler, member	80.0	2.0	-	4.7	86.7
Martin Naville, member	80.0	2.0	-	4.7	86.7
Adrian Bult, member	80.0	2.0	-	4.7	86.7
Total for Board of Directors	**440.0**	**10.0**	**-**	**25.9**	**475.9**
Executive Management					
Marc Bürki, CEO	410.0	18.0	-	19.0	447.0
Paolo Buzzi, CTO	410.0	18.0	-	19.0	447.0
Michael Ploog, CFO	410.0	16.8	-	19.0	445.8
Total for Executive Management	**1,230.0**	**52.8**	**-**	**57.0**	**1,339.8**

b) Compensation 2011

All amounts in CHF'000	Base Salary	Other Compensation	Cash bonus	Stock options	Total
Board of Directors					
Mario Fontana, Chairman	120.0	2.0	-	16.1	138.1
Paul E. Otth, member	80.0	2.0	-	10.8	92.8
Markus Dennler, member	80.0	2.0	-	10.8	92.8
Martin Naville, member	80.0	2.0	-	10.8	92.8
Adrian Bult, member	80.0	2.0	-	10.8	92.8
Total for Board of Directors	**440.0**	**10.0**	**-**	**59.3**	**509.3**
Executive Management					
Marc Bürki, CEO	410.0	21.6	78.0	43.1	552.7
Paolo Buzzi, CTO	410.0	21.6	78.0	43.1	552.7
Michael Ploog, CFO	410.0	18.0	78.0	43.1	549.1
Total for Executive Management	**1,230.0**	**61.2**	**234.0**	**129.3**	**1,654.5**

Numbers presented in this note are calculated based on rounded figures displayed in other notes and may not correspond precisely.

7. Development of compensation: 2008 to 2012 (continued)

c) Compensation 2010

All amounts in CHF'000	Base Salary	Other Compensation	Cash bonus	Stock options	Total
Board of Directors					
Mario Fontana, Chairman	120.0	2.0	-	19.4	141.4
Paul E. Otth, member	80.0	2.0	-	12.9	94.9
Markus Dennler, member	80.0	2.0	-	12.9	94.9
Martin Naville, member	80.0	2.0	-	12.9	94.9
Adrian Bult, member	80.0	2.0	-	12.9	94.9
Total for Board of Directors	**440.0**	**10.0**	**-**	**71.0**	**521.0**
Executive Management					
Marc Bürki, CEO	355.0	25.2	78.0	51.7	509.9
Paolo Buzzi, CTO	355.0	25.2	78.0	51.7	509.9
Michael Ploog, CFO	355.0	16.8	78.0	51.7	501.5
Total for Executive Management	**1,065.0**	**67.2**	**234.0**	**155.1**	**1,521.3**

d) Compensation 2009

All amounts in CHF'000	Base Salary	Other Compensation	Cash bonus	Stock options	Total
Board of Directors					
Mario Fontana, Chairman	120.0	2.0	-	22.6	144.6
Paul E. Otth, member	80.0	2.0	-	15.1	97.1
Markus Dennler, member	80.0	2.0	-	15.1	97.1
Martin Naville, member	80.0	2.0	-	15.1	97.1
Adrian Bult, member	80.0	2.0	-	15.1	97.1
Total for Board of Directors	**440.0**	**10.0**	**-**	**83.0**	**533.0**
Executive Management					
Marc Bürki, CEO	355.0	25.1	105.0	60.3	545.4
Paolo Buzzi, CTO	355.0	25.1	105.0	60.3	545.4
Michael Ploog, CFO	355.0	16.7	105.0	60.3	537.0
Total for Executive Management	**1,065.0**	**66.9**	**315.0**	**180.9**	**1,627.8**

Numbers presented in this note are calculated based on rounded figures displayed in other notes and may not correspond precisely.

7. Development of compensation: 2008 to 2012 (continued)

e) Compensation 2008

All amounts in CHF'000	Base Salary	Other Compensation	Cash bonus	Stock options	Total
Board of Directors					
Mario Fontana, Chairman	120.0	2.0	-	21.1	143.1
Paul E. Otth, member	75.0	2.0	-	14.1	91.1
Markus Dennler, member	75.0	2.0	-	14.1	91.1
Martin Naville, member	75.0	2.0	-	14.1	91.1
Adrian Bult, member (*)	65.0	1.5	-	14.1	80.6
Total for Board of Directors	**410.0**	**9.5**	**-**	**77.5**	**497.0**
Executive Management					
Marc Bürki, CEO	355.0	25.3	230.8	56.3	667.4
Paolo Buzzi, CTO	355.0	25.3	230.8	56.3	667.4
Michael Ploog, CFO	355.0	16.9	230.8	56.3	659.0
Total for Executive Management	**1,065.0**	**67.5**	**692.4**	**168.9**	**1,993.8**

(*) At the AGM on 25 April 2008, Mr. Adrian Bult was elected at the Board for a first term on the same date.

Numbers presented in this note are calculated based on rounded figures displayed in other notes and may not correspond precisely.

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