DUKASCOPY EUROPE IBS AS

(REGISTRATION NUMBER 40003344762)

FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2012

Contents

Information on the Company

Name of the Company	Dukascopy Europe IBS AS
Legal status	Joint Stock Company
Number, place and date of registration	40003344762, Riga, Latvia, 30 May 1997
Legal address	Lāčplēša iela 20 A - 1, Riga, Latvia, LV-1011
Shareholders	DUKASCOPY BANK SA (100%)
Board	Aleksis Gulbis – Chairman of the Board Andrejs Bagautdinovs – Board member Igors Proņins – Board Member
Council	Andrey Duka - Chairman of the Council Veronika Makarova – Member of the Council Alain Daniel Broyon – Member of the Council
Reporting period	1 January 2012 – 31 December 2012
Auditors	SIA KPMG Baltics Vesetas iela 7, Riga Latvia, LV -1013 License No 55

Report of the Council and Board

Dukascopy Europe IBS AS (the Company) is a licensed investment broker and a participant of the financial market.

During 2012 the Company continued providing investment services and investment by-services to the existing customers and attracted new customers by offering them an opportunity to make transactions with financial instruments using SWFX Swiss Forex Marketplace, a technological solution of Dukascopy Bank SA (parent company).

Reputation and up-to-date technologies of the parent company represent the key advantages of the Company compared to other market players.

The Company's staff are high class specialists with long-term experience in financial markets and a potential that can be used efficiently to achieve the objectives that the customers set for their investments. As in the previous years, the Company acted in compliance and coordination with all the requirements set by the Financial and Capital Market Commission (FCMC) and legislation.

The financial result of 2012 for the Company was a loss of LVL 65 316 which is less by LVL 43 581 than in 2011. Assets as at 31 December 2012 amount to LVL 625 903. During the reporting period assets of the Company increased by 88% as the parent company Dukascopy Bank SA made an additional capital contribution in the amount of LVL 350 000; the entry of changes was made in the Commercial Register on 16 may 2012.

In 2012 the Company performed active operations in the context of the new business model that was commenced in 2011 and 1 121 new clients and 89 business introducers were attracted by the end of 2012.

In 2012 the Company continued improving and providing high quality investment services to the clients and during the reporting year the indices of the Company were positive: the number of new attracted clients and their transactions increased.

In 2012 recognition of the Company increased significantly offering the unique technological solution of Dukascopy Bank SA – SWFX Swiss Forex Marketplace. Access to SWFX Swiss Forex Marketplace is provided to clients with the initial investment exceeding USD 100.

The Company commenced offering SMS services to their clients using the White Label concept informing the clients about the performed and current transactions in the account.

Due to implementing quality improvements of selected products and services the financial result of the Company in the first two months of 2013 was a profit.

The management continues combining reasonable decision-making with a strict approach to risk management.

In 2013, the Company will continue improving the quality of services and introduce new IT solutions. In 2013 it is planned to extend the range of services and investment products to provide our customers with more extensive investment opportunities.

We are truly content and grateful to our customers and partners for their trust in the Company, as well as to our team for their work and contribution in 2012 continuing our cooperation in 2013.

A.Duka
Chairman of the Council

A. Gulbis	I. Pronins	A. Bagautdinovs
Chairman of the Board	Board Member	Board Member

Riga, 8 March 2013

The financial statements were approved by the shareholders' meeting on 12 March 2013.

Statement of management responsibility

The Board of DUKASCOPY EUROPE IBS (the Company) is responsible for the preparation of the financial statements in accordance with applicable acts of legislation, regulations issued by the FCMC and the International Financial Reporting Standards as adopted by the EU, that give a true and fair view of the Company's financial position at the year end, and the results of its operations and cash flows for the year then ended.

The Board confirms that the accounting methods used in the preparation of the 2012 financial statements set out on pages 7 to 27 have been consistently applied in accordance with the International Financial Reporting Standards as adopted by the EU, and the management has applied reasonable and prudent judgements and estimates. Management confirms that these financial statements have been prepared on a going concern basis, which the Management believes is the appropriate basis for preparation of these financial statements.

Management is responsible for maintaining proper accounting records, safeguarding the Company's assets and prevention and detection of fraud and other illegal activities.

A.Duka
Chairman of the Council

A. Gulbis
Chairman of the Board

I. Pronins
Board Member

A. Bagautdinovs
Board Member

Riga, 8 March 2013

Statement of Comprehensive Income

	Note	2012 LVL	2011 LVL
Commission and fee income	3	155 909	6 023
Commission and fee expense	4	(36 556)	(1 537)
Net commission income		**119 353**	**4 486**
Loss from trading and revaluation of foreign exchange	5	(2 175)	(180)
Net operating income		**117 178**	**4 306**
Other operating income	6	26 875	329
Other operating expenses		-	(5 696)
Administrative expenses	7	(209 253)	(107 836)
Other expenses		(116)	-
Loss before corporate income tax		**(65 316)**	**(108 897)**
Corporate income tax	15	-	-
Loss for the year		**(65 316)**	**(108 897)**
Other comprehensive income in the reporting period		-	-
Total comprehensive loss in the reporting period		**(65 316)**	**(108 897)**

The accompanying notes on pages 11 to 26 form an integral part of these financial statements.

A.Duka
Chairman of the Council

A. Gulbis
Chairman of the Board

I. Pronins
Board Member

A. Bagautdinovs
Board Member

Riga, 8 March 2013

Statement of Financial Position

ASSETS	Note	31.12.2012 LVL	31.12.2011 LVL
Cash and cash equivalents	8	625 903	331 646
Other assets	9	-	432
Total assets		**625 903**	**332 078**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Taxes and social contributions	10	6 948	6 305
Accounts payable to suppliers and contractors	11	8 860	3 296
Provisions	12	4 520	2 124
Other liabilities	13	8 722	8 184
Total liabilities		**29 050**	**19 909**
Paid-up share capital	14	1 600 000	1 250 000
Accumulated losses		(937 831)	(828 934)
Loss for the year		(65 316)	(108 897)
Total shareholders' equity		**596 853**	**312 169**
Total liabilities and shareholders' equity		**625 903**	**332 078**
Financial instruments and cash under management	19	691 306	116 666

The accompanying notes on pages 11 to 26 form an integral part of these financial statements.

A.Duka
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Board Member

A. Bagautdinovs
Board Member

Riga, 8 March 2013

Statement of Cash Flows

		2012 LVL	2011 LVL
Cash flows from operating activities			
Loss before corporate income tax		(65 316)	(108 897)
Adjustments for:			
depreciation		-	158
decrease in other assets		432	6 642
increase in liabilities		9 141	4 647
(profit)/loss from disposal of property and equipment		-	518
Net cash flows from operating activities		**(55 743)**	**(96 932)**
Cash flow from financing activities			
Issue of shares		350 000	-
Net cash flows from financing activities		**350 000**	**-**
Net increase/(decrease) of cash and cash equivalents		**294 257**	**(96 932)**
Cash and cash equivalents at the beginning of the year		331 646	428 578
Cash and cash equivalents at the end of the year	8	**625 903**	**331 646**

The accompanying notes on pages 11 to 26 form an integral part of these financial statements.

A.Duka
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I. Pronins
Board Member

A. Bagautdinovs
Board Member

Riga, 8 March 2013

Statement of Changes to the Shareholder's Equity

	Share capital	Accumulated losses	Total
	LVL	LVL	LVL
31 December 2010	**1 250 000**	**(828 934)**	**421 066**
Loss for the year	-	(108 897)	**(108 897)**
31 December 2011	**1 250 000**	**(937 831)**	**312 169**
Increase of share capital	350 000	-	**350 000**
Loss for the year	-	(65 316)	**(65 316)**
31 December 2012	**1 600 000**	**(1 003 147)**	**596 853**

The accompanying notes on pages 11 to 26 form an integral part of these financial statements.

A.Duka
Chairman of the Council

A. Gulbis
Chairman of the Board

I. Pronins
Board Member

A. Bagautdinovs
Board Member

Riga, 8 March 2013

Notes to the financial statements

1. General information about the Company

DUKASCOPY EUROPE IBS AS (the 'Company') was established on 30 May 1997 as a brokerage service company. License for investment services has been received on 24 November 1997.

The Company's business activity is to provide investment services. The activities of the Company are regulated by the Financial Instruments Market Law and other normative documents. The Company is supervised by the Financial and Capital Market Commission of the Republic of Latvia (FCMC).

On 31 May 2011, DUKASCOPY BANK SA acquired AS RB Securities from AS Rietumu Banka and established an investment broker company DUKASCOPY EUROPE IBS AS.

2. Summary of significant accounting policies

Basis of preparation

The financial statements were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRS) and regulations of the Financial and Capital Market Commission in force as at the reporting date.

The notes to the financial statements reflect the key accounting principles that the Company has consistently applied as required by the standards accepted by the Company.

The financial statements were authorized for issue by the Board on 8 March 2013. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

The chart of accounts corresponds to the requirements laid down by the Financial and Capital Market Commission in the Regulations on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies.

New Standards and Interpretations

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2012 and have not been applied in preparing these financial statements:

- Amendments to IFRS 7 and IAS 32 on *Offsetting Financial Assets and Financial Liabilities*

  Amendments to IFRS 7 Disclosures (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

  Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and have not entered into master netting arrangements.

- IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

  (1) it is exposed or has rights to variable returns from its involvements with the investee;
  (2) it has the ability to affect those returns through its power over that investee; and
  (3) there is a link between power and returns.

  The new IFRS 10 also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements.

  Under the new IFRS 11, joint arrangements are divided into two types, each having its own accounting model defined as follows:

  (1) a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.

(2) A joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. IFRS 11 eliminates the free choice of equity accounting or proportionate consolidation; the equity method must always be used in financial statements.

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Company does not expect that the new standards will have a material impact on the financial statements.

- IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs.

  The Company does not expect IFRS 13 to have a material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively). The amendments:
  (1) require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.
  (2) change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

  The amendments are not relevant to the Company's financial statements, since it does not have other comprehensive income.

- Amendments to IAS 12: *Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The amendments are not relevant to the Company's consolidated financial statements, since the Company does not have any investment properties measured using the fair value model in IAS 40.

- IAS 19 (2011) *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply). The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation.

  The amendments are not relevant to the Company's consolidated financial statements, since the Company and Group do not have any defined benefit plans.

- IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014) introduces minor clarifications. The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*. The Company does not expect IAS 27 (2011) to have a material impact on the financial statements, since it does not result in a change in the entity's accounting policy.

- IAS 28 (2011) *Investments in Associates and Joint Ventures* (Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). There are limited amendments made to IAS 28 (2008):

(1) *Associates and joint ventures held for sale.* IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an *associate or a joint venture.*

(2) *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Company does not expect the amendments to Standard to have material impact on the financial statements since the Company does not have any investments in associates or joint ventures that will be impacted by the amendments.

Currency of the financial statements

All amounts disclosed in these financial statements are present in Latvian lats (LVL), which is the functional currency of the Company.

Revenue and expenses recognition

Revenue is formed primarily of commission fee for investment management services. Commissions and fees are charged to the income statement as incurred.

Impairment

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

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognised in the income statement.

Revaluation of foreign currencies (LVL)

Foreign currency transactions are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the transaction date. Assets and liabilities denominated in foreign currencies are translated to lats applying the official exchange rate established by the Bank of Latvia at the reporting date. Gain or loss arising from foreign currency exchange is charged to the income statement as Profit/loss on revaluation of foreign exchange positions.

Foreign exchange rates for the key currencies at the end of the reporting year and the prior year were the following:

	2012	2011
	LVL	LVL
1 USD	0.53100	0.54400
1 EUR	0.70280	0.70280
1 CAD	0.53500	0.53100
1 CHF	0.58200	0.57700
1 GBP	0.85700	0.84000

Taxes

Corporate income tax is calculated in accordance with Latvian tax regulations using the tax rate of 15% applied to taxable profit reported for the period.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting using the balance sheet method and the amounts used for taxation purposes. These differences have primarily occurred due to different depreciation rates used for fixed assets in tax accounting and financial accounting, recognized provisions and tax losses available to be carried forward according to the income tax declaration. Deferred tax is calculated based on the statutory rate of 15%.

Deferred tax asset is recognized to the extent that it is probable to be recovered in the future.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and impairment. In case the recoverable amount of an item of property and equipment becomes lower than its carrying amount due to conditions other than short term, the carrying amount is written down to the recoverable amount.

Depreciation is calculated on a straight line basis over the useful life of the asset. Depreciation is calculated based on an annual rate of 20%.

Maintenance and repair expenses related to the items of property and equipment are charged to the income statement as incurred.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required from the Company to settle the obligation, and the amount of obligation can be measured reasonably.

Cash and cash equivalents

Cash represents cash on current accounts with the bank and current accounts with counterparties.

Loans and receivables

Loans and receivables are recognized as cash disbursements are made to the borrower and derecognized as the cash is returned. Loans and receivables are disclosed at net amount due less special allowance for doubtful and bad debts. Special allowances for doubtful and bad debts are recognized when the company's management believe that the recoverability of these special liabilities is uncertain.

Use of estimates

The preparation of financial statements in conformity with EU IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant estimates in the preparation of the financial statements are those connected with depreciation and accruals for unused vacation.

Short-term employee benefits

Short-term employee benefits, including salaries, social contributions, bonuses and annual vacations, are recognized under net operating expenses on an accrual basis. As required by law, the Company makes certain contributions to the state social insurance fund for each employee over the entire duration of the employment. The Company has no obligations to make further contributions on behalf of retired employees.

The staff's entitlement to current vacation is recognized when the employee has accumulated the respective number of vacation days. Accruals for unused vacations are estimated based on the number of vacation days unused by the reporting date.

Financial instruments and cash under management

Cash and financial instruments provided to the Company by the customers in order to receive investment services are deposited in a dedicated Financial Instruments (trade) account that can only be used in connection with investments in financial instruments, and these assets held separately from the Company's own cash and are reflected as off-balance-sheet items as third party property under management.

Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis or based on discounted future cash flow method. The Company's financial assets are represented by Demand deposits with financial institutions and the Company's financial liabilities are represented by Accounts payable, both items are measured at amortized cost which approximates their fair values. The Company manages client funds, part of which is invested in securities measured at fair value based on quoted market prices.

Risk management, analysis and capital adequacy

The Company has established an internal control system for identification and management of key risks. The Company has approved a risk management policy that forms the basis for risk management and mitigation. The objective of the risk management policy is to ensure effective risk management, identify and analyse risks inherent to the Company's operations, set limits, develop and introduce control procedures and apply consistent control of risks and compliance with set restrictions. The risk management system is subject to constant improvement in line with the Company's operational development.

Credit risk

Credit risk is the risk of loss in case counterparty fails and refuses to fulfil its liabilities towards the Company within the period or to the extent specified in the agreement.

The Company is exposed to credit risk connected demand deposits with financial institutions and receivables.

Effective management of credit risk at the Company is achieved by setting limits for balances held with a single credit institution and introducing an independent procedure for compliance with the limits.

The Company controls credit risk by monitoring receivables and, to the extent possible, by reducing the likelihood of delayed or unrecoverable receivables. As at 31 December 2012 the Company did not have any receivables.

Currency risk

Currency risk represents potential losses from the revaluation of the assets and liabilities denominated in foreign currencies due to movements in foreign exchange rates.

Financial assets and liabilities of the Company that are exposed to currency risk include demand deposits with financial institutions and accounts payables to suppliers. The Company holds assets and liabilities in EUR and LVL; LVL is pegged against EUR, which mitigates any potential loss due to currency fluctuations.

Effective management of currency risk at the Company is based on setting restrictions for each currency and introducing an independent procedure for compliance with the limits.

Interest rate risk

Interest rate risk is a risk that the Company incurs losses due to fluctuations in interest rates The Company is not exposed to significant interest rate risk.

Liquidity risk

Liquidity risk is a risk that the Company will not be able to meet its financial liabilities in due time. Liquidity risk related to funds under management is minimized because the term structure of assets and liabilities is matched. As at 31 December 2011 the Company's cash and cash equivalents exceed the amount of liabilities.

Operational risk

Operational risk is the risk of loss due to non-compliant or incomplete internal processes, human activities and system operation or the impact of external circumstances.

Management of operational risk at the Company is based on the Operational Risk Policy that prescribes the establishment of an operational risk management system and the basic principles for operation of the system.

The Company restricts the types of operational risk arising as a result of internal processes and staff activities by the following means:

- Separation of functions;
- Documented assignment of functions;
- Separation of duties in the business decision-making.

An event data base has been created to manage operational risk that registers and analyses operational risk events, the extent of their impact, their cause and other relevant information that forms the basis for decision-making regarding whether the Company accepts such a risk or takes the required measures to limit the risk.

Compliance and reputation risks

Compliance and reputation risk is the risk that the Company's revenue may decrease, additional expenses may be incurred, equity may decrease and the Company's further activities may be endangered in case the Company fails to comply or breaches laws and other acts of legislation regulating its activities, codes of professional conduct and ethics and other best practice standards connected with the Company's operations, and the risk that the Company's customers, counterparties, shareholders and supervision bodies may form an adverse opinion regarding the Company.

Compliance and reputation risk includes also the risk that the Company is not fully compliant with the regulations of anti money laundering (AML) acts, including the risk that the Company may be involved in money laundering.

The consequences of compliance and reputational risk may include adverse reputation, limited operational and/or development opportunities, losses etc. Adverse reputation has an impact on the Company's ability to establish new and maintain the existing business relationships (with customers and counterparties). Adverse reputation may be the cause for the Company to lose customers' trust that may threaten its solvency.

Management of AML risks is described by and implemented in accordance with the Company's AML policy and related procedures.

To manage reputation risk the Company maintains a Customer Complaint Register that combines information from all complaint lists and is used to analyze these complaints on a consistent basis.

Capital adequacy

In determining the amount of capital required to cover risks the Company assesses all risks inherent to its operations, including risks that are subject to regulations on the minimum capital requirements set by the Regulator.

The minimum capital requirement for credit risk is determined by the Company using the standard approach and is calculated as 8% of total risk-weighted value.

The capital requirement for foreign currency risk is calculated as 8% of total absolute value of total net position in foreign currencies.

Capital adequacy is managed based on the Capital Adequacy Assessment Policy approved by the Council which requires to maintain the minimum capital adequacy ratio of 8% of weighted risk assets and off-balance-sheet items and minimum equity.

As at 31 December 2012, capital minimum requirement versus risk weighted assets and other relevant items was 82.23% (2011: 56.54%). The Company was therefore in compliance with relevant regulations as at 31 December 2012 and 2011.

3. Commission and fee income

	2012 LVL	2011 LVL
Commission income from transactions with financial instruments	155 892	6 023
Commission income from SMS services	17	-
TOTAL:	**155 909**	**6 023**

4. Commission and fee expense

	2012 LVL	2011 LVL
Commission fee for financial services	1 371	984
Commission fee for SMS services	16	-
Commission fee for using the trade platform	6 763	553
Commission fee for client acquisition (*Business Introducers*)	28 406	-
TOTAL:	**36 556**	**1 537**

5. Loss from trading and revaluation of foreign exchange

	2012 LVL	2011 LVL
Loss from exchange rate fluctuations	2 175	180
TOTAL:	**2 175**	**180**

6. Other operating income

	2012 LVL	2011 LVL
Commission income for using the trade platform	26 875	-
Other income	-	329
TOTAL:	**26 875**	**329**

7. Administrative expenses

	2012 LVL	2011 LVL
Remuneration for work	145 968	72 996
Social contributions	35 164	17 639
Professional services, audit services	9 655	7 233
VAT excluded from input tax	3 909	3 441
Communications and IT services	680	1 228
Marketing expenses	9 820	-
Legal and translation services	68	-
FCMC and other EU supervisory authority expenses	2 371	2 000
LCD annual fee	1 000	1 000
Depreciation	-	158
Other	618	2 141
TOTAL:	**209 253**	**107 836**

8. Cash and cash equivalents

By currency:

		31.12.2012		31.12.2011	
		Currency	LVL	Currency	LVL
Cash with AS Rietumu Banka (Latvia)	LVL	-	19 653	-	7 587
Cash with AS Rietumu Banka (Latvia)	EUR	8 268	5 811	21 207	14 778
Cash with AS SEB Pank (Estonia)	EUR	300	211	-	-
Cash with Dukascopy Bank SA (Switzerland)	EUR	854 047	600 228	440 067	309 281
TOTAL:			**625 903**		**331 646**

The carrying amount of demand deposits with financial institutions approximates their fair value.

9. Other assets

	2012 LVL	2011 LVL
Prepaid taxes	-	432
TOTAL:	-	432

10. Taxes and social contributions

	Value added tax	Compulsory state social security contributions	Resident income tax	Business risk state duty	Total
Liabilities as at 31 December 2010	-	**2 922**	**23**	-	**2 945**
Prepaid as at 31 December 2010	**(362)**	-	-	-	**(362)**
Calculated for 2011	(101)	27 577	16 741	32	**44 249**
Paid in 2011	-	(26 524)	(14 411)	(24)	**(40 959)**
Transferred from another tax	31	(31)	-	-	-
Liabilities as at 31 December 2011	-	**3 944**	**2 353**	**8**	**6 305**
(Prepaid) as at 31 December 2011	**(432)**	-	-	-	**(432)**
Calculated for 2012	1 607	50 543	30 343	116	**82 609**
Paid in 2012	(1 506)	(49 843)	(30 072)	(113)	**(81 534)**
Transferred from another tax	331	(331)	-	-	-
Liabilities as at 31 December 2012	-	**4 313**	**2 624**	**11**	**6 948**
(Prepaid) as at 31 December 2012	-	-	-	-	-

11. Accounts payable to suppliers and contractors

	31.12.2012 LVL	31.12.2011 LVL
Audit services	2 494	3 108
IT services	182	183
Commission fees payable to *Business Introducers*	6 148	5
Other	36	-
TOTAL:	8 860	3 296

12. Provisions

	31.12.2012 LVL	31.12.2011 LVL
Provisions for unused vacations	4 520	2 124
TOTAL:	**4 520**	**2 124**

13. Other liabilities

	31.12.2012 LVL	31.12.2011 LVL
Due to staff salaries	8 007	7 650
FCMC financing	678	500
Latvian Central Depositary	37	34
TOTAL:	**8 722**	**8 184**

14. Share capital

As at 31 December 2012, the registered and fully paid share capital consists of 1 600 000 (2011: 1 250 000) ordinary shares with voting rights and nominal value of LVL 1. The sole shareholder of the Company is DUKASCOPY BANK SA.

On 20 April 2012 the Company issued ordinary shares in the amount of 350 000 LVL, which were borne by parent company DUKASCOPY BANK SA on 8 May 2012.

DUKASCOPY BANK SA is a Joint Stock Company registered on 2 November 2004. Registration No. CH-660-1823004-9, legal address: Route de Pre Bois 20, Meyrin, Switzerland. The two main shareholders of DUKASCOPY BANK SA are Andrey Duka and Veronika Makarova, who both own 49.5% of the shares each. The remaining 1% is held by the members of the Board of Directors.

15. Corporate income tax

Effective versus theoretical corporate income tax:

	2012 LVL	2011 LVL
Loss before tax	(65 316)	(108 897)
Theoretical corporate income tax charge/ (benefit), 15%	(9 797)	(16 335)
Non-deductible expenses	17	98
Changes in unrecognized deferred tax asset in the reporting period	9 780	16 237
Actual corporate income tax for the reporting year	-	-

As at 31 December 2012, accumulated tax loss carried over to future taxation periods is LVL 724 046. Deferred tax asset is not recognized as the Company cannot reliably estimate future taxable income against which the tax losses carried forward can be utilised.

Deferred tax assets

	2012 LVL		2011 LVL	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Other provisions	678		319	
Tax losses carried forward	108 607		99 186	
(Unrecognized deferred tax asset)	(109 285)		(99 505)	
Net deferred tax assets	-		-	

16. Average number of employees

	2012 LVL	2011 LVL
The average number of staff in the reporting year:	39	11

17. Staff expenses

		2012 LVL	2011 LVL
Remuneration for work		145 968	72 996
Social contributions		35 164	17 639
	TOTAL:	**181 132**	**90 635**

Information on the remuneration to the Board members:

		2012 LVL	2011 LVL
Remuneration for work		1 812	6 380
Social contributions		436	1 537
	TOTAL:	**2 248**	**7 917**

18. Related party transactions

Items of the statement of financial position (Dukascopy Bank SA)		31.12.2012 LVL	31.12.2011 LVL
Due from credit institutions (Dukascopy Bank SA)		600 228	309 281
	TOTAL:	**600 228**	**309 281**

According to the Outsourcing and White Label Agreement, Dukascopy Europe IBS AS has paid its parent company, Dukascopy Bank SA, a fee for received *White Label* services in the amount of 6 763 LVL, fee for received SMS services in the amount of 17 LVL and commission fee for transfer of cash funds in the amount of 39 LVL.

In accordance with additional amendment to "Outsourcing and White Label Agreement" concluded on 1 July 2012 parent company Dukascopy Bank SA to its subsidiary Dukascopy Europe IBS AS as it *White Label* partner has made commission fee payments for *White Label* services in the amount of 26 875 LVL. Dukascopy Bank SA provides such services to all of its *White Label* partners, following the same exact principles of services offered.

Related party transactions were conducted on an arm's length basis.

19. Financial instruments and cash under management

Customers' funds	2012 LVL	2011 LVL
Cash	634 119	75 163
Financial instruments	57 187	41 503
Total	**691 306**	**116 666**

20. Going concern

The Company has incurred recurring losses which may raise doubts about its ability to continue as going concern. However, the Company, under its new shareholders, is currently developing new business activities. It is planned that the Company will be profitable in the near future. In addition, the assets which are represented by demand deposits with financial institutions are significantly exceeding current liabilities and also annual administrative expenses, therefore the management believes that the Company is able to continue as going concern in the foreseeable future. The management is confident that the needed support from shareholders will be provided. The support by the shareholders is evidenced, among others, by the increase of share capital during 2012.

Therefore, the management concludes that the assumption that these financial statements should be prepared on a going concern basis is appropriate.

21. Capital adequacy

Capital adequacy ratio calculated in accordance with the requirements of the FCMC as at 31 December 2012 and 2011 was as follows:

	2011	2010
Shareholders' equity	**596 853**	**312 169**
Tier 1 capital	**596 853**	**312 169**
Paid-up share capital	1 600 000	1 250 000
Paid-up share capital	**1 600 000**	**1 250 000**
Legal and other reserves	(1 003 147)	(937 831)
Reserve capital and other reserves and retained earnings or accumulated loss of previous years	(937 831)	(828 934)
Loss for the reporting year (-)	(65 316)	(108 897)
Additional information: total of Tier 1 and Tier 2 capital for the calculation of restrictions on large risk transactions and significant interest	596 853	312 169
Total Tier 1	**596 853**	**312 169**
Additional information: equity (incl. Tier 3 capital) for the calculation of restrictions on large risk transactions	596 853	312 169
Minimum initial capital	**87 851**	**87 851**
Summary of calculations	**58 068**	**44 171**
Total capital requirement for credit risk, counterparty credit risk, impairment of recoverable amount and unpaid deliveries risk	**10 014**	**5 341**
Standard approach (SA)	**10 014**	**5 341**
Categories of risk transactions according to SA, except securitization positions	**10 014**	**5 341**
Government institutions	-	35
Institutions	10 014	5 306
Total capital requirement for position, foreign currencies and commodity risk	**48 054**	**25 926**
Foreign currency	48 054	25 926
Capital requirement equal to 25% of total recurring expenses of the previous year	**28 767**	**44 171**
Additional information		
Capital requirement versus equity (surplus (+) or shortage (-))	**538 785**	**267 998**
Capital adequacy ratio (%)	**82.23**	**56.54**

22. Currency analysis

Financial assets and liabilities analysis as at 31.12.2012 by currencies, LVL:

	Total	LVL	EUR	USD	CAD	AUD
Cash and cash equivalents	625 903	19 653	606 250	-	-	-
Total assets 31.12.2012	**625 903**	**19 653**	**606 250**	**-**	**-**	**-**
Accounts payable to suppliers and contractors	8 860	218	5 579	1 560	1 493	10
Other liabilities	8 722	8 722	-	-	-	-
Total liabilities 31.12.2012	**17 582**	**8 940**	**5 579**	**1 560**	**1 493**	**10**
Net position	**608 321**	**10 713**	**600 671**	**(1 560)**	**(1 493)**	**(10)**

Financial assets and liabilities analysis as at 31.12.2011 by currencies, LVL:

	Total	LVL	EUR	USD	CAD	AUD
Cash and cash equivalents	331 646	7 587	324 059	-	-	-
Total assets 31.12.2011	**331 646**	**7 587**	**324 059**	**-**	**-**	**-**
Accounts payable to suppliers and contractors	3 296	188	3 108	-	-	-
Other liabilities	8 184	8 184	-	-	-	-
Total liabilities 31.12.2011	**11 480**	**8 372**	**3 108**	**-**	**-**	**-**
Net position	**320 166**	**(785)**	**320 951**	**-**	**-**	**-**

23. Maturity analysis

The amounts in the tables below represent term structure of carrying amounts of financial assets and liabilities as at the reporting date. Undiscounted cash flows of liabilities correspond to terms and amounts represented in the tables below.

31 December 2012, LVL:

	Total	On demand	Within 3 months
Cash and cash equivalents	625 903	625 903	-
Total assets 31.12.2012	**625 903**	**625 903**	**-**
Accounts payable to suppliers and contractors	8 860	-	8 860
Other liabilities	8 722	-	8 722
Total liabilities 31.12.2012	**17 582**	**-**	**17 582**
Net position	**608 321**	**625 903**	**(17 582)**

31 December 2011, LVL:

	Total	On demand	Within 3 months
Cash and cash equivalents	331 646	331 646	-
Total assets 31.12.2011	**331 646**	**331 646**	**-**
Accounts payable to suppliers and contractors	3 296	-	3 296
Other liabilities	8 184	-	8 184
Total liabilities 31.12.2011	**11 480**	**-**	**11 480**
Net position	**320 166**	**331 646**	**(11 480)**

24. Subsequent events

On 25 January 2013, the Company has prepared and submitted necessary documents to FCMC in order to supplement obtained licence with new investment services and ancillary services in comprehension of Financial Instruments Market Law.

No significant subsequent events have occurred in the period from the year-end to the date of these financial statements that would require adjustments to be made to these financial statements and disclosures added to the notes thereto.

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Independent Auditors' Report

To the shareholder of Dukascopy Europe IBS AS

Report on the Financial Statements

We have audited the accompanying financial statements of Dukascopy Europe IBS AS ("the Company"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes to the shareholder's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 26.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal controls relevant to the entity's preparation and fair presentation 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 controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, 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 opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

KPMG Baltics SIA
Licence Nr. 55

Ondrej Fikrle

Valda Užāne

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
8 March 2013

Valda Užāne
Sworn Auditor
Certificate No. 4

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.