Dukascopy Europe IBS AS

(UNIFIED REGISTRATION NUMBER 40003344762)

ANNUAL REPORT FOR 2018

Riga, 29 March 2019

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%)
The Board	Aleksis Gulbis - Member of the Board (until 09.05.2018 – Chairman of the Board) Andrejs Bagautdinovs - Member of the Board Igors Proņins - Member of the Board
The Council	Andrey Duka - Chairman of the Council Veronika Duka - Deputy Chairperson of the Council Vagrams Sajadovs - Member of the Council
Reporting period	01 January 2018 - 31 December 2018
Auditors	SIA KPMG Baltics Vesetas iela 7, Riga Latvia, LV-1013 Licence No. 55

Report of the Council and Board

Dukascopy Europe IBS AS (herienafter – the Company) is a licensed investment brokerage company and a participant of the financial market.

During 2018 the Company continued providing investment services and auxiliary investment 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 (hereinafter – the parent company).

Reputation and up-to-date technologies of the parent company still 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 law and regulations of the Republic of Latvia.

On May 22, 2018, the European Securities and Markets Authority (ESMA) under Article 40 of the Markets in financial instruments Regulation No. 600/2014 adopted three decisions on limiting the contracts for differences (hereinafter – CFD). The said decision became effective on 1 August 2018 and is applicable for 3 months i.e., until 31 October 2018. Limitations regarding CFD were extended two more times i.e., from 1 November 2019 to 1 February 2019 and on the basis of the latest decision are applicable for 3 (three) more months starting from 1 February 2019. The Board of the Company expects the extension also in the future. The said limitations set certain advertising, distribution and trade prohibitions, resulting in reduced CFD trading amounts in 2018. The financial result of 2018 is a loss in the amount of EUR 330 199 (2017: profit of EUR 39 924). Assets as at 31 December 2018 amount to EUR 925 622 (2017: EUR 869 146). During the reporting period, the assets increased by 6%. As a result of capital increase, cash with credit institutions was increased.

In order to compensate part of reduced income caused by ESMA's restrictions, Dukascopy Europe IBS AS has decided to diversify its sources of income, and started to provide outsourcing services to Dukascopy Bank SA. Outsourcing agreements signed between Dukascopy Europe IBS AS and Dukascopy Bank SA have allowed Dukascopy Europe IBS AS to ensure new source of income which has shown a significant growth during 2018. The agreements govern the outsourcing of certain AML/CTF and trading activities of the Bank to the Dukascopy Europe IBS AS. This activity has generated almost 360 000 EUR income for the time period from 1 january 2018 to 31 December 2018. Monthly fees had tendency to grow during 2018.

The number of clients opened by the Bank using Dukascopy Europe IBS AS outsourced AML/CTF services is continuously growing during 2019. Additionally, outsourcing of Brokerage services has been launched only in October 2018. All these facts allow us to expect higher income from these activities in 2019.

In light of the above plans, the Company management foresees no liquidity problems. Considering the development of the Company's operational performance and the parent company's expected continued financial support in the future, if needed, the Company management believes that the Company will be able to meet its liabilities as they fall due and continue as a going concern, and there is no material uncertainty related to it. The management believes that the going concern basis is applicable in the preparation of financial statements. For more information refer to Note 25.

In 2018, the Company was actively improving the quality of customer service by enhancing existing products and offering new products complying with the current market situation and the new business model.

In 2018, the Company continued to develop and provide high quality investment services to its customers based on the White Label Agreement to provide access to the Swiss currency market, which is available to Dukascopy Bank SA customers.

The Company has become increasingly recognised in 2018 due to the unique technological solution devised by the parent company – SWFX Swiss Forex Marketplace.

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

The Company plans to continue improving its control and risk management systems, personnel training and professional growth of all staff.

In 2019, the Company will continue improving the quality of services and introduce new IT solutions. In 2019, 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 2018, continuing our cooperation in 2019.

A.Duka
Chairman of the Council

A. Gulbis
Member of the Board

I. Pronins
Member of the Board

A. Bagautdinovs
Member of the Board

Riga, 29 March 2019

The financial statements were approved by the shareholders' meeting on 29 March 2019.

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 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 2018 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 according to the management is appropriate for the 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.

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Member of the Board

Riga, 29 March 2019

Financial statements

Statement of comprehensive income

	Note	2018 EUR	2017 EUR
Commission and fee income	3	1 177 874	1 742 359
Commission and fee expense	4	(248 232)	(253 034)
Net commission income		**929 642**	**1 489 325**
Loss on foreign exchange trading and revaluation		(14 809)	(23 893)
Net operating income		**914 833**	**1 465 432**
Other operating income	5	395 011	93 716
Other operating expenses	6	(61 559)	(55 216)
Administrative expenses	7	(1 577 122)	(1 457 585)
Other expenses		(1 080)	(4 312)
Depreciation	10	(282)	(532)
Result before corporate income tax		**(330 199)**	**41 503**
Corporate income tax	16	-	(1 579)
Profit/ (loss) for the year		**(330 199)**	**39 924**
Total comprehensive income / (loss) for the reporting period		**(330 199)**	**39 924**

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

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Member of the Board

Riga, 29 March 2019

Statement of financial position

ASSETS	Note	31.12.2018 EUR	31.12.2017 EUR
Cash and cash equivalents	8	719 165	476 198
Fixed assets	10	152	434
Other assets	11	206 305	392 514
Total assets		**925 622**	**869 146**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Derivatives	9	155	144
Taxes and social contributions	12	37 434	47 831
Accounts payable to suppliers and contractors (accrued expenses)	13	72 559	72 044
Other liabilities	14	92 008	95 462
Total liabilities		**202 156**	**215 481**
Paid-up share capital	15	1 616 461	1 216 461
Accumulated losses brought forward from previous years		(562 796)	(602 720)
Profit / (Loss) for the year		(330 199)	39 924
Total equity and reserves		**723 466**	**653 665**
Total liabilities and shareholder's equity		**925 622**	**869 146**
Client's financial instruments and cash held by the Company	20	3 330 339	4 429 046

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Riga, 29 March 2019

Statement of Cash Flows

	Note	2018 EUR	2017 EUR
Cash flows from operating activities			
Result before corporate income tax		(330 199)	41 503
Adjustments for:			
Depreciation		282	532
Decrease (+), increase (-) in prepaid expenses and prepayments		186 209	(18 731)
Increase (+), decrease (-) in derivatives		11	702
Increase (+), decrease (-) in liabilities		(13 336)	1 291
Net cash flows from operating activities		**(157 033)**	**25 297**
Cash flows from financing activities			
Share issue		400 000	-
Net cash flows from financing activities		**400 000**	**-**
Increase/ (decrease) in cash and cash equivalents		**242 967**	**25 297**
Cash and cash equivalents at the beginning of the year		476 198	450 901
Cash and cash equivalents at the end of the year	8	**719 165**	**476 198**

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A.Duka
Chairman of the Council

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

Riga, 29 March 2019

Statement of Changes to the Shareholders' Equity

	Share capital EUR	Retained earnings/ (accumulated losses) of previous years EUR	Profit / (loss) of the reporting year EUR	Total EUR
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 for the reporting year	-	-	39 924	**39 924**
31 December 2017	**1 216 461**	**(602 720)**	**39 924**	**653 665**
Profit of 2017 transferred to retained earnings of previous years	-	39 924	(39 924)	**-**
Share capital increase	400 000	-	-	**400 000**
Loss for the reporting year	-	-	(330 199)	**(330 199)**
31 December 2018	**1 616 461**	**(562 796)**	**(330 199)**	**723 466**

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Riga, 29 March 2019

Notes to the Financial Statements

1. General information about the Company

The Company was founded on 30 May 1997 as an investment brokerage company. The licence for the provision of investment services and auxiliary investment services was issued on 24 November 1997.

The Company provides 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's operation is monitored by the Financial and Capital Market Commission of the Republic of Latvia (FCMC).

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64.99 Other financial service activities, except insurance and pension funding n.e.c., 66.12 Security and commodity contracts brokerage; 66.19 Other activities auxiliary to financial services, except insurance and pension funding.

2. Summary of significant accounting policies

Basis of preparation

The financial statements were prepared in accordance with International Financial Reporting Standards adopted in the European Union (EU IFRS) effective as at the date of these financial statements and in line with requirements set by the Financial and Capital Market Commission of the Republic of Latvia.

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 29 March 2019. Shareholders have the power to reject the financial statements prepared and issued by the management and the right to request preparation of new statements.

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.

Reporting currency

The amounts disclosed in the financial statements are provided in euro, which is the functional currency of the Company.

Changes in accounting policies

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 01 January 2018.

New standards, their amendments and interpretations which may not have significant impact on the Company's financial statements, are described below:

- *IFRS 9 Financial Instruments – The Company does not have assets, which would be impacted by IFRS 9.*
- *IFRS 15 Revenue from Contracts with Customers*

Several new standards, amendments to standards and interpretations have been published effective for annual periods beginning after 1 January 2018 or not yet adopted by the EU and not applicable to these financial statements:

- *IFRS 16 Leases (replaces IAS 17, IFRIC 4, SIC 15, SIC 27).*
- *Improvements to IFRS 4*
- *Annual improvements to IFRS*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *IFRIC 23 Uncertainty over Income Tax Treatments*
- *Amendments to references to the conceptual framework of IFRSs*

The Company is in the process of evaluating the potential effect of these new standards and interpretations and other changes, if any, to the financial statements.

Recognition of income and expenses

Revenue is formed of commission fee for investment management services. Commission fee income and expense are calculated from the trade amount and are recognised in other comprehensive income statement when incurred.

Customer bonuses

The Company offers a number of bonus programs to its customers in which the bonus is credited to the customer's trading account upon meeting certain conditions (trade transaction volume). Certain bonuses have been previously credited to the customer's account, but made available to the customer only when the terms for receiving the bonus have been met.

Impairment

At each reporting date the Company assesses whether there are any objective evidence that a financial asset or group of financial assets are impaired. A financial asset or group of financial assets is 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 profit and loss.

Foreign Currency Revaluation

All monetary asset and liability items were revalued to euros according to the reference exchange rate established by the European Central Bank (ECB) on the reporting date. Foreign currency transactions are translated into euros at the official exchange rate set by the ECB at the transaction date. Monetary assets and liabilities denominated in foreign currencies are revalued to euro applying the official exchange rate established by ECB at the balance sheet date. Any gain or loss resulting from fluctuations of currency exchange rates is included in the statement of comprehensive income as gain or loss from exchange rate fluctuations.revaluation of currency.

Non-monetary assets and liabilities and currency exchange transactions are translated into euros at the official exchange rate set by the ECB at the transaction date.

The exchange rates for the most significant currencies used at the year-end are:

	2018	**2017**
	1 EUR	**1 EUR**
USD	1.14500	1.19930
CAD	1.56050	1.50390
CHF	1.12690	1.17020
AUD	1.62200	1.53460
GBP	0.89453	0.88723
JPY	125.85000	135.01000
PLN	4.30140	4.17700
RUB	79.71530	69.39200
SGD	1.55910	1.60240

Taxes

Current tax

As of 1 January 2018, the new Corporate Income Tax Law adopted on 28 July 2017 comes into effect in the Republic of Latvia setting out a conceptually new regime for paying taxes. The tax rate is 20% (until 1 January 2018 – 15%), the taxation period is one month instead of a year and the taxable base includes:

- distributed profit (dividends calculated, payments equalled 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 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.

Fixed assets

Property and equipment is 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 of fixed assets is calculated on a reducing balance straight-line basis over the useful life of the asset. Depreciation rates used in the calculation of depreciation:

Type of fixed assets	Depreciation method	Depreciation rate
Software	reducing balance	20%
Computing devices and equipment, including printing devices, information systems, computer software and data storage equipment, means of communication, copiers and equipment	reducing balance	35%
Furniture	straight-line basis	25%
Other fixed assets	straight-line basis	25%

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

Cash and cash equivalents

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

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with EU requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although such estimates are based on the best of management's knowledge, the 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.

Estimates do not take into account bonuses not received for customers.

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 obligation to make further contributions on behalf of retired employees.

Employee entitlements to the annual leave are recognized in proportion to the time worked, during which the vacation days have been accrued to the employees. Accruals for employees' vacations are estimated based on the number of days of unused annual leave up to 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 FI (trade) account. Cash and financial instruments managed by the customers are held separately from the Company's own cash and are recognised in the Company's off-balance sheet as property owned by third parties under the Company's management.

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities is the amount for which an asset may be realized or liability extinguished based on generally accepted principles in an arm's length transaction or applying discounted future cash flows. The Company's financial assets mainly include due from credit institutions and financial liabilities include short-term liabilities. Both financial assets and liabilities are measured at carrying amount, which is close to the fair value. The Company holds funds on behalf of customer 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 the management and hedging of risks. 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 in under constant improvement in line with the Company's operational development.

Credit risk

Credit risk is the risk of loss in case a 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 related to demand deposits with credit 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 balance sheet items denominated in foreign currencies due to movements in foreign exchange rates.

The Company's assets and liabilities exposed to currency risk are demand deposits with credit institutions, as well as accounts payable. The Company tends to hold financial assets and liabilities in EUR currency.

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 movements in interest rates will affect the Company's income. The Company is not exposed to a significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by free cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. As at 31 December 2018 and 2017 the Company's cash and cash equivalents exceed its liablities.

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 authorisation;
- 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 FCMC. The Company's capital adequacy is calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

The minimum capital requirement for credit risk is determined by the Company using the standard approach. The minimum capital requirement for credit risk 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 2018, the minimum ratio of equity against risk weighted assets and memorandum items was 15.30% (2017: 14.10%).

3. Commission and fee income

	2018 EUR	2017 EUR
Commission income from transaction with financial instruments	1 177 874	1 742 359
	1 177 874	**1 742 359**

4. Commission and fee expense

	2018 EUR	2017 EUR
Commission for customer acquisition (*Business Introducers*)	83 435	136 294
Commission fee for financial services	164 629	116 512
Commission fee for SMS services	168	228
	248 232	**253 034**

5. Other operating income

	2018 EUR	2017 EUR
Remuneration for AML/CTF and brokerage services (for more details see Note 19)	359 932	-
Remuneration for the use of White Label (for more details see Note 19)	34 896	92 824
Other income	183	892
	395 011	**93 716**

6. Other operating expenses

	2018 EUR	2017 EUR
Bonus expense	61 559	55 216
	61 559	**55 216**

7. Administrative expenses

	2018 EUR	2017 EUR
Remuneration	793 183	814 424
Social contributions	191 079	192 269
Rent fees and and maintenance costs	311 031	224 305
Marketing	121 689	84 439
Non-deductible VAT	88 931	68 816
Staff health insurance expenses	25 510	20 779
Audit and other professional services	16 673	21 554
Payments to FCMC and other EU regulatory institutions	15 581	18 121
Communications and IT services	11 406	10 453
Office expenses	859	1 241
Other	1 180	1 184
	1 577 122	**1 457 585**

8. Cash and cash equivalents

		31.12.2018		31.12.2017	
		Currency	EUR	Currency	EUR
Cash with AS Rietumu Banka (Latvia)	EUR	-	588	-	609
Total cash with AS Rietumu Banka:			**588**		**609**
Cash with Luminor Bank AS Latvian branch (prev. Nordea Bank AB) (Latvia)	EUR	-	8 362	-	519
Cash on credit card with Luminor Bank AS Latvian branch (prev. Nordea Bank AB) (Latvia)	EUR	-	3 470	-	420
Total cash with Nordea Bank AB:			**11 832**		**939**
Cash with AS Seb Pank (Estonia)	EUR	-	42	-	79
Total cash with AS Seb Pank:			**42**		**79**
Cash with Dukascopy Bank SA (Switzerland)	EUR	-	647 034	-	408 571
Cash with Dukascopy Bank SA (Switzerland)	GBP	20	23	876	988
Cash with Dukascopy Bank SA (Switzerland)	USD	15	13	145	121
Cash with Dukascopy Bank SA (Switzerland)	CAD	28	18	-	-
Cash with Dukascopy Bank SA (Switzerland)	PLN	139	32	53	13
Cash with (FX) Dukascopy Bank SA (Switzerland)	EUR	-	59 583	-	64 878
Total cash with Dukascopy Bank SA:		-	**706 703**	-	**474 571**
TOTAL:			**719 165**		**476 198**

Carrying amount of cash and cash equivalents corresponds to its fair value.

9. Derivatives

	31.12.2018 EUR		31.12.2017 EUR	
	Carrying amount	**Notional value**	**Carrying amount**	**Notional value**
Foreign currency swap contracts	(155)	95 000	(144)	198 338
	(155)	**95 000**	**(144)**	**198 338**

10. Fixed assets

	Computers, printers, copiers and other computer equipment **EUR**
Historical cost	
Cost as at 31.12.2017	3 305
Cost as at 31.12.2018	3 305
Accumulated depreciation at 31.12.2017	2 871
Depreciation for the reporting year	282
Accumulated depreciation at 31.12.2018	3 153
Balance at 31.12.2018	**152**
Balance at 31.12.2017	**434**

11. Other assets

	31.12.2018 EUR	31.12.2017 EUR
Prepaid bonuses		
Actual prepaid bonuses	121 871	362 772
Total prepaid bonuses:	**121 871**	**362 772**
Guarantee deposit for lease of premises		
Actual deposit on leased premises	18 134	18 134
Total guarantee deposit for lease of premises:	**18 134**	**18 134**
Prepayments for services and accrued income		
Prepayment for insurance	12 363	8 633
Prepayment for advertisement	-	2 000
Total prepayment for services and accrued receivables:	**12 363**	**10 633**
Other assets	**53 937**	**975**
	206 305	**392 514**

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. In July 2018 provision of bonuses was terminated due to the prohibition of ESMA. In 2019, the Company will continue paying out bonuses to customers who were entitled to the bonus programme before ESMA prohibitions.

	EUR
Prepaid bonuses as at 31.12.2016	**358 624**
Actual prepaid bonuses	1 048 065
Actual cancelled bonuses	(972 955)
Write-off of bonus expenses	(51 657)
Renewal of provision for bonus expenses	(19 305)
Prepaid bonuses as at 31.12.2017	**362 772**
Actual prepaid bonuses	443 625
Actual cancelled bonuses	(631 279)
Write-off of bonus expenses	(55 747)
Calculation of account balance currency fluctuations	2 500
Prepaid bonuses as at 31.12.2018	**121 871**

12. Taxes and social contributions

	Value added tax	Compulsory state social security contributions	Personal income tax	Business risk state duty	Corporate income tax	Corporate income tax from non-residents	Total
Liabilities as at 31.12.2016	**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 31.12.2017	**5 324**	**26 336**	**14 541**	**51**	**1 579**	**-**	**47 831**
Calculated for 2018	17 446	279 266	140 217	592	-	-	**437 521**
Paid in 2018	(19 226)	(283 568)	(142 954)	(591)	(1 579)	-	**(447 918)**
Liabilities as at 31.12.2018	**3 544**	**22 034**	**11 804**	**52**	**-**	**-**	**37 434**

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

	31.12.2018 EUR	**31.12.2017 EUR**
Commission fees payable to Business Introducers	45 682	41 627
Electricity, gas, water supply and utilities	14 547	11 818
Audit and internal audit services	9 945	14 861
Advertisement services	2 048	3 350
IT services	258	258
Other	79	130
	72 559	**72 044**

14. Other liabilities

	31.12.2018 EUR	**31.12.2017 EUR**
Remuneration liabilities	48 240	48 255
Liabilities for unused vacations	40 119	43 374
FCMC financing	2 649	3 833
Other	1 000	-
	92 008	**95 462**

15. Paid-up share capital

Fully paid-up share capital registered on 31 December 2018 consists of 1 154 615 (2017: 868 901) ordinary shares with voting rights with nominal value of EUR 1.40, amounting to EUR 1 616 461.00 (2017: EUR 1 216 461.40). The sole shareholder of the Company is Dukascopy Bank SA.

On 11 October 2018 the Company issued ordinary shares in the amount of EUR 399 999.60 which was paid up by Dukascopy Bank SA on 18 October 2018. On 24 October 2018, changes in equity were registered with the Register of Enterprises of the Republic of Latvia.

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

Corporate income tax recognised in the statement of comprehensive income

	31.12.2018 EUR	31.12.2017 EUR
Current tax	-	(1 579)
	-	**(1 579)**

Effective versus theoretical corporate income tax (relates only to 31.12.2017):

	2017 EUR
Profit (loss) before taxes	41 503
Theoretically calculated corporate income tax	6 225
Non-deductible expenses	19
Unrecognized changes in deferred tax asset in the reporting period	(4 665)
Actual corporate income tax for the reporting year	**1 579**

17. Average number of employees per year

	2018	2017
The average number of staff in the reporting year	132	125

18. Staff expenses

	2018 EUR	2017 EUR
Remuneration for work	793 183	814 424
Social contributions	191 079	192 269
	984 262	**1 006 693**

Including remuneration to the Board members:	2018 EUR	2017 EUR
Remuneration	57 109	57 350
Social contributions	13 751	13 536
	70 860	**70 886**

19. Related party transactions

Items of the statement of financial position (Dukascopy bank SA)	31.12.2018 EUR	31.12.2017 EUR
Due from credit institutions (Dukascopy bank SA, refer to Note 8)	706 703	474 571
	706 703	**474 571**

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 484 (2017: EUR 233) and received SMS services in the amount of EUR 168 (2017: EUR 228). 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 113 306 (2017: EUR 55 821) and EUR 30 005 for brokerage fees and CFD divdends from FOREX Trading services (2017: income EUR 11 243).

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 35 079 (2017: EUR 93 716). Dukascopy Bank SA provides such services to all of its White Label partners, following the same exact principles of services offered. In accordance with Outsourcing Agreement concluded on 2 October 2017 and 1 October 2018, parent company Dukascopy Bank SA has made contributions for AML/CFT and brokerage outsourcing services to its subsidiary Dukascopy Europe IBS AS as it's Outsourcing Agreement partner in the amount of EUR 359 932 (2017: EUR 0).

All mutual transactions have been performed following the arm's length principle.

20. Financial instruments and cash under management

Customers' funds	2018 EUR	2017 EUR
Cash	3 295 914	4 383 721
Other financial instruments	34 425	45 325
TOTAL:	**3 330 339**	**4 429 046**

21. Capital adequacy

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalization. Capital adequacy requirements are set monitored by the Financial and Capital Market Commission.

Under the current capital requirements set by Financial and Capital Market Commission, brokerage companies must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2018, this minimum level is 8% (2017: 8%). The Company was in compliance with the statutory capital ratio as at 31 December 2017 and 31 December 2018.

The table represents the Company's capital position at 31 December 2018 and 31 December 2017 in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012:

	2018 EUR	2017 EUR
Tier 1		
Paid-up share capital	1 616 461	1 216 461
Accumulated losses of previous years	(562 796)	(602 720)
Profit (loss) of the reporting year	(330 199)	39 924
Total T1 capital	**723 466**	**653 665**
Minimum capital requirements	**378 310**	**371 003**
Capital adequacy ratio (%)	**15.30**	**14.10**

When calculating the minimum credit risk capital requirement, the Company applies the Standardized Approach for determining the risk-weighted value of transactions.

22. Currency analysis

Financial assets and liabilities analysis as at 31 December 2018 by currencies, EUR:

	Total	EUR	USD	CAD	AUD	CHF	GBP	PLN	SGD	Other
Cash and cash equivalents	**719 165**	719 079	13	18	-	-	23	32	-	-
Prepaid bonuses	121 871	48 341	48 037	226	4 070	945	3 212	4 943	8 257	3 840
Other assets	**53 278**	53 278		-	-	-	-	-	-	-
Total financial assets as at 31.12.2018	**894 314**	**820 698**	**48 050**	**244**	**4 070**	**945**	**3 235**	**4 975**	**8 257**	**3 840**
Accounts payable to suppliers and contractors (accrued expenses)	**72 559**	43 346	25 292	-	150	335	2 580	855	1	-
Total financial liabilities as at 31.12.2018	**72 559**	**43 346**	**25 292**	**-**	**150**	**335**	**2 580**	**855**	**1**	**-**
Net position in the statement of financial position	**821 755**	**777 352**	**22 758**	**244**	**3 920**	**610**	**655**	**4 120**	**8 256**	**3 840**
Currency exchange swaps	**(154)**	95 000	(55 086)	(5 011)	(5 016)	-	(10 044)	(9 973)	(10 024)	-
Net position	**821 601**	**872 352**	**(32 328)**	**(4 767)**	**(1 096)**	**610**	**(9 389)**	**(5 853)**	**(1 768)**	**3 840**

Financial assets and liabilities analysis as at 31 December 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 as at 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 (accrued expenses)	**72 044**	46 452	21 318	530	159	792	2 633	152	8
Total financial liabilities as at 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**
Currency exchange swaps	**(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**

23. Sensitivity analysis

A reasonably possible strengthening (weakening) of the euro against the following currencies at 31 December 2018 and 31 December 2017 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.

	2018		2017	
	Strengthening	**Weakening**	**Strengthening**	**Impairment**
USD (10% change)	323	(323)	741	(741)
CAD (10% change)	477	(477)	57	(57)
AUD (10% change)	110	(110)	227	(227)
CHF (10% change)	61	(61)	50	(50)
GBP (10% change)	939	(939)	282	(282)
PLN (10% change)	585	(585)	482	(482)
SGD (10% change)	177	(177)	-	-
Other (10% change)	384	(384)	128	(128)
	3 056	**(3 056)**	**1 967**	**(1 967)**

24. Maturity analysis

The table reflects the maturity analysis of the Company's financial assets and liabilities based on the remaining term from the reporting date to the contractual maturity. Undiscounted cash flows of financial liabilities correspond with the dates and amounts represented in the maturity analysis.

Remaining maturities as at 31 December 2018 were as follow, EUR:

	Total	**On demand**
Cash and cash equivalents	**719 165**	719 165
Prepaid bonuses	**121 871**	121 871
Other assets	**53 278**	53 278
Total financial assets as at 31.12.2018	**894 314**	**894 314**
Accounts payable to suppliers and contractors (accrued expenses)	**72 559**	72 559
Total financial liabilities as at 31.12.2018	**72 559**	**72 559**
Net position	**821 755**	**821 755**

Remaining maturities as at 31 December 2017 were as follow, EUR:

	Total	On demand
Cash and cash equivalents	**476 198**	476 198
Prepaid bonuses	**362 772**	362 772
Total financial assets as at 31.12.2017	**838 970**	**838 970**
Accounts payable to suppliers and contractors (accrued expenses)	**72 044**	72 044
Total financial liabilities as at 31.12.2017	**72 044**	**72 044**
Net position	**766 926**	**766 926**

25. Going concern

During 2018 financial year operations of Dukascopy Europe IBS AS (hereinafter Dukascopy Europe or the 'Company') were significantly impacted by EU regulations. On May 22, 2018, the European Securities and Markets Authority (ESMA)/ adopted three decisions under Article 40 of the EU Regulation No. 600/2014 that negatively influenced the attractiveness of the Company's services and may raise doubts about the ability of the Company to continue as a going concern:

1. to restrict the marketing, distribution and trading conditions of contracts for differences (CFDs) for retail clients;
2. to prohibit the marketing and distribution of binary options to retail clients;
3. to change trading conditions by reducing leverage, cancelling bonuses etc.

Due to the following restrictions the Company's turnover (including Marginal Forex, CFD and Binary options) has decreased by 32% in comparison with prior year.

In spite of the above ESMA decisions, Dukascopy Europe continues providing its services and maintaining competitive edge in the forex brokerage industry. During 2018 the following actions were taken in order to improve its competitiveness and attract new clients:

Dukascopy Europe introduced VI (video identification) to attract clients with higher deposits, bypassing the necessity to send documents by post. With this technology, Dukascopy Europe has introduced higher limits for current and potential clients while reducing the time required for opening an account.

- Account opening process has became available 24/7 (including the weekends), being an exclusive offer comparing with the most of Dukascopy Europe competitors;
- Dukascopy Europe has launched MT4 platform (the most popular trading platform in the world), that, in management's view, should attract new clients segment;
- New underlying CFDs have been introduced, such as US Stocks, Bitcoin (BTC/USD), China A50 (CHI.IDX/USD), Low Sulphur Gasoil (Diesel.CMD/USD), BUND.TR/EUR, UKGILT.TR/GBP, DOLLAR.INX/USD, NLD.IDX/EUR, SGD.INX/SGD, IND.IDX/USD, ETH/USD etc.

Also in 2019, Dukascopy will continue improving its services and trading technologies, as well as increasing list of CFDs traded. As of today, another 6 CFD underlying were already offered.

We also believe that ESMA restrictions may be adjusted in the future, as the restrictions must be reconfirmed by ESMA every three months.

At the same time Dukascopy Europe has a strategic importance for Dukascopy Group. Being EU licensed company, Dukascopy Europe is the only company in the group which can focus and actively attract clients from European Union. That is why, according to the management of the Company, Dukascopy Bank SA (hereinafter Dukascopy Bank) is interested in long-term stability of Dukascopy Europe and will financially support it.

The Banks readiness to support Dukascopy Europe financially was, among other steps, confirmed by capital increase done during 2018. On October 11, 2018, the decision was made to increase the share capital of the Company by EUR 399 999,60 issuing 285 714 new personal shares with nominal value EUR 1,40. In addition, shareholders of the Company have confirmed financial support of the Company and assurance of Company's going concern in 2020 and beyond.

In order to compensate part of reduced income caused by ESMA's restrictions, Dukascopy Europe has decided to diversify its sources of income, and started to provide outsourcing services to Dukascopy Bank. Outsourcing agreements signed between Dukascopy Europe and Dukascopy Bank have allowed Dukascopy Europe to ensure new source of income which has shown a significant growth during 2018. The agreements govern the outsourcing of certain AML/CTF and trading activities of the Bank to the Dukascopy Europe. This activity has generated almost 360 000 EUR income in time period 1 January 2018 to 31 December 2018.. Monthly fees had tendency to grow during 2018.

The number of clients opened by the Bank using Dukascopy Europe outsourced AML/CTF services is continuously growing during 2019. Additionally, outsourcing of Brokerage services has been launched only in October 2018. All these facts allow us to expect higher income from these activities in 2019.

In light of the above plans, the Company management foresees no liquidity problems. Considering the development of the Company's operational performance and the parent company's expected continued financial support in the future, if needed, the Company management believes that the Company will be able to meet its liabilities as they fall due and continue as a going concern, and there is no material uncertainty related to it. The management believes that the going concern basis is applicable in the preparation of financial statements.

26. 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 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 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 2018,
- 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 as at 31 December 2018, 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.

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Licence No. 55

Ondrej Fikrle *Valda Užāne*

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
29 March 2019

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