DUKASCOPY EUROPE IBS AS

(REGISTRATION NUMBER 40003344762)

ANNUAL REPORT FOR YEAR ENDED 31 DECEMBER 2017

Riga, 20 March 2018

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 Duka - Deputy Chairperson of the Council Vagrams Sajadovs – Member of the Council
Reporting period	1 January 2017 – 31 December 2017
Auditors	SIA KPMG Baltics Vesetas iela 7, Riga Latvia, LV -1013 Licence 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 2017 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 2017 for the Company is a profit of EUR 39 924, and of 2016 profit of EUR 75 986. Total assets as at 31 December 2017 amount to EUR 869 146 (2016: EUR 826 208). During the reporting period assets of the Company increased by 5%. As a result of the successful operations of the Company cash balances with credit institutions increased.

In 2017, the Company performed active operations in the context of the new business model that was commenced in 2011 and new clients were attracted in 2017. The total number of clients has increased by 4% as at 31 December 2017 in comparison to 31 December 2016.

In 2017, 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 2017, the Company strengthened significantly its market position by offering unique technological solution of Dukascopy Bank SA – SWFX Swiss Forex Marketplace. Access to SWFX Swiss Forex Marketplace is provided to clients with initial investment exceeding USD 100.

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

The financial result of the Company in the first month of 2018 was losses due to an increase in additional costs for a new type of product. But due to implementing quality improvements of selected products and services, it's planned to finish 2018 with a profit.

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

In 2018, the Company will continue improving the quality of services and introduce new IT solutions. In 2018 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 2017 continuing our cooperation in 2018.

A.Duka
Chairman of the Council

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

Riga, 20 March 2018

The financial statements were approved by the shareholders' meeting on 21. 03. 2018.

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 2017 financial statements 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	I. Pronins	A. Bagautdinovs
Chairman of the Board	Board Member	Board Member

Riga, 20 March 2018

Financial Statements

Statement of Comprehensive Income

	Note	2017 EUR	2016 EUR
Commission and fee income	3	1 742 359	1 710 134
Commission and fee expense	4	(253 034)	(248 892)
Net commission income		**1 489 325**	**1 461 242**
Loss from trading and revaluation of foreign exchange		(23 893)	(22 470)
Net operating income		**1 465 432**	**1 438 772**
Other operating income	5	93 716	147 231
Other operating expense	6	(55 216)	(48 957)
Administrative expenses	7	(1 457 585)	(1 451 188)
Other expenses		(4 312)	(9 228)
Deprecation	10	(532)	(644)
Profit before corporate income tax		**41 503**	**75 986**
Corporate income tax	16	1 579	-
Profit or Loss for the year		**39 924**	**75 986**
Total comprehensive income for the reporting period		**39 924**	**75 986**

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, 20 March 2018

Statement of Financial Position

ASSETS	Note	31.12.2017 EUR	31.12.2016 EUR
Cash and cash equivalents	8	476 198	450 901
Derivative financial instruments	9	-	558
Fixed assets	10	434	966
Other assets	11	392 514	373 783
Total assets		**869 146**	**826 208**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Derivative financial instruments	9	144	-
Taxes and social contributions	12	47 831	37 327
Accounts payable to suppliers and contractors	13	72 044	89 084
Other liabilities	14	95 462	86 056
Total liabilities		**215 481**	**212 467**
Paid-up share capital	15	1 216 461	1 216 461
Accumulated losses		(602 720)	(678 706)
Profit or Loss for the year		39 924	75 986
Total shareholders' equity		**653 665**	**613 741**
Total liabilities and shareholders' equity		**869 146**	**826 208**
Financial instruments and cash under management	20	4 429 046	4 748 560

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Board Member

Riga, 20 March 2018

Statement of Cash Flows

		2017 EUR	2016 EUR
Cash flows from operating activities			
Profit or Loss before corporate income tax		41 503	75 986
Adjustments for:			
Deprecation		532	644
Decrease/(increase) in prepaid expenses		(18 731)	214 795
Decrease in derivative financial instruments		702	974
Increase in liabilities		1 291	14 895
Net cash flows from operating activities		**25 297**	**307 294**
Net increase / (decrease) of cash and cash equivalents		**25 297**	**307 294**
Cash and cash equivalents at the beginning of the year		450 901	143 607
Cash and cash equivalents at the end of the year	8	**476 198**	**450 901**

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

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Board Member

Riga, 20 March 2018

Statement of Changes to the Shareholders' Equity

	Share capital EUR	Retained earnings / (accumulated losses) for the previous years EUR	Profit of the reporting year EUR	Total Equity EUR
31 December 2015	**1 216 461**	**(679 948)**	**1 242**	**537 755**
Profit of 2015 transferred to retained earnings of previous years	-	1 242	(1 242)	-
Profit of the reporting year	-	-	75 986	**75 986**
31 December 2016	**1 216 461**	**(678 706)**	**75 986**	**613 741**
Profit of 2016 transferred to retained earnings of previous years	-	75 986	(75 986)	-
Profit of the reporting year	-	-	39 924	**39 924**
31 December 2017	**1 216 461**	**(602 720)**	**39 924**	**653 665**

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

A.Duka
Chairman of the Council

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Board Member

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Board Member

Riga, 20 March 2018

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 of the Republic of Latvia. The Company is supervised by the Financial and Capital Market Commission of the Republic of Latvia (FCMC).

NACE classification

66.99 Other financial service activities, except insurance and pension funding; 66.12 Commodity brokerage services; 66.19 Other activities auxiliary to financial services, except insurance and pension funding.

2. Summary of significant accounting policies

Basis of preparation

These 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 Company has consistently applied the accounting policies set out in Note 2 to all periods presented in these financial statements.

The financial statements were authorized for issue by the Board on 20 March 2018. 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.

Certain balances for 2017 were classified differently from the prior year, due to management judgment. The reclassification has no impact on the financial results. The comparative information for 2016 disclosed in the financial statements for 2017 was classified in line with the principles used in 2017 and is comparable. The opening balances before reclassification agree with the prior year closing balances.

Currency of the financial statements

All amounts in these financial statements are expressed in the Company's functional currency, the official currency of the Republic of Latvia – euro (EUR).

Standards and interpretations effective in the reporting period

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2017.

(i) *Amendments to IAS 7: Statement of Cash Flows*

The amendments require new disclosures that help the users of the financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The following guidance with effective date of 1 January 2017 did not have any impact on these financial statements:

(ii) *Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

(iii) *Annual Improvements to IFRSs*

New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements.

(i) IFRS 9 Financial Instruments (2014) (effective for annual periods beginning on or after 1 January 2018)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Entity does not expect that the new Standard, when initially applied, will have material impact on the financial statements, as Company recognizes only Derivative financial instruments.

(ii) IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)

This Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, the Company management does not expect that the new standard, when initially applied, will have a material impact on the Company's financial statements. The timing and measurement of the Company's revenues are not expected to change materially under IFRS 15 because of the nature of the Company's operations and the types of revenues it earns.

(iii) IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current classification of rent agreements into operating and finance lease for lessees and instead requires companies to bring the agreements that classify as a lease on-balance sheet under a single model.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The Company has not yet prepared an analysis of the expected quantitative impact of the new standard.It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it will require the Company to recognise in its statement of financial position assets and liabilities relating to some operating leases for which the Company acts as a lessee.

The Company has a contractual arrangement regarding an operational lease of the office premises and the Company makes payments for a lease.

(iv) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021)

(v) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018, not yet adopted by the EU)

(vi) Amendments to IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018, not yet adopted by the EU)

(vii) IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018, not yet adopted by the EU)

(viii) IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019, not yet adopted by the EU)

(ix) Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet adopted by the EU)

(x) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet adopted by the EU)

(xi) Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019, not yet adopted by the EU)

(xii) Annual Improvements to IFRSs (Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2018); Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective for annual periods beginning on or after 1 January 2019))

The Company does not plan to adopt these standards early. The Company has assessed the potential impact from new standards and does not expect the new standards to have material impact on the financial statements.

Revenue recognition

Revenue is formed primarily of commission fee for investment management services. Commissions and fees are charged to the profit and loss at the moment when foreign exchange trade is completed as a percentage on trade volume.

Bonuses to clients

The Company is providing several bonuses to its clients provided that the clients apply for the bonus and meet the conditions for earning the bonus, e.g. traded volume. Some of these bonuses are prepaid upon application, but fully released to the client accounts only upon vesting conditions are met.

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 profit and loss.

Revaluation of foreign currencies

All monetary asset and liability items were revalued to euros according to the reference exchange rate published by the European Central Bank on the reporting date. Foreign currency transactions are translated into euro applying the euro foreign exchange reference rate published by the European Central Bank at the transaction date. Gain or loss arising from foreign currency exchange is charged to the statement of comprehensive income as gain/loss from exchange rate fluctuations.

Non-monetary items of assets and liabilities, and foreign exchange transactions are revalued to euros in accordance with the euro foreign exchange reference rate published by the European Central Bank on the transaction date.

Foreign exchange rates at the end of the reporting period are as follows:

	2017	**2016**
	1 EUR	**1 EUR**
USD	1.19930	1.05410
CAD	1.50390	1.41880
CHF	1.17020	1.07390
AUD	1.53460	1.45960
GBP	0.88723	0.85618
JPY	135.01000	123.40000
PLN	4.17700	4.41030
RUB	69.39200	64.30000
SGD	1.60240	1.52340

Taxes

(a) Current tax

Current tax is calculated in accordance with the law "On Corporate Income Tax" of the Republic of Latvia.

In the reporting year

Current tax for the reporting year is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date (15% as at 31 December 2017), and any adjustment to tax payable in respect of previous years.

Changes to the calculation of Corporate Income Tax as of 1 January 2018

As of 1 January 2018, the new Law on Corporate Income Tax of the Republic of Latvia comes into effect, setting out a conceptually new regime for paying taxes. As of the date, the tax rate will be 20% instead of the current 15%, the taxation period will be one month instead of a year and the taxable base will include:

- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and;
- conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive expenses which are incurred by entering into transactions at prices other than those on the market that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or board (council members) regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

The use of tax losses carried forward from previous periods is limited: it will be possible to utilise these losses to decrease the amount of tax calculated on dividends in the reporting period by not more than 50%. It will be possible to carry forward unused tax losses and utilise them in the previously described manner only until 2022.

(b) Deferred tax

In accordance with the Annual Reports and Consolidated Annual Reports Law of the Republic of Latvia, companies are permitted to recognise deferred tax supported by justified reasons. In such cases, deferred tax should be recognised, assessed and disclosed in the financial statements in line with the International Financial Reporting Standards (IFRS) as adopted by the EU. Under IAS 12 Income taxes, whenever there is a difference to tax rates being applied to distributed and undistributed profits deferred tax assets and liabilities should be recognised by applying the rate applicable to undistributed profits

According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, a 20% rate is only applied to distributed profits while a 0% rate is expected to be applied to undistributed profits. Therefore, deferred tax assets and liabilities are recognisable at nil amount. This principle has been applied in the Company's financial statements for the year ended 31 December 2017.

The carrying amounts of deferred tax assets and liabilities were reversed and changes were charged to profit or loss in the reporting period, except when deferred tax had previously been recognised in relation to revaluation reserves.

Fixed assets

Fixed assets are carried at cost less accumulated depreciation and impairment. If the recoverable amount of an asset is lower than its book value, due to non-short-term circumstances, the book value of the respective asset is written down to its recoverable amount.

Depreciation of fixed assets is calculated on a straight line basis using the declining balance method over the useful life of the asset.
Depreciation rates:

Type of fixed assets	Depreciation method	Depreciation rate
Computer software	declining balance method	20%
Computing machinery and equipment, including printers, Information systems and data storage systems, communication tools, copiers and related equipment	declining balance method	35%
Furniture	straight line	25%
Other fixed assets	straight line	25%

FA maintenance and repair expenses are recorded in profit and loss statement.

Cash and cash equivalents

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

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. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those 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.

Estimates were not used in relation to unpaid client bonuses.

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 that the Company holds on behalf of its clients, are held in accounts with financial institutions separately from the Company's own cash and financial instruments. Cash and financial instruments that the Company holds on behalf of its clients, are held separately from the Company's own cash and are recognized in the Company's off-balance-sheet items as property owned by third parties and managed or held by the Company.

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. Company's financial assets consist mainly from deposits with credit institutions and financial liabilities include short-term liabilities. Both financial assets and financial liabilities are carried at book value which is close the fair value. Company maintains cash on behalf of its clients that is invested in securities measured at fair value based on 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.

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 payable to suppliers. The Company aims at holding financial assets and liabilities in EUR.

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 the 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 that require free cash funds or transfer of financial assets in due time. Liquidity risk exists when the maturities of assets and liabilities do not match. As at 31 December 2017 and 2016 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.

A data base has been created 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 FCMC. Capital adequacy of the Company is calculated in accordance with the Regulation (EU) No. 575/2013 of the European Parliament and the Council of the 26 June 2013 on prudential requirements for credit institutions and investment broker companies amending the Regulation (EU) No. 648/2012.

The minimum capital requirement for credit risk is determined based on the standard approach and is calculated as 8% of total risk-weighted value. Foreign currency risk capital requirement is calculated as 8% of the total net foreign currency position.

As at 31 December 2017, capital minimum requirement versus risk weighted assets and other relevant items was 14.10% (2016: 14.41%).

3. Commission and fee income

	2017 EUR	2016 EUR
Commission income from transactions with financial instruments	1 742 359	1 710 134
	1 742 359	**1 710 134**

4. Commission and fee expense

	2017 EUR	2016 EUR
Commission fee for client acquisition (*Business Introducers*)	136 294	171 614
Commission fee for financial services (*Business Introducers*)	116 512	77 170
Commission fee for SMS services	228	108
	253 034	**248 892**

5. Other operating income

	2017 EUR	2016 EUR
Commission income for using the trade platform (for more details see Note 19)	92 824	84 710
Reversal of provision for bonus payouts	-	62 067
Other income	892	454
	93 716	**147 231**

6. Other operating expense

	2017 EUR	2016 EUR
Bonuses expense	55 216	48 957
	55 216	**48 957**

7. Administrative expenses

	2017 EUR	2016 EUR
Remuneration for work	814 424	870 790
Social contributions	192 269	205 410
Rental and buildings expenditure	224 305	160 686
Marketing expenses	84 439	82 627
Non-deductible VAT	68 816	48 714
Employee health insurance costs	20 779	31 278
Audit and other professional services	21 554	20 024
FCMC and other EU supervisory authority fees	18 121	17 730
Communications and IT services	10 453	11 800
Office expenses	1 241	845
Other	1 184	1 284
	1 457 585	**1 451 188**

8. Cash and cash equivalents

		31.12.2017		31.12.2016	
		Currency	EUR	Currency	EUR
Cash with AS Rietumu Banka (Latvia)	EUR	-	609	-	265
TOTAL cash with AS Rietumu Banka:			**609**		**265**
Cash with Nordea Bank AB (Latvia)	EUR	-	519	-	823
Cash with Nordea Bank AB (Latvia) (credit card)	EUR	-	420	-	15
TOTAL cash with Nordea Bank AB:			**939**		**838**
Cash with AS SEB Pank (Estonia)	EUR	-	79	-	223
TOTAL cash with AS SEB Pank:			**79**		**223**
Cash with Dukascopy Bank SA (Switzerland)	EUR	-	408 571	-	395 135
Cash with Dukascopy Bank SA (Switzerland)	GBP	876	988	50	58
Cash with Dukascopy Bank SA (Switzerland)	USD	145	121	6	6
Cash with Dukascopy Bank SA (Switzerland)	SGD	-	-	29	19
Cash with Dukascopy Bank SA (Switzerland)	PLN	53	13	3 181	721
Cash (FX) with Dukascopy Bank SA (Switzerland)	EUR	-	64 878	-	53 636
TOTAL cash with Dukascopy Bank SA:			**474 571**		**449 575**
TOTAL:			**476 198**		**450 901**

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

9. Derivative financial instruments

	31.12.2017 EUR		31.12.2016 EUR	
	Carrying amount	**Notional amount**	**Carrying amount**	**Notional amount**
Foreign currency swap contracts	(144)	198 338	558	220 000
TOTAL:	**(144)**	**198 338**	**558**	**220 000**

10. Fixed assets

	Computers, printers, copiers and related equipment
Initial value	**EUR**
Initial value 01.01.2017	3 305
Initial value 31.12.2017.	3 305
Accumulated depreciation 01.01.2017	2 339
Depreciation	532
Accumulated depreciation 31.12.2017	2 871
Residual value 31.12.2017	**434**
Residual value 31.12.2016	**966**

11. Other assets

		31.12.2017 EUR	31.12.2016 EUR
Prepaid bonuses			
Actual prepaid bonuses		362 772	358 624
	TOTAL prepaid bonuses:	**362 772**	**358 624**
Guarantee deposit lease of premises			
Deposit performed on leased premises contribution		18 134	-
	TOTAL guarantee deposit:	**18 134**	-
Prepayments for services			
Advance payments for insurance		8 633	13 127
Advances for advertising services		2 000	-
	TOTAL prepayments for services:	**10 633**	**13 127**
Other assets		975	2 032
		392 514	**373 783**

Prepaid bonuses are provided to customers based on applications. The bonus is paid after reaching a specific volume of trades and expenses are recognized in the income statement. If the sales volume is not achieved during the year, the funds are returned to the Company.

	EUR
Prepaid for bonus bayout as at 31 December 2015	**554 924**
Prepayment of client bonuses	1 037 678
Bonuses cancelation	(1 247 088)
Bonuses expense	(48 957)
Provisions for bonus payout	62 067
Prepaid for bonus bayout as at 31 December 2016	**358 624**
Prepayment of client bonuses	1 048 065
Bonuses cancelation	(972 955)
Bonuses expense	(51 657)
The account balance fluctuations of the revaluation	(19 305)
Prepaid for bonus bayout as at 31 December 2017	**362 772**

12. Taxes and social contributions

	Value added tax	Compulsory state social security contributions	Resident income tax	Business risk state duty	Corporate income tax	Corporate income tax on non-residents	Total
Liabilities as at 31 December 2015	**6 288**	**25 396**	**14 484**	**37**	**-**	**-**	**46 205**
Calculated for 2016	7 450	295 161	166 708	507	-	404	**470 230**
Paid in 2016	(13 728)	(296 676)	(167 799)	(501)	-	(404)	**(479 108)**
Liabilities as at 31 December 2016	**10**	**23 881**	**13 393**	**43**	**-**	**-**	**37 327**
Calculated for 2017	14 996	275 987	152 189	548	1 579	891	**446 190**
Paid in 2017	(9 682)	(273 532)	(151 041)	(540)	-	(891)	**(435 686)**
Liabilities as at 31 December 2017	**5 324**	**26 336**	**14 541**	**51**	**1 579**	**-**	**47 831**

13. Accounts payable to suppliers and contractors (accrued expenses)

	31.12.2017	**31.12.2016**
	EUR	**EUR**
Commission fees payable to Business Introducers	41 627	74 588
Audit services	14 861	8 242
Buildings expenditure	11 818	5 893
Promotion services	3 350	-
IT services	258	258
Other	130	103
	72 044	**89 084**

14. Other liabilities

	31.12.2017 EUR	**31.12.2016 EUR**
Salaries due to employees	48 255	44 210
Commitments for annual leave	43 374	37 366
FCMC financing	3 833	4 475
Other	-	5
	95 462	**86 056**

15. Paid-up share capital

As at 31 December 2017, the registered and fully paid share capital consists of 868 901 (2016: 868 901) ordinary shares with voting rights and nominal value of EUR 1.40, total EUR 1 216 461 (2016: EUR 1 216 461). The sole shareholder of the Company is DUKASCOPY BANK SA.

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 Duka, who both own 49.5% of the shares each. The remaining 1% is held by the members of the Board of Directors.

16. Corporate income tax

Effective versus theoretical corporate income tax:

	2017 EUR	2016 EUR
Profit or Loss before tax	41 503	75 986
Theoretical corporate income tax charge/ (benefit), 15%	6 225	11 398
Non-deductible expenses	19	11
Changes in unrecognized deferred tax asset in the reporting period	(4 665)	(11 409)
Actual corporate income tax for the reporting year:	**1 579**	**-**

Deferred tax assets

	31.12.2017 EUR		31.12.2016 EUR	
	assets	**liabilities**	**assets**	**liabilities**
Other liabilities	-	-	-	-
Tax losses carried forward	9 217	-	13 953	-
Fixed assets	-	61	-	132
(Unrecognized deferred tax asset)	(9 156)	-	(13 821)	-
Net deferred tax assets	**-**	**-**	**-**	**-**

As at 31 December 2017, accumulated tax losses carried forward amounts EUR 61 445 (2016: EUR 93 018).

17. Average number of employees

	2017	2016
The average number of staff in the reporting year:	125	117

18. Staff expenses

		2017 EUR	2016 EUR
Remuneration for work		814 424	870 790
Social contributions		192 269	205 410
	TOTAL:	**1 006 693**	**1 076 200**

Out of which remuneration to the Board members:		2017 EUR	2016 EUR
Remuneration for work		57 350	55 467
Social contributions		13 536	13 085
	TOTAL:	**70 886**	**68 552**

19. Related party transactions

Items of the statement of financial position (Dukascopy Bank SA)		31.12.2017 EUR	31.12.2016 EUR
Due from credit institutions (Dukascopy Bank SA, see note 8)		474 571	449 575
	TOTAL:	**474 571**	**449 575**

According to the Outsourcing and White Label Agreement, Dukascopy Europe IBS AS has paid its parent company, Dukascopy Bank SA, a fee for bank charges in the amount of EUR 233 and received SMS services in the amount of EUR 228 (2016: EUR 108). In accordance with additional amendment to "Outsourcing and White Label Agreement" concluded on 27 August 2017 Dukascopy Europe IBS AS has paid its parent company, Dukascopy Bank SA, a commission fee payments for *White Label* services in the amount of EUR 55 821 (2016: EUR 0).

In accordance with additional amendment to "Outsourcing and White Label Agreement" concluded on 27 April 2016, parent company Dukascopy Bank SA has made commission fee payments for *White Label* services to its subsidiary Dukascopy Europe IBS AS as it's *White Label* partner in the amount of EUR 93 716 (2016: EUR 85 164), for FOREX Trading services in the amount of EUR 11 243 (2016: 1 379). 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.

20. Financial instruments and cash under management

Clients' funds		2017 EUR	2016 EUR
Cash		4 383 721	4 694 140
Other financial instruments		45 325	54 420
	TOTAL:	**4 429 046**	**4 748 560**

21. Capital adequacy

The Company's policy requires management to ensure a strong capital base in order to maintain investor, creditor and market confidence and ensure continuous business development. However, management understands the impact of the capital level on shareholders returns and recognizes the need to maintain a balance between higher returns and advantages from solid capitalization. The capital adequacy requirements are determined and monitored by the Financial and Capital Market Commission. The Company has defined capital in line with the definitions in statutory regulations.

According to capital requirements set by the Financial and Capital Market Commission for investment brokerage companies a ratio of capital to risk weighted assets ("statutory capital ratio") must exceed a predetermined minimum rate. As at 31 December 2017 and 31 December 2016 the minimum rate was 8% and the Company was compliant with the minimum capital requirements.

The table below reflects the Company's capital position as at 31 December 2017 and 31 December 2016 in accordance with the Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending the Regulation No. 648/2012.

	2017 EUR	2016 EUR
Tier 1 capital		
Paid-up share capital	1 216 461	1 216 461
Accumulated loss of previous years	(602 720)	(678 706)
Current year profit (loss)	39 924	75 986
Total Tier 1	**653 665**	**613 741**
Minimum capital requirement	**371 003**	**340 803**
Capital adequacy ratio (%)	**14.10**	**14.41**

22. Currency analysis

Financial assets and liabilities analysis as at 31.12.2017 by currencies, EUR:

	Total	EUR	USD	CAD	AUD	CHF	GBP	PLN	Other
Cash and cash equivalents	**476 198**	475 077	121	-	-	-	987	13	-
Prepaid bonuses	**362 772**	139 284	145 374	4 978	2 428	1 295	24 497	35 328	9 588
Total financial assets 31.12.2017	**838 970**	**614 361**	**145 495**	**4 978**	**2 428**	**1 295**	**25 484**	**35 341**	**9 588**
Accounts payable to suppliers and contractors	**72 044**	46 452	21 318	530	159	792	2 633	152	8
Total financial liabilities 31.12.2017	**72 044**	46 452	21 318	530	159	792	2 633	152	8
Net position in the statement of financial position	**766 926**	**567 909**	**124 177**	**4 448**	**2 269**	**503**	**22 851**	**35 189**	**9 580**
Foreign currency swap contracts	**(144)**	190 000	(116 779)	(5 022)	-	-	(20 031)	(40 008)	(8 304)
Net position	**766 782**	**757 909**	**7 398**	**(574)**	**2 269**	**503**	**2 820**	**(4 819)**	**1 276**

Financial assets and liabilities analysis as at 31.12.2016 by currencies, EUR:

	Total	EUR	USD	CAD	AUD	CHF	GBP	PLN	Other
Cash and cash equivalents	**450 901**	450 097	6	-	-	-	58	721	19
Prepaid bonuses	**358 624**	113 093	138 996	12 772	3 857	2 071	45 203	34 694	7 938
Total financial assets 31.12.2016	**809 525**	**563 190**	**139 002**	**12 772**	**3 857**	**2 071**	**45 261**	**35 415**	**7 957**
Accounts payable to suppliers and contractors	**89 084**	30 058	55 626	140	882	843	1 453	55	27
Total financial liabilities 31.12.2016	**89 084**	**30 058**	**55 626**	**140**	**882**	**843**	**1 453**	**55**	**27**
Net position in the statement of financial position	**720 441**	**533 132**	**83 376**	**12 632**	**2 975**	**1 228**	**43 808**	**35 360**	**7 930**
Foreign currency swap contracts	**558**	220 000	(109 770)	(9 964)	-	-	(54 744)	(39 961)	(5 003)
Net position	**720 999**	**753 132**	**(26 394)**	**2 668**	**2 975**	**1 228**	**(10 936)**	**(4 601)**	**2 927**

23. Sensitivity analysis

A reasonably possible strengthening (weakening) of the euro against the following currencies at 31 December 2017 and 31 December 2016 would have affected profit or loss and equity (the only effect on equity is from profit or loss) by the amounts shown below. This analysis assumes that all other variables, remain constant.

	2017		2016	
	Strengthening	**Weakening**	**Strengthening**	**Weakening**
USD (10% change)	741	(741)	2 639	(2 639)
CAD (10% change)	57	(57)	267	(267)
AUD (10% change)	227	(227)	298	(298)
CHF (10% change)	50	(50)	123	(123)
GBP (10% change)	282	(282)	1 094	(1 094)
PLN (10% change)	482	(482)	460	(460)
Other (10% change)	128	(128)	293	(293)
	1 967	**(1 967)**	**5 174**	**(5 174)**

24. Maturity analysis

The table represents Company's asset and liability repricing analysis that was carried out based on remaining maturity from the reporting date to contractual maturity date. Undiscounted cash flows of financial liabilities correspond with the dates and amounts represented in the maturity analysis.

31 December 2017, EUR:

	Total	On demand
Cash and cash equivalents	**476 198**	476 198
Prepaid bonuses	**362 772**	362 772
Other assets	**29 742**	29 742
Total financial assets 31.12.2017	**868 712**	**868 712**
Accounts payable to suppliers and contractors	**72 044**	72 044
Total financial liabilities 31.12.2017	**72 044**	**72 044**
Net position	**796 668**	**796 668**

31 December 2016, EUR:

	Total	On demand	Within 3 months
Cash and cash equivalents	**450 901**	450 901	-
Prepaid bonuses	**358 624**	358 624	-
Total financial assets 31.12.2016	**809 525**	**809 525**	**-**
Accounts payable to suppliers and contractors	**89 084**	-	89 084
Total financial liabilities 31.12.2016	**89 084**	**-**	**89 084**
Net position	**720 441**	**809 525**	**(89 084)**

25. Subsequent events

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 or disclosures added to the notes thereto.

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Independent Auditors' Report

To the shareholder of Dukascopy Europe IBS AS

Report on the Audit of the Financial Statements

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of Dukascopy Europe IBS AS ("the Company") set out on pages 7 to 26 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2017,
- the statement of profit or loss and other comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Dukascopy Europe IBS as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 3 of the accompanying Annual Report,
- the Report of the Council and Board, as set out on pages 4-5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report,

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Report of the Council and Board, our responsibility is to consider whether the Report of the Council and Board is prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia provision No. 46.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia provision No. 46.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Baltics SIA
Licence No. 55

Ondrej Fikrle *Valda Užāne*

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
20 March 2018

Valda Užāne
Latvian Certified 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