Dukascopy Europe IBS AS

(UNIFIED REGISTRATION NUMBER 40003344762)

ANNUAL REPORT FOR 2020

Riga,6 April 2021

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 Victor Ekimetskiy – Member of the Board Dmitrijs Kukels – Member of the Board from 27.03.2020
Council	Andrey Duka - Chairman of the Council Veronika Duka - Deputy Chairperson of the Council Vagrams Sajadovs - Member of the Council
Reporting period	1 January 2020 - 31 December 2020
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 2020 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 and / or the Bank).

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.

The financial result of 2020 is a profit in the amount of EUR 71 188 (2019: loss of EUR 49 274). Assets as at 31 December 2020 amount to EUR 1 319 575 (2019: EUR 859 462). During the reporting period, assets increased by 54%. The amount of cash held with credit institutions was increased by 12%.

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 2020 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 stable level during 2020. 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 2020 this activity generated income of nearly EUR 627 868 (2019: EUR 795 754). Monthly fees had tendency to stabilize during 2020 due to a reduction in the amount of expenses required for the provision of services.

The number of clients opened by the Bank using Dukascopy Europe IBS SA outsourced AML/CTF IBS services is continuously growing during 2020. All these facts allow us to expect stable income from these activities in 2021.

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 886 869 (2019: EUR 1 182 601) which is 25% lower than in 2019. Expenses mentioned previously include commission and fee expense, interest expense, administrative expenses, other expenses, depreciation and amortization of right-of-use asset.

The unaudited result for the first two months of 2021 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.

In 2020, 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 2020, 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 2020 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 2021, the Company will continue improving the quality of services and introduce new IT solutions. In 2021 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 2020, continuing our cooperation in 2021.

A.Duka
Chairman of the Council

A. Bagautdinovs
Member of the Board

V. Ekimetskiy
Member of the Board

D. Kukels
Member of the Board

Riga, 6 April 2021

The financial statements were approved by the Shareholders' Meeting on 6 April 2021.

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 2020 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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Riga, 6 April 2021

Financial statements

Statement of Comprehensive Income

	Note	2020 EUR	2019 EUR
Fee and commission income	3	328 551	337 469
Commission and fee expense	4	(70 376)	(54 787)
Net commission income		**258 175**	**282 682**
Loss on foreign exchange trading and revaluation		1 638	(2 085)
Interest expenses	16	(6 737)	(3 632)
Net operating income		**253 076**	**276 965**
Other operating revenue	5	627 868	795 858
Other operating expenses	6	-	(9 149)
Administrative expenses	7	(723 514)	(1 009 662)
Other expenses		(197)	(498)
Depreciation and amortization of right-of-use asset	9	(86 045)	(102 788)
Profit/(Loss) before corporate income tax		**71 188**	**(49 274)**
Profit/(Loss) for the reporting year		**71 188**	**(49 274)**
Total comprehensive income / (loss) in the reporting period		**71 188**	**(49 274)**

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

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Riga, 6 April 2021

Statement of Financial Position

ASSETS	Note	31.12.2020 EUR	31.12.2019 EUR
Cash and cash equivalents	8	804 434	719 614
Right-of-use asset	9	441 184	45 937
Other assets	10	73 957	93 911
Total assets		**1 319 575**	**859 462**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Taxes and social contributions	11	19 591	25 847
Lease liabilities	14	443 810	46 365
Accounts payable to suppliers and contractors (accrued expenses)	12	61 148	55 800
Other liabilities	13	49 646	57 258
Total liabilities		**574 195**	**185 270**
Paid-up share capital	15	1 616 461	1 616 461
Accumulated losses brought forward from previous years		(942 269)	(892 995)
Profit /(Loss) for the reporting year		71 188	(49 274)
Total shareholders' equity		**745 380**	**674 192**
Total liabilities and shareholder's equity		**1 319 575**	**859 462**
Clients' financial instruments and cash held by the Company	20	2 194 496	2 902 826

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Riga, 6 April 2021

Statement of Cash Flows

		2020 EUR	2019 EUR
Cash flows from operating activities			
Loss before corporate income tax		71 188	(49 274)
Adjustments for:			
Depreciation of property and equipment and amortisation of right-of-use assets		86 045	102 788
Interest expenses		6 737	3 632
Decrease (+), increase (-) in prepaid expenses and prepayments		19 954	112 394
Increase (+), decrease (-) in derivatives		-	(155)
Increase (+), decrease (-) in liabilities		(8 520)	(63 097)
Net cash flows from operating activities		**175 404**	**106 288**
Cash flows from financing activities			
Lease payments		(90 584)	(105 839)
Net cash flows from financing activities		**(90 584)**	**(105 839)**
Increase/ (decrease) in cash and cash equivalents		**84 820**	**449**
Cash and cash equivalents at the beginning of the year		719 614	719 165
Cash and cash equivalents at the end of the year	8	**804 434**	**719 614**

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Riga, 6 April 2021

Statement of Changes to the Shareholder's Equity

	Share capital	Uncovered loss of previous years	Profit/(loss) of the reporting year	Total
	EUR	EUR	EUR	EUR
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**
Loss of 2019 transferred to loss of previous years	-	(49 274)	49 274	-
Profit for the reporting year	-	-	71 188	**71 188**
31 December 2020	**1 616 461**	**(942 269)**	**71 188**	**745 380**

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Riga, 6 April 2021

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 6 April 2021. 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 no transactions that are affected by the newly effective standards or its accounting policies are already consistent with the new requirements.

New Standards and Interpretations not yet adopted.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

(i) *Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*
(ii) *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
(iii) *Reference to Conceptual Framework (Amendments to IFRS 3).*
(iv) *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
(v) *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*

Lease accounting

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.

Recognition of revenue and expenses

Revenue represents commission fees 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 earned/incurred at point in time.

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. Payments for the bonus programs were made to customers until 31 July 2019, while in 2020 no such payments were made.

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:

	2020	2019
	1 EUR	1 EUR
USD	1.22710	1.12340
CAD	1.56330	1.45980
CHF	1.08020	1.08540
AUD	1.58960	1.59950
GBP	0.89903	0.85080
JPY	126.49000	121.94000
PLN	4.55970	4.25680
RUB	91.46710	69.95630
SGD	1.62180	1.51110

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	straight-line basis	20%
Computing devices and equipment, including printing devices, information systems, computer software and data storage equipment, means of communication, copiers and equipment	straight-line basis	33.3%
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 with5 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.

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 2020 and 2019 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 2020, the minimum ratio of equity against risk weighted assets and memorandum items was 21.36% (2019: 13.68%).

3. Commission and fee income

	2020 EUR	2019 EUR
Commission income from transaction with financial instruments	328 551	337 469
	328 551	**337 469**

4. Commission and fee expense

	2020 EUR	2019 EUR
Commission for customer acquisition (*Business Introducers*)	11 375	12 392
Commission fee for financial services	58 670	42 320
Commission fee for SMS services	331	75
	70 376	**54 787**

5. Other operating income

	2020 EUR	2019 EUR
Remuneration for AML/CTF, brokerage and back office services (for more details see Note 19)	627 772	795 754
Other income	96	104
	627 868	**795 858**

6. Other operating expenses

	2020 EUR	2019 EUR
Bonuses paid to customers	-	9 149
	-	**9 149**

7. Administrative expenses

	2020 EUR	2019 EUR
Remuneration	411 593	609 814
Social contributions	99 039	147 004
Maintenance of premises	45 993	63 480
Marketing	62 876	68 950
Non-deductible VAT	48 037	54 094
Staff health insurance expenses	20 164	29 072
Audit and other professional services	14 873	11 397
Payments to FCMC and other EU regulatory institutions	9 580	11 313
Communications and IT services	9 556	12 061
Office expenses	870	1 392
Other	933	1 085
	723 514	**1 009 662**

8. Cash and cash equivalents

			31.12.2020		31.12.2019
		Currency	EUR	Currency	EUR
Cash with AS Rietumu Banka (Latvia)	EUR	-	373	-	4 322
Total cash with AS Rietumu Banka:			**373**		**4 322**
Cash with Luminor Bank AS Latvian branch (Latvia)	EUR	-	54 687	-	3 805
Cash on credit card with Luminor Bank AS Latvian branch (Latvia)	EUR	-	5	-	808
Total cash with Luminor Bank AS Latvian Branch:			**54 692**		**4 613**
Cash with Dukascopy Bank SA (Switzerland)	EUR	-	691 842	-	652 561
Cash with Dukascopy Bank SA (Switzerland)	GBP	-	-	152	178
Cash with Dukascopy Bank SA (Switzerland)	USD	-	-	354	315
Cash with Dukascopy Bank SA (Switzerland)	CAD	-	-	17	12
Cash with Dukascopy Bank SA (Switzerland)	PLN	39	8	401	94
Cash with (FX) Dukascopy Bank SA (Switzerland)	EUR	-	57 519	-	57 519
Total cash with Dukascopy Bank SA:		-	**749 369**	-	**710 679**
TOTAL:			**804 434**		**719 614**

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

9. 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**
Acquired right-of-use assets	481 292	481 292
Disposed right-of-use assets	(120 163)	(120 163)
31.12.2020	**481 292**	**481 292**
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**
Amortization	86 045	86 045
Amortisation of disposed right-of-use assets	(120 163)	(120 163)
31.12.2020	**40 108**	**40 108**
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**
Balance as at 31.12.2020	**441 184**	**441 184**

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.

10. Other assets

	31.12.2020 EUR	31.12.2019 EUR
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	6 298	10 347
Total prepayment for services and accrued receivables:	**6 298**	**10 347**
Other assets	**49 525**	**65 430**
	73 957	**93 911**

11. 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 31.12.2018	**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**
Calculated for 2020	13 648	143 963	69 996	421	-	**331 784**
Paid in 2020	(11 827)	(149 546)	(72 476)	(435)	-	**(343 371)**
Payable as at 31.12.2020	**3 409**	**10 847**	**5 304**	**31**	**-**	**19 591**

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

	31.12.2020 EUR	31.12.2019 EUR
Commission fees payable to Business Introducers	40 492	44 178
Electricity, gas, water supply and utilities	4 806	5 248
Audit and internal audit services	13 669	3 991
Advertisement services	2 130	1 350
IT services	-	1 033
Other	51	-
	61 148	**55 800**

13. Other liabilities

	31.12.2020 EUR	31.12.2019 EUR
Remuneration liabilities	20 076	28 104
Liabilities for unused vacations	27 520	26 015
FCMC financing	2 017	2 659
Other	33	480
	49 646	**57 258**

14. Lease liabilities

	Lease liabilities, EUR
1 January 2020	**46 365**
Cash flows from financial activities	
Payments made for payment of liabilities	(83 847)
Total cash flow fro financial activities	**(83 847)**
Changes in other liabilities	
New agreements	481 292
Accrued interest expenses	6 737
Interest payments made	(6 737)
Total changes in other liabilities	**481 292**
31 December 2020	**443 810**

	Lease liabilities, EUR
1 January 2019	-
Cash flows from financial activities	
Payments made for payment of liabilities	(102 207)
Total cash flow fro financial activities	**(102 207)**
Changes in other liabilities	
New agreements, changes in agreements	**148 572**
Accrued interest expenses	3 632
Interest payments made	(3 632)
Total changes in other liabilities	148 572
31 December 2019	**46 365**

The Company's lease liabilities include three lease contracts for the lease of a parking lot and premises expiring on 31 July 2025. The discount rate is 0.243%.

15. Paid-up share capital

The fully paid-up and registered share capital as at 31 December 2020 consists of 1 154 615 (2019: 1 154 615) ordinary shares with voting rights with nominal value of EUR 1.40, amounting to EUR 1 616 461 (2019: EUR 1 616 461). The sole shareholder of the Company is Dukascopy Bank SA.

Dukascopy Bank SA is a joint stock company registered on 2 November 2004. Registration No CH-660-1823004-9, legal address: Route de Pre Bois 20, Meyrin, Switzerland. The two 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.

16. Average number of employees per year

	2020	2019
The average number of staff in the reporting year	93	129

17. Personnel expenses

	2020 EUR	2019 EUR
Remuneration for work	411 593	609 814
Social contributions	99 039	147 004
	510 632	**756 818**

Including remuneration to the Board members:	2020 EUR	2019 EUR
Remuneration	1 055	21 929
Social contributions	254	5 283
	1 309	**27 212**

18. Related party transactions

Items of the statement of financial position (Dukascopy Bank SA)	31.12.2020 EUR	31.12.2019 EUR
Due from credit institutions Dukascopy Bank SA (see Note 8)	749 369	710 679
	749 369	**710 679**

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 360 (2019: EUR 235) and received SMS services in the amount of EUR 331 (2019: EUR 75). In accordance with the amendment to the Outsourcing and White Label Agreement of 27 August 2017, Dukascopy Europe IBS AS has paid its parent company, Dukascopy Bank SA, a commission fee payment for White Label services in the amount of EUR 8 520 (2019: EUR 9 664) and EUR 19 293 on brokerage services and CFD dividends for FOREX Trading services (2019: EUR 17 151).

In accordance with the Outsourcing Agreement of 2 October 2017 and 1 October 2018, parent company Dukascopy Bank SA has paid compensation for AML/CFT, brokerage and BO outsourcing services to its subsidiary Dukascopy Europe IBS AS as its Outsourcing Agreement partner in the amount of EUR 627 772 (2019: EUR 795 754).

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

19. Financial instruments and cash under management

	2020 EUR	2019 EUR
Customers' funds		
Cash	2 141 778	2 870 012
Other financial instruments	52 718	32 814
TOTAL:	**2 194 496**	**2 902 826**

20. 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% (2019: 8%). The Company was in compliance with the statutory capital ratio as at 31 December 2019 and 31 December 2020.

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:

	2020 EUR	2019 EUR
Tier 1		
Paid-up share capital	1 616 461	1 616 461
Accrued loss brought forward from previous years	(942 269)	(892 995)
Profit (loss) of the reporting year	71 188	(49 274)
Total Tier 1	**745 380**	**674 192**
Minimum capital requirements	**279 123**	**394 332**
Capital adequacy ratio (%)	**21.36**	**13.68**

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

21. Currency analysis

Financial assets and liabilities analysis as at 31 December 2020 by currencies, EUR:

	Total	EUR	USD	CAD	AUD	CHF	GBP	PLN	Other
Cash and cash equivalents	**804 434**	804 426	-	-	-	-	-	8	-
Other assets	**49 525**	49 525		-	-	-	-	-	-
Total financial assets as at 31.12.2019	**853 959**	**853 951**	**-**	**-**	**-**	**-**	**-**	**8**	**-**
Lease liabilities	**443 810**	443 810	-	-	-	-	-	-	-
Accounts payable to suppliers and contractors (accrued expenses)	**61 148**	35 315	22 414	-	153	337	2 781	148	-
Total financial liabilities as at 31.12.2019	**504 958**	**479 125**	**22 414**	**-**	**153**	**337**	**2 781**	**148**	**-**
Net position in the statement of financial position	**349 001**	**374 826**	**(22 414)**	**-**	**(153)**	**(337)**	**(2 781)**	**(140)**	**-**

Currency analysis of financial assets and liabilities as at 31 December 2019, EUR:

	Total	EUR	USD	CAD	AUD	CHF	GBP	PLN	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)**	**-**

22. Sensitivity analysis

A reasonably possible strengthening (weakening) of the euro against the following currencies at 31 December 2020 and 31 December 2019 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.

	2020		2019	
	Strengthening	**Weakening**	**Strengthening**	**Weakening**
USD (10% change)	(2 241)	2 241	(2 435)	2 435
AUD (10% change)	(15)	15	(15)	15
CHF (10% change)	(34)	34	(32)	32
CAD (10% change)	-	-	1	(1)
GBP (10% change)	(278)	278	(276)	276
PLN (10% change)	(14)	14	(7)	7

23. 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 2020 were as follow, EUR:

	Total	On demand	Within 3 months	Over 3 months
Cash and cash equivalents	**804 434**	804 434	-	-
Other assets	**49 525**	49 525	-	-
Total financial assets as at 31.12.2020	**853 959**	**853 959**	**-**	**-**
Lease liabilities	**443 810**	-	22 709	421 101
Accounts payable to suppliers and contractors (accrued expenses)	**61 148**	61 148	-	-
Total financial liabilities as at 31.12.2020	**504 958**	**61 148**	**22 709**	**421 101**
Net position	**349 001**	**792 811**	**(22 709)**	**(421 101)**

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)**

24. Subsequent events

As of the last day of the reporting period until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or 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 2020,
- the statement of 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 2020, 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' 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 pages 4 to 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 Financial and Capital Market Commission of the Republic of Latvia regulations No. 113 - 'Regulation on the preparation of annual reports and consolidated annual reports of credit institutions, investment broker companies and investment management companies'.

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

- the information given 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 the Financial and Capital Market Commission of the Republic of Latvia regulations No. 113 - 'Regulation on the preparation of annual reports and consolidated annual reports of credit institutions, investment broker companies and investment management companies'.

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

KPMG Baltics AS
License No. 55

Rainers Vilāns
Partner pp. KPMG Baltics AS
Certified Auditor
Certificate No. 200
Riga, Latvia
6 April 2021

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