Dukascopy Europe IBS AS

(UNIFIED REGISTRATION NUMBER 40003344762)

ANNUAL REPORT FOR 2019

Riga, 27 April 2020

Content

Information on the Company

Name of the Company	Dukascopy Europe IBS AS
Legal status	Joint Stock Company
Registration number, place and date	40003344762, Riga, Latvia, 30 May 1997
Registered address	Lāčplēša iela 20 A - 1, Riga, Latvia, LV-1011
Shareholders	Dukascopy Bank SA (100%)
Board	Aleksis Gulbis– Member of the Board– until 16.03.2020 Andrejs Bagautdinovs - Member of the Board. Igors Proņins - Member of the Board until 15.10.2019 Victor Ekimetskiy – Member of the Board from 29.10.2019 Dmitrijs Kukels – Member of the Board from 27.03.2020 (not registered in the Register of Enterprise).
Council	Andrey Duka - Chairman of the Council Veronika Duka - Deputy Chairperson of the Council Vagrams Sajadovs - Member of the Council
Reporting period	1 January 2019 - 31 December 2019
Auditors	AS 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 2019 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 26 July 2019, based on Section 7(1) and Section 138(1)19 of the Financial Instruments Market Law and Article 42 of Regulation (EU) 600/2014 the FCMC made the decision to restrict the use of contracts for difference (hereinafter - CFD) or binary option (hereinafter - BO) agreements. The decision entered into force on 1 August 2019. This decision has in fact extended the restrictions already applicable since 1 August 2018. The restrictions in fact introduce certain prohibitions on advertising, distribution and trading resulting in a drop of CFD and BO trading volumes in 2019 to EUR 0, a decrease by 100% compared to 2018. The financial result of 2019 is a loss in the amount of EUR 49 274 (2018: loss of EUR 330 199). Assets as at 31 December 2019 amount to EUR 859 462 (2018: EUR 925 622). During the reporting period, assets decreased by 7%. The amount of cash held with credit institutions was slightly increased.

Seeking to compensate for the reduction in income caused by the restrictions placed by the FCMC, Dukascopy Europe IBS AS has decided to diversify its sources of income and during 2019 continued to provide outsourcing services to Dukascopy Bank SA. Outsourcing agreements signed between Dukascopy Europe IBS AS and Dukascopy Bank SA enabled Dukascopy Europe IBS AS to obtain a new source of income which has shown a significant growth during 2019. These agreements stipulate that Dukascopy Europe IBS AS provides certain AML/CTF services as well as outsourced brokerage and back office services to Dukascopy Bank SA. In 2019 this activity generated income of nearly EUR 795 754 (2018: EUR 360 000). Monthly fees had tendency to grow during 2019.

The number of clients opened by the Bank using Dukascopy Europe IBS SA outsourced AML/CTF IBS services is continuously growing during 2019. All these facts allow us to expect higher income from these activities in 2020.

During the reporting period, the management paid great attention to efficiency of the Company's operations and as a result of the measures introduced expenses amounted to EUR 1 182 601 (2018: 1 903 084) which is 37,9% lower than in 2018.

The result for the first two months of 2020 is a profit.

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 26.

In 2019, 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 2019, 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 the customers of Dukascopy Bank SA. The Company has become increasingly recognised in 2019 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 2020, the Company will continue improving the quality of services and introduce new IT solutions. In 2020 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 2019, continuing our cooperation in 2020.

A.Duka
Chairman of the Council

A. Bagautdinovs	V. Ekimetskiy	D. Kukels
Member of the Board	Member of the Board	Member of the Board

Riga, 27 April 2020

The financial statements were approved by the Shareholders' Meeting on 27 April 2020.

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 2019 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.

A.Duka
Chairman of the Council

A. Bagautdinovs	V. Ekimetskiy	D. Kukels
Member of the Board	Member of the Board	Member of the Board

Riga, 27 April 2020

Financial statements

Statement of comprehensive income

	Note	2019 EUR	2018 EUR
Fee and commission income	3	337 469	1 177 874
Commission and fee expense	4	(54 787)	(248 232)
Net commission income		**282 682**	**929 642**
Loss on foreign exchange trading and revaluation		(2 085)	(14 809)
Interest expenses	16	(3 632)	-
Net operating income		**276 965**	**914 833**
Other operating revenue	5	795 858	395 011
Other operating expenses	6	(9 149)	(61 559)
Administrative expenses	7	(1 009 662)	(1 577 122)
Other expenses		(498)	(1 080)
Depreciation and amortization of right-of-use asset	10, 11	(102 788)	(282)
Loss before corporate income tax		**(49 274)**	**(330 199)**
Loss for the reporting year		**(49 274)**	**(330 199)**
Total comprehensive loss in the reporting period		**(49 274)**	**(330 199)**

The accompanying notes on pages 11 to 29 are an integral part of these financial statements.

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Riga, 27 April 2020

Statement of Financial Position

ASSETS	Note	31.12.2019 EUR	31.12.2018 EUR
Cash and cash equivalents	8	719 614	719 165
Property and equipment	10	-	152
Right-of-use asset	11	45 937	-
Other assets	12	93 911	206 305
Total assets		**859 462**	**925 622**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Derivatives	9	-	155
Taxes and social contributions	13	25 847	37 434
Lease liabilities	16	46 365	-
Accounts payable to suppliers and contractors (accrued expenses)	14	55 800	72 559
Other liabilities	15	57 258	92 008
Total liabilities		**185 270**	**202 156**
Paid-up share capital	17	1 616 461	1 616 461
Accumulated losses brought forward from previous years		(892 995)	(562 796)
Loss for the reporting year		(49 274)	(330 199)
Total shareholders' equity		**674 192**	**723 466**
Total liabilities and shareholder's equity		**859 462**	**925 622**
Clients' financial instruments and cash held by the Company	22	2 902 826	3 330 339

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Riga, 27 April 2020

Statement of Cash Flows

		2019 EUR	2018 EUR
Cash flows from operating activities			
Loss before corporate income tax		(49 274)	(330 199)
Adjustments for:			
Depreciation of property and equipment and amortisation of right-of-use assets		102 788	282
Decrease (+), increase (-) in prepaid expenses and prepayments		112 394	186 209
Increase (+), decrease (-) in derivatives		(155)	11
Increase (+), decrease (-) in liabilities		(63 097)	(13 336)
Net cash flows from operating activities		**102 656**	**(157 033)**
Cash flows from financing activities			
Share issue		-	400 000
Lease payments		(102 207)	-
Net cash flows from financing activities		**(102 207)**	**400 000**
Increase/ (decrease) in cash and cash equivalents		**449**	**242 967**
Cash and cash equivalents at the beginning of the year		719 165	476 198
Cash and cash equivalents at the end of the year	8	**719 614**	**719 165**

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Riga, 27 April 2020

Statement of Changes to the Shareholder's Equity

	Share capital	Retained earnings/ (uncovered loss) of previous years	Profit/(loss) of the reporting year	Total
	EUR	EUR	EUR	EUR
As at 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**
Loss of 2018 transferred to loss of previous years	-	(330 199)	330 199	-
Loss for the reporting year	-	-	(49 274)	**(49 274)**
31 December 2019	**1 616 461**	**(892 995)**	**(49 274)**	**674 192**

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Riga, 27 April 2020

Notes to the financial statements

1. General information about the Company

The Company was founded on 30 May 1997 as 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 (FCMC) of the Republic of Latvia.

NACE

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 Republic of Latvia Financial and Capital Market Commission.

The Company has consistently applied the accounting policies listed in Note 2 for all periods presented in these financial statements, except for the accounting policy for leases, which are accounted for in accordance with IFRS 16 from 1 January 2019.

The financial statements were authorised for issue by the management on 30 March 2020. 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.

Currency of the financial statements

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

Change 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 1 January 2019.

(i) New standards, their amendments and interpretations which has insignificant impact on the Company's financial statements, are described below:

- *Annual improvements to IFRS for the 2015-2017 cycle (issued on 12 December 2017) (effective for annual periods beginning on or after 1 January 2019).*
- *Amendments IAS 19 Plan Amendments, Curtailment or Settlement (issued on 7 February 2018) (effective for annual periods beginning on or after 1 January 2019).*
- *IFRIC 23 Uncertainty over Income Tax Treatments*
- *Amendments to IFRS 9 Prepayment Features with Negative Compensation*
- *Amendments to IAS 28 Investments in Associates and Joint Ventures*

(ii) Future requirements with no impact on the financial data for 2019:

- *IFRS 17 Insurance contracts*

- *Amendments to references to the conceptual framework of IFRS*
- *Amendments to IFRS 3 Definition of business*
- *Amendments to IAS 1 and IAS 8 Definition of materiality*
- *Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture*

(iii) New standards, amendments and interpretations which has a insignificant impact on the Company's financial statements, are described below:

- *IFRS 16 – Leases (replaces IAS 17, IFRIC 4, SIC-15, SIC-27)*

The financial statements for 2019 are the first financial statements prepared in accordance with IFRS 16, which sets out the principles for recognizing, measuring and disclosing lease contracts.

The Company is the lessee in all leases, and it has no leases in which it is the lessor. The Company leases real estate (premises and parking space) for administrative needs.

In transition to IFRS 16 the Company used the modified retrospective approach. Accordingly, the comparative information for 2018 has not been restated, it has been presented as previously reported in the 2018 financial statements in accordance with IAS 17, and the total amount of disclosures required by IFRS 16 has not been applied to comparative information.

IFRS 16 replaces the previous classification of leases into operating or finance leases under IAS 17 and introduces a single lessee accounting model. Accordingly, a right-of-use asset and lease liability is recognised by the lessee in its accounting for all lease contracts with depreciation expenses separated from interest expenses on lease liabilities.

The Company used the practical expedient under IFRS 16 and, on initial application, on 1 January 2019, all leases that were previously classified as leases in accordance with IAS 17 were recognized as lease contracts in accordance with IFRS 16.

At the time of transition, on 1 January 2019, the Company also used other expedients in respect of lease contracts that were previously classified as operating leases, incl.:

- a single discount rate was applied to lease contracts with similar characteristics;
- the initial direct costs were excluded from the valuation of the right-of-use assets;
- replaced the assessment of the impairment of rights-of-use assets with the results of the valuation of onerous contracts performed in the previous period.

At initial application, the Company measured lease liabilities at the present value of the remaining lease payments using the weighted average incremental rate of interest of 0.243% as at 1 January 2019. Right-of-use assets were recognized to the extent of the estimated lease liabilities adjusted for past payments and accrued payments.

The effect of IFRS 16 on the Company's financial statements at the date of application of the standard on 1 January 2019 is as follows:

	EUR
Right-of-use assets	266 642
Lease liabilities	266 642

	EUR
Operating lease liabilities as at 31 December 2018, as previously reported in the financial statements of 2018 in accordance with IAS 17	273 177
Discounted liabilities by applying the incremental borrowing rate on 1 January 2019	266 642
Lease liabilities recognised on 1 January 2019	266 642

Lease accounting from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16 as described below. (a) the right to obtain substantially all the economic benefits from the use of the identified asset; and (b) the right to determine the use of the identified asset.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Right-of-use assets are subsequently measured using the cost model: measured at cost minus accumulated depreciation and accumulated impairment losses. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease liabilities at the inception date are measured as the present value of the remaining lease payments at that date. The lease liability is discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

a) fixed payments (including in-substance fixed payments), less any lease incentives;

b) variable lease payments that depend on an index or rate and were originally calculated using an index or rate at the starting date;

c) any residual value guarantees provided to the lessor by the Company, a party related to the Company or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;

d) the exercise price of a purchase option if the Company is reasonably certain to exercise that option;

e) penalties for early termination of a lease unless the Company is reasonably certain not to terminate early;

f) lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option.

Management of the Company has assessed for each lease contract whether it is reasonably certain that the Company will exercise an extension or termination option as well as purchase option, where relevant.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company does not recognize right-of-use assets and lease liabilities for lease contracts concluded for 12 months or less at the commencement date and for leases where the underlying asset is of low value (the value of a new asset is less than EUR 5 000). Lease payments related to this lease are recognised by the Company as an expense on a straight-line basis over the lease term.

Lease accounting until 1 January 2019:

During the comparative period, it was assessed by the Company at the commencement date of a lease whether the lease was a finance or an operating lease by making an assessment of whether all the risks and rewards of ownership of the lease were transferred to the Company.

Asset leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating lease agreements are recognized as expenses on a straight–line basis over the lease term. Liabilities arising from operating lease agreements are recognized by the Company as contingent liabilities.

The Company had no financial leases in the reporting year 2018.

Recognition of revenue and expenses

Revenue is formed of commission fee for investment management services. Commission fee income and expenses are calculated for each transaction. According to the commission policy, the rates of commission fees depend on the customer's trading volume, net deposit paid and account balance in the transaction exchange. Fee and commission income and expenses are recognised in the statement of comprehensive income as incurred. Revenue from outsourced services is measured and accounted for each contract separately according to contract provisions and allocated to other operating income. Revenue from outsourced services is recognized in the profit and loss statement over the period of time when the services are provided

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 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 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:

	2019	2018
	1 EUR	1 EUR
USD	1.12340	1.14500
CAD	1.45980	1.56050
CHF	1.08540	1.12690
AUD	1.59950	1.62200
GBP	0.85080	0.89453
JPY	121.94000	125.85000
PLN	4.25680	4.30140
RUB	69.95630	79.71530
SGD	1.51110	1.55910

Taxation

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.

Property and equipment

Property and equipment is carried at historical 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 PPE 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 PPE	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 tangible 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 judgments and estimates in preparation of the 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.

Judgements related to the going concern assumption are discussed in Note 26.

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 owned by 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 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 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 2019 and 2018 the Company's cash and cash equivalents exceed its liabilities.

Operational risk

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

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

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

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

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

Compliance and reputation risks

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

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

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

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

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

Capital adequacy

In determining the amount of capital required to cover risks the Company assesses all risks inherent to its operations, including risks that are subject to regulations on the minimum capital requirements set by the 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 2019, the minimum ratio of equity against risk weighted assets and memorandum items was 13.85% (2018: 15.30%).

3. Commission and fee income

	2019 EUR	2018 EUR
Commission income from transaction with financial instruments	337 469	1 177 874
	337 469	1 177 874

4. Commission and fee expense

	2019 EUR	2018 EUR
Commission for customer acquisition (*Business Introducers*)	12 392	83 435
Commission fee for financial services	42 320	164 629
Commission fee for SMS services	75	168
	54 787	248 232

5. Other operating income

	2019 EUR	2018 EUR
Remuneration for AML/CTF, brokerage and back office services (for more details see Note 19)	795 754	359 932
Remuneration for the use of White Label (for more details see Note 19)	-	34 896
Other income	104	183
	795 858	395 011

6. Other operating expenses

	2019 EUR	2018 EUR
Bonuses paid to customers	9 149	61 559
	9 149	61 559

7. Administrative expenses

	2019 EUR	2018 EUR
Remuneration	609 814	793 183
Social contributions	147 004	191 079
Maintenance of premises (2018: Rent fees and maintenance costs)	63 480	311 031
Marketing	68 950	121 689
Non-deductible VAT	54 094	88 931
Staff health insurance expenses	29 072	25 510
Audit and other professional services	11 397	16 673
Payments to FCMC and other EU regulatory institutions	11 313	15 581
Communications and IT services	12 061	11 406
Office expenses	1 392	859
Other	1 085	1 180
	1 009 662	1 577 122

8. Cash and cash equivalents

		31.12.2019		31.12.2018	
		Currency	EUR	Currency	EUR
Cash with AS Rietumu Banka (Latvia)	EUR	-	4 322	-	588
Total cash with AS Rietumu Banka:			4 322		588
Cash with Luminor Bank AS Latvian branch (prev. Nordea Bank AB) (Latvia)	EUR	-	3 805	-	8 362
Cash on credit card with Luminor Bank AS Latvian branch (prev. Nordea Bank AB) (Latvia)	EUR	-	808	-	3 470
Total cash with Nordea Bank AB:			4 613		11 832
Cash with AS Seb Pank (Estonia) (the account was closed on 09.09.2019)	EUR	-	-	-	42
Total cash with AS Seb Pank:			-		42
Cash with Dukascopy Bank SA (Switzerland)	EUR	-	652 561	-	647 034
Cash with Dukascopy Bank SA (Switzerland)	GBP	152	178	20	23
Cash with Dukascopy Bank SA (Switzerland)	USD	354	315	15	13
Cash with Dukascopy Bank SA (Switzerland)	CAD	17	12	28	18
Cash with Dukascopy Bank SA (Switzerland)	PLN	401	94	139	32
Cash with (FX) Dukascopy Bank SA (Switzerland)	EUR	-	57 519	-	59 583
Total cash with Dukascopy Bank SA:		-	710 679	-	706 703
TOTAL:			719 614		719 165

The carrying amount of cash and cash equivalents corresponds to their fair value.

9. Derivatives

	31.12.2019 EUR		31.12.2018 EUR	
	Fair value	Notional value	Fair value	Notional value
Foreign currency swap contracts	-	-	(155)	95 000
	-	-	(155)	95 000

10. Property and equipment

	Computers, printers, copiers and other computer equipment EUR	Total property and equipment EUR
Historical cost		
Cost at 31.12.2018	3 305	3 305
Cost at 31.12.2019	3 305	3 305
Accumulated depreciation at 31.12.2018	3 153	3 153
Depreciation for the reporting year	152	152
Accumulated depreciation at 31.12.2019	3 305	3 305
Balance at 31.12.2018	152	152
Balance at 31.12.2019	-	-

11. Right-of-use assets

	Premises and parking lot EUR	Total EUR
Historical cost		
31.12.2018	-	-
Impact from initial application of IFRS 16	266 642	266 642
01.01.2019	266 642	266 642
Disposed right-of-use assets	(146 479)	(146 479)
31.12.2019	120 163	120 163
Accumulated amortisation		
31.12.2018	-	-
Impact from initial application of IFRS 16	-	-
01.01.2019	-	-
Amortization	102 636	102 636
Amortisation of disposed right-of-use assets	(28 410)	(28 410)
31.12.2019	74 226	74 226
Balance as at 31.12.2018	-	-
Balance as at 01.01.2019	266 642	266 642
Balance as at 31.12.2019	45 937	45 937

During 2019, the Company revised its effective rent agreements and reduced the rented areas which resulted in the elimination of the right-of-use asset.

12. Other assets

	31.12.2019 EUR	31.12.2018 EUR
Prepaid bonuses		
Actual prepaid bonuses	-	121 871
Total prepaid bonuses:	-	121 871
Security deposit for rent 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	10 347	12 363
Total prepayment for services and accrued receivables:	10 347	12 363
Other assets	65 430	53 937
	93 911	206 305

Prepaid bonuses are awarded to customers based on applications. The bonus is paid after reaching a specific volume of trades and the related 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 paid out bonuses to customers who were entitled to the bonus programme before ESMA prohibitions and as at 31 December 2019 there are no prepaid bonuses to customers.

	EUR
Prepaid bonuses as at 31.12.2017	362 772
Actual prepaid bonuses	443 625
Actual cancelled bonuses	(631 279)
Recognised expenses on bonuses	(55 747)
Calculation of account balance currency fluctuations	2 500
Prepaid bonuses as at 31.12.2018	121 871
Actual cancelled bonuses	(113 874)
Recognised expenses on bonuses	(9 149)
Calculation of account balance currency fluctuations	1 152
Prepaid bonuses as at 31.12.2019	-

13. Taxes and social contributions

	Value added tax	Compulsory state social security contributions	Personal income tax	Business risk state duty	Corporate income tax	**Total**
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)
Payable as at 31.12.2018	3 544	22 034	11 804	52	-	37 434
Calculated for 2019	13 368	218 105	99 740	571	-	331 784
Paid in 2019	(15 324)	(223 709)	(103 760)	(578)	-	(343 371)
Payable as at 31.12.2019	1 588	16 430	7 784	45	-	25 847

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

	31.12.2019 EUR	31.12.2018 EUR
Commission fees payable to Business Introducers	44 178	45 682
Electricity, gas, water supply and utilities	5 248	14 547
Audit and internal audit services	3 991	9 945
Advertisement services	1 350	2 048
IT services	1 033	258
Other	-	79
	55 800	72 559

15. Other liabilities

	31.12.2019 EUR	31.12.2018 EUR
Remuneration liabilities	28 104	48 240
Liabilities for unused vacations	26 015	40 119
FCMC financing	2 659	2 649
Other	480	1 000
	57 258	92 008

16. Lease liabilities

Lease related expenses recognised in profit or loss	2019 EUR
Interest expenses	3 632
Non-deductible VAT expenses	22 226

	2019 EUR
Total cash flows from lease transactions	105 839

Maturity analysis – undiscounted contractual cash flows	2019 EUR
Less than one year	47 248
Total undiscounted lease liabilities	47 248
On-balance-sheet lease liabilities	46 365
Short-term	46 365

The Company's lease liabilities include three lease contracts for the lease of a parking lot and premises expiring on 31 July 2020. The discount rate is 0.243%.

17. Paid-up share capital

The fully paid-up and registered share capital as at 31 December 2019 consists of 1 154 615 (2018: 1 154 615) ordinary shares with voting rights with nominal value of EUR 1.40, amounting to EUR 1 616 461.00 (2018: EUR 1 616 461.00). 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 majority 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.

18. Average number of employees per year

	2019	2018
The average number of staff in the reporting year	129	132

19. Personnel expenses

	2019 EUR	2018 EUR
Remuneration for work	609 814	793 183
Social contributions	147 004	191 079
	756 818	984 262

Including remuneration to the Board members:	2019 EUR	2018 EUR
Remuneration	21 929	57 109
Social contributions	5 283	13 751
	27 212	70 860

20. Related party transactions

Items of the statement of financial position (Dukascopy Bank SA)	31.12.2019 EUR	31.12.2018 EUR
Due from credit institutions Dukascopy Bank SA (see Note 8)	710 679	706 703
	710 679	706 703

According to the Outsourcing and White Label Agreement, Dukascopy Europe IBS AS has paid its parent company, Dukascopy Bank SA, commission expenses for bank services: a fee for bank charges, received SMS services, a commission fee payment for White Label services, on brokerage services and CFD dividends for FOREX Trading services in the amount of EUR 27 125 (2018: EUR 143 963). Dukascopy Bank SA provides such services to all of its White Label partners, following the same exact principles of services offered.

In accordance with the amendment to the Outsourcing and White Label Agreement of 27 April 2016 and in accordance with the Outsourcing Agreement of 2 October 2017, 1 October 2018 and 24 September 2019, parent company Dukascopy Bank SA has paid to its subsidiary Dukascopy Europe IBS AS as its Outsourcing Agreement partner, for the use of White Label, for FOREX Trading transactions, AML/CFT, brokerage and backoffice outsourcing services in the amountamount of EUR 798 875 (2018: EUR 395 011).

All related party transactions have been performed at arm's length.

21. Financial instruments and cash under management

Customers' funds	2019 EUR	2018 EUR
Cash	2 870 012	3 295 914
Other financial instruments	32 814	34 425
TOTAL:	2 902 826	3 330 339

22. 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 the Financial and Capital Market Commission, brokerage companies must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum requirement. As at 31 December 2019, the minimum requirement is 8% (2018: 8%). The Company was in compliance with the statutory capital ratio as at 31 December 2018 and 31 December 2019.

The table represents the Company's capital position at 31 December 2019 and 31 December 2018 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:

	2019 EUR	2018 EUR
Tier 1		
Paid-up share capital	1 616 461	1 616 461
Accrued loss brought forward from previous years	(892 995)	(562 796)
Profit (loss) of the reporting year	(49 274)	(330 199)
Total Tier 1	674 192	723 466
Minimum capital requirements	394 332	378 310
Capital adequacy ratio (%)	13.68	15.30

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

23. Currency analysis

Financial assets and liabilities analysis as at 31 December 2019 by currencies, EUR:

	Total	EUR	USD	CAD	AUD	CHF	GBP	PLN	SGD	Other
Cash and cash equivalents	719 614	719 015	315	12	-	-	178	94	-	-
Other assets	65 430	65 430		-	-	-	-	-	-	-
Total financial assets as at 31.12.2019	785 044	784 044	315	12	-	-	178	94	-	-
Lease liabilities	46 365	46 365	-	-	-	-	-	-	-	-
Accounts payable to suppliers and contractors (accrued expenses)	55 800	27 558	24 666	-	153	326	2 938	159	-	-
Total financial liabilities as at 31.12.2019	102 165	73 923	24 666	-	153	326	2 938	159	-	-
Net position in the statement of financial position	682 274	710 522	(24 351)	12	(153)	(326)	(2 760)	(65)	-	-

Currency analysis of financial assets and liabilities as at 31 December 2018, 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	(155)	95 000	(55 086)	(5 011)	(5 016)	-	(10 044)	(9 973)	(10 025)	-
Net position	821 600	872 352	(32 328)	(4 767)	(1 096)	610	(9 389)	(5 853)	(1 769)	3 840

24. Sensitivity analysis

A reasonably possible strengthening (weakening) of the euro against the following currencies at 31 December 2019 and 31 December 2018 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.

	2019		2018	
	Strengthening	Weakening	Strengthening	Weakening
USD (10% change)	32	(32)	3 233	(3 233)
CAD (10% change)	1	(1)	477	(477)
AUD (10% change)	-	-	110	(110)
CHF (10% change)	-	-	61	(61)
GBP (10% change)	18	(18)	939	(939)
PLN (10% change)	9	(9)	585	(585)
SGD (10% change)	-	-	177	(177)
Other (10% change)	-	-	384	(384)
	60	(60)	5 966	(5 966)

25. 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 2019 were as follow, EUR:

	Total	On demand	Within 3 months	Over 3 months
Cash and cash equivalents	719 614	719 614	-	-
Other assets	65 430	65 430	-	-
Total financial assets as at 31.12.2019	785 044	785 044	-	-
Lease liabilities	46 970	-	20 032	26 938
Accounts payable to suppliers and contractors (accrued expenses)	55 800	55 800	-	-
Total financial liabilities as at 31.12.2019	102 770	55 800	20 032	26 938
Net position	682 274	729 244	(20 032)	(26 938)

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

26. Subsequent events and going concern

During financial year 2019, the operations of Dukascopy Europe IBS AS (hereinafter Dukascopy Europe or the 'Company') were significantly impacted by EU regulations. On 26 July 2019, the FCMC adopted three decisions under Article 42 of EU Regulation No. 600/2014 that had an adverse impact on the attractiveness of the Company's services and may raise doubt 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 71% in comparison with prior year.

Regardless of the above decisions made by ESMA and the FCMC, Dukascopy Europe continues providing its services and maintaining a competitive edge in the FOREX brokerage industry. During 2019 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 customers while reducing the time required for opening an account and update or supplement customer information.

The account opening and serving process has become available 24/7 (including weekends), being an exclusive offer compared to the majority of competitors of Dukascopy Europe;

Dukascopy Europe has launched MT4 platform (the most popular trading platform in the world), that, in management's view, should attract the segment of young customers;

Three oil classes, gas, copper, 6 agricultural raw materials, 19 share index tracking CFD and most liquid shares in CFD from Austria, the U.S., Belgium, Denmark, Finland, the U.K., France, Germany, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland are available for trading.

Also in 2020, Dukascopy will continue improving its services and trading technologies, as well as expending the list of CFDs traded.

At the same time Dukascopy Europe has a strategic importance for Dukascopy Group. Being an EU licensed company, Dukascopy Europe is the only company in the group which can focus and actively attract customers from the European Union. According to management, the above condition is what makes Dukascopy Bank SA (hereinafter Dukascopy Bank) interested in long-term stability of Dukascopy Europe.

Seeking to compensate for the reduction in income caused by the restrictions placed by the ESMA, Dukascopy Europe decided to diversify its sources of income and continued to provide outsourcing services to Dukascopy Bank. The outsourcing agreements between Dukascopy Europe and Dukascopy Bank have enabled Dukascopy Europe to obtain a new source of income which has shown a significant growth during 2019. The agreements govern the outsourcing of certain AML/CTF and trading activities of the Bank to Dukascopy Europe. In 2019 this activity generated income of nearly EUR 800 000 (2018: nearly EUR 360 000). Monthly fees had a tendency to grow during 2019.

The number of customers attracted by the Bank using the AML/CTF services outsourced to Dukascopy Europe IBS SA was continuously growing during 2019. In addition, brokerage outsourcing was introduced only in October 2018 and back office services - in December 2019. All these facts enable us to expect higher income from these activities in 2020.

In light of the above plans, management foresees no liquidity problems.

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the Latvian government declared a state of emergency on 12 March 2020. Responding to the potentially serious threat the COVID – 19 presents to public health, the Latvian government authorities have taken measures to contain the outbreak, including suspension of international passenger transport through airports, ports, by bus and rail and the 'lock-down' of certain industries, pending further developments. In particular, airlines, sea carriers and railways suspended international transport of people, schools, universities, restaurants, cinemas, theatres and museums and sport facilities were closed or restricted their activities. Many businesses in Latvia have also instructed employees to remain at home and some have curtailed or temporarily suspended business operations. Similar measures were taken by other European countries and other countries affected by the pandemic.

The wider economic impacts of these events include:

— Disruption to business operations and economic activity in Latvia, with a cascading impact on both upstream and downstream supply chains;

— Significant disruption to businesses in certain sectors, both within Latvia and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;

— Significant decrease in demand for non-essential goods and services;

— An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The law "On measures to prevent and overcome the national threat and combat its consequences in relation to the spread of COVID-19" was ratified on 22 March 2020.

The Cabinet of Ministers is set to determine sectors that have been financially affected by the spread of COVID-19 and are eligible to receive the measures and special support mechanisms provided by the law.

The Company is engaged in the market of financial instruments, which has not been significantly affected by the outbreak of Covid-19 and the turnover of the Company in recent weeks has been stable or even increased and its operations have not been affected. Based on the publicly available information at the date these financial statements were authorized for issue, management considered a number of severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the entity and economic environment in which the entity operates, including the measures already taken by the Latvian government and governments in other countries where the Company carries out significant commercial activities and where its customers are located.

As at 31 December 2019, share capital amounted to EUR 682 933.

Management considered the following operating risks that may adversely affect the Company:

- Unavailability of staff for extended period of time;

- Recession in the Latvian economy and globally that would significantly reduce the purchasing power of end consumers and businesses.

In order to mitigate the risks resulting from potential adverse scenarios, Management started to implement the measures, which notably include:

- implementation of a work-from-home program on a rotational basis for a significant group of employees since all activities of the Company's financial services provision were already done using IT technologies;

- employees in all office departments have been trained to adhere to strict precautionary standards including social distancing, the staff of each department is subdivided into smaller units and work in separate office rooms;

- adjustment to the scale of the Company's operations to respond to the possible decrease in demand for the financial instruments market products and the related brokerage services it provides.

- AML / Brokerage / Backoffice services provided by our Company for the parent company Dukascopy Bank SA (Switzerland) is not an ordinary standard service, but a specific one, and other companies cannot provide it, because unique banking systems and procedures are used for work, which are used for the work of the entire Group. The Company employees have the necessary experience and knowledge, since for many years these same systems and procedures have been used with own Company. Dukascopy Bank cannot allow outsiders into its bank systems. The parent company, Dukascopy Bank, is a banking and securities trader under the supervision of the Swiss Financial Market Authority FINMA (Swiss Financial Market Authority) with a share capital of CHF 22'000'000. Dukascopy Bank's profit for 2019 was over CHF 8 million. The Company financial services in January-March 2020 increased, with an upward trend, as the Company provides services based on Internet technologies and mobile trading services all with a proprietary technology solution, all remote. The services provided by our Company meet the requirements of Dukascopy Bank and contribute to the successful commercial activities of both our and the parent company.

In management's view, the above factors support the assertion that the Company will have sufficient resources to continue for a period of at least 12 months from the reporting date. Management concluded that the range of possible outcomes considered in arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

The management cannot, however, preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in will not have an adverse effect on the Company, and its financial position and operating results, in the medium and longer term. We continue to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.

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Independent Auditors' Report

To the shareholder of Dukascopy Europe IBS AS

Report on the financial statements

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of Dukascopy Europe IBS AS ("the Company") as set out on pages 7 to 29 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2019,
- the statement of comprehensive income for the year then ended, and
- the statement of changes to shareholder's 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 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter - IFRS).

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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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,
- Report of the Council and Board, as set out on page 4 and 5 of the accompanying Annual Report,
- Statement of 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 entity 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 'Regulation on the preparation of annual reports and consolidated annual reports of credit institutions, investment broker companies and investment management companies' issued by the Financial and Capital Market Commission.

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

- the information presented in the Report of the Council and Board for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Report of the Council and Board has been prepared in accordance with the requirements of 'Regulation on the preparation of annual reports and consolidated annual reports of credit institutions, investment broker companies and investment management companies' issued by the Financial and Capital Market Commission.

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 the International Financial Reporting Standards 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 skepticism 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 AS
License No. 55

Vilāns

Rainers Vilāns
Partner pp. KPMG Baltics AS
Certified Auditor
Certificate No. 200
Riga, Latvia
27 April 2020