Annual Report

AS KIT Finance Europe

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Beginning of the financial year:	01 January 2019
End of the financial year:	31 December 2019
Management board:	Pavel Arhipov Galina Ruban
Chairman of the Board:	Elena Shilova
Members of the supervisory board:	Maivi Ots Irina Yashumova
Auditor	Crowe DNW Ltd

Attached documents:

1. Independent auditor’s report
2. Profit allocation proposal
3. List of activities

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MANAGEMENT REPORT

Owners and general management

KIT Finance Europe (hereinafter 'KFE' or the 'Investment Firm') is an Investment Firm registered in Estonia in 2004. KFE is a 100% subsidiary of KIT Finance (JSC), one of the largest brokerage companies in Russia, which has been operating in the investment services market since 2000.
KFE is governed by the Estonian Securities Market Act, European Parliament and Council directives and regulatives and supervised by the Estonian Financial Supervision Authority. KFE's core activity is provision of brokerage services to private and institutional investors. KFE's core business is the provision of brokerage services to private and institutional investors. The Investment Firm offers trading on the US, European, Russian and Hong Kong securities markets.

Business review

KFE continued to provide investment services to private customers, professional investors, brokers, banks, insurance companies on hedge funds, stock, bond and futures markets in 2019 . KIT also offers direct access to stock exchanges in different foreign countries, for example, in Russia. Head office of KIT Finance Europe is located in Tallinn. KFE continues to provide services through its Limassol (Cyprus) branch and representative office in St. Petersburg (Russia).

KFE offers to its clients:

● Direct access (DMA) to stock exchanges in Russia, Americas, Europe and Asia.

● One financial position in different currencies and in all markets. It allows trading in different instruments, currencies and in different world markets through one account.
● First-class technologies.

● Trading terminal QUIK, KIT Finance TWS and their applications for smart phones.

● Opportunity to use personal account on KFE Web page.

● Special application for sub-brokers and agents.

● High level of service

● Personal administrator for each of KIT's clients

● Flexible approach to service charges

● Individual connection schemes and customized products for all clients.

● Practical reports

Business environment

In 2019, world economic growth have been affected by the trade conflict between the United States and China. Global growth continued to decelerate in the first half of the year, with one of the biggest risks being the sharper than expected slowdown in China's economic growth. This fact has significant impact on European and some emerging markets. Euro area GDP growth rates were lower than after 2013. Demand for gold has increased due to low interest rates. In June 2019, the price of gold in euros increased more than 6%. At the time of the G20 meeting, a trade truce had been reached between the United States and China. According to the trade truce, no additional tariffs were being applied to Chinese exports to the US and sanctions imposed on Huawei were relaxed. Demand for gold has grown with political uncertainty, price rose as the as relations with Iran tightened.

The US Federal Reserve lowered in 2019. dollar by 25 basis points in the summer, it was the first cut in interest rates since 2008. The US dollar benefited the most from the decline, strengthening 0.9% on a daily basis against the euro. US equities showed higher growth, especially in the technology sector. The strengthening of the dollar increased the returns of euro-based investors.

In September, the European Central Bank lowered the key interest rate and announced a new bond purchase program. In the US, the Federal Reserve lowered its key interest rate for the second time and then in October for the third time in 2019.
The stock markets continued to grow in the second half of the financial year and ended the year with an exceptional yield. In 2019, the performance of global developed equity markets leaded by US technology stocks in euros was 30%, and emerging markets grew by 21% according to MSCI indexes. In December, emerging markets grew by 6% in euros. That helped to reduce the annual gap with developed markets, which rose by only 1% over the month. The US dollar strengthened against the euro over the year by 2.3%, but has been declining since the end of September.
By the end of the reporting year, the Russian rouble strengthened by 12.5% against the Euro and by 11% against the US dollar. The MEOX index was very volatile during the year and by the end of the year showed an upward trend of 28.6% over the year and the RTS index 44.9% respectively. The S&P 500 index increased by 29% during the year. The price of Brent mark of oil increased by 22.7%, price of gold by 18.9%.

Economic results
KFE's income from service fees and interest amounted to EUR 6,415,600 in 2019 (in 2018 – EUR 7,766,407, a decrease of 17,4% compared to the previous year), operating expenses increased by 3,4% and amounted to EUR 1,746,296 EUR (in 2018 – 1,688,846 EUR). The net profit for the year 2019 was 138,069 EUR (in 2018 – EUR 161,786, decreased by 14,7% compared to previous year).

Investment Firm´s key financial figures and ratios

(EUR)

	2019	2018	Change
Revenue, fees and interest income	6,415,600	7,766,407	-17.4%
Net profit	138,069	161,786	-14.7%
Average equity	16,356,948	16,426,376	-0.4%
Return on equity (ROE), %	0.8	1.0	-0.2
Assets, average	19,740,474	17,621,586	12.0%
Return on assets (ROA), %	0.7	0.9	-0.2
Total operating expenses	1,746,296	1,688,846	3.4%
Total income	1,884,365	1,892,452	-0.4%
Expense / income ratio, %	92.7	89.2	3.5

- ROE (%) = Net profit / average equity * 100
- Average equity = (Financial year equity + last year equity)/2
- ROA (%) = Net profit / Assets, average * 100
- Assets, average = (Financial year assets + last year assets)/2
- Expense / income ratio (%) = Total operating expenses / Total income *100
- Total income = Net commissions and fees + Net interest income + Net gain (-loss) on financial transactions

Management

The board of the Investment Firm has two members and the supervisory board has three members. In 2019, Andrei Galushkin, a member of the Management Board, was recalled, and Pavel Arhipov was elected as a new member of the Management Board.

KFE employees

At the end of the year 2019, the Investment Firm and its branch employed 21 people (28 people in 2018), of which 1 employee was on parental leave. In the reporting year the salaries (gross, incl. branch) of the employees, members of the supervisory and management board were calculated in the amount of EUR 778,396 (2018- EUR 710,104).

Objectives for the next financial year

The primary goals of the Investment Firm for the upcoming year are to maintain its position on financial markets, expand its market share and provide high-quality professional investment services for customers.

Post Balance Sheet Events

The existence of coronavirus (Covid-19) was confirmed in early 2020 and by now it has spread across the world, including Estonia, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is uncertain and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. Our systems allow employees to work remotely with high safety standards. Customers can also trade their accounts anywhere using a variety of settings and mobile applications.

ANNUAL FINANCIAL STATEMENTS

Statement of financial position

(EUR)

	Note	31.12.2019	31.12.2018
ASSETS			
Current Assets			
Cash and bank balances	3,19	1,804,206	5,645,829
Financial assets at fair value through profit or loss including	4	1,679,898	1,542,858
Financial assets held for trading	4,19	*1,524,900*	*1,504,878*
Derivative instruments	4,19	*154,998*	*37,980*
Loans and receivables	5,19	17,930,884	10,164,916
Other receivables	6,19	3,137	1,202
Accrued income and prepayments	6,19	225,973	220,301
Non-current assets			
Property, plant and equipment	10	244,705	15,158
Intangible assets	11	744	1,138
TOTAL ASSETS		**21,889,547**	**17,591,402**
LIABILITIES AND EQUITY			
Financial liabilities at fair value through profit or loss	12,19	4,887,132	937,482
Payables to suppliers	19	25,898	47,461
Taxes payable	7,19	51,203	75,380
Accruals and prepayments	13,19	540,288	202,210
TOTAL LIABILITIES		**5,504,521**	**1,262,533**
Equity			
Share capital	14	1,612,710	1,612,710
Statutory capital reserve		161,271	161,271
Retained earnings		14,472,976	14,393,102
Profit for the period		138,069	161,786
TOTAL EQUITY		**16,385,026**	**16,328,869**
TOTAL LIABILITIES AND EQUITY		**21,889,547**	**17,591,402**

Statement of comprehensive income

(EUR)

	Note	01.01.19 - 31.12.19	01.01.18 - 31.12.18
Commission and fees received	16	2,486,652	3,417,522
Commissions and fees paid		-1,682,622	-1,916,545
Net commission and fee income		**804,030**	**1,500,977**
Interest income	17	3,928,948	4,348,885
Interest expense		-2,423,553	-2,384,243
Net interest income		**1,505,395**	**1,964,642**
Net profit (loss) from financial assets at fair value through profit or loss	8	**-425,060**	**-1,573,167**
Data processing expenses		-341,569	-374,632
Administrative expenses		-263,904	-410,484
Other operating income/ expenses		-48,598	3,587
Personnel expenses		-1,041,885	-902,458
Depreciation, amortisation and impairment losses	10,11	-50,340	-4,859
Total expenses		**-1,746,296**	**-1,688,846**
Profit for the year		**138,069**	**203,606**
Income tax	15	0	-41,820
Total comprehensive income for the year		**138,069**	**161,786**
Total comprehensive income for the year attributable to shareholders		**138,069**	**161,786**

Statement of cash flows
(EUR)

	Note	2019	2018
Cash flows from operating activities			
Profit for the period		138,069	161,786
Adjustments for:			
Depreciation, amortisation and impairment losses	10,11	50,340	4,859
Gain/loss from financial investments	4	66,490	308,589
Net interest income		-1,505,395	-1,964,642
Income tax	15	0	41,820
Other adjustments - Interest on finance leases		12,350	0
Change in receivables and prepayments		-421,279	-334,470
Change in liabilities and prepayments		112,707	11,358
Income tax paid		0	-7,000
Change in loans receivable and payable		-3,651,917	-3,468,151
Interest received and paid		1,452,683	2,006,868
Net cash generated from operating activities		**-3,745,952**	**-3,238,983**
Cash flows from investing activities			
Acquisition of property and equipment	10	-1,380	-10,986
Acquisition of intangible assets	11	0	-850
Interest received from selling bonds		26,029	25,847
Acquisition of bonds	4	-1,491,602	-1,393,960
Receipts from sale of bonds	4	1,514,349	2,598,565
Net cash used in / from investing activities		**47,396**	**1,218,616**
Cash flows from financing activities			
Finance lease payments	9	-61,155	0
Dividends paid	14	-81,912	-356,800
Net cash used in / from financing activities		**-143,067**	**-356,800**
Net cash flows		**-3,841,623**	**-2,377,167**
Cash and cash equivalents at the beginning of period	3	**5,645,829**	**8,022,996**
Changes in cash and cash equivalents		**-3,841,623**	**-2,377,167**
Cash and cash equivalents at the end of period	3	**1,804,206**	**5,645,829**

Statement of changes in equity

(EUR)

	Share capital	Statutory capital reserve	Retained earnings	**Total**
As of 31 December 2017	**1,612,710**	**161,271**	**14,749,902**	**16,523,883**
Net profit for the period	0	0	161,786	**161,786**
Distributed dividends	0	0	-356,800	**-356,800**
As of 31 December 2018	**1,612,710**	**161,271**	**14,554,888**	**16,328,869**
Net profit for the period	0	0	138,069	**138,069**
Distributed dividends	0	0	-81,912	**-81,912**
As of 31 December 2019	**1,612,710**	**161,271**	**14,611,045**	**16,385,026**

Further information on share capital and movements in share capital is presented in Note 14.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Note 1 Significant accounting policies

AS KIT Finance Europe (the "Investment Firm ") is an Investment Firm which was registered in Estonia on August 2, 2004. The Investment Firm's registered office address is Roosikrantsi 11, Tallinn, Estonia. The Investment Firm is involved in the provision of investment services to private and institutional investors

Statement of compliance

The annual financial statements of AS KIT Finance Europe as at and for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis of preparation

The financial statements have been prepared on the historical cost basis except where indicated otherwise in these accounting policies. The accounting policies set out below have been applied consistently to all periods presented in these financial statements except where indicated otherwise in these financial statements.

The Investment Firm's reporting year began on January 1, 2019 and ended on December 31, 2019. The financial statements are presented in euros, unless indicated otherwise. All financial information in the financial statements has been presented in euros, unless indicated otherwise.

Assets and liabilities are measured on a reasonable and conservative basis. The preparation of financial statements requires management to make judgements and estimates. The judgements and estimates are based on relevant information about the Investment Firm's financial position and intentions and risks at the date the financial statements are authorised for issue. The final outcome of transactions recognised in the reporting or preceding periods may differ from those judgements and estimates.

Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits, term deposits with a maturity of up to 3 months and units in money market funds. Term deposits with a term of 3 to 12 months are recognised as short-term financial investments.

Financial assets

Depending on the purpose of acquisition, financial assets are classified into the following categories:

- Debt securities held for trading or sale are measured at fair value through profit or loss
- Debt securities held for contractual cash flows and for sale are measured at fair value through other comprehensive income
- Debt securities held solely for the purpose of obtaining contractual cash flows are measured at amortised cost
- Equity instruments (investments in shares)- at fair value through profit or loss
- Loans and receivables are measured at amortised cost.

Purchases and sales of financial assets are recognised using settlement date accounting. No financial assets have been classified as held-to-maturity investments.

When a financial asset is recognised initially, it is measured at its fair value, plus, in the case a financial asset is not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

Financial assets at fair value through profit or loss
A financial asset at fair value through profit or loss is a financial asset that is classified as held for trading (i.e. it is acquired mainly for the purpose of selling or repurchasing it in the near term or it is a derivative that is not a hedging instrument) or some other financial asset which is designated as at fair value through profit or loss upon initial recognition. After initial recognition, financial assets at fair value through profit or loss are measured at their fair values. A gain or loss arising from a change in the fair value of such financial assets is recognised consistently in profit or loss.
In the case of listed securities, the fair value of an investment is its quoted bid price. If the market for a financial instrument is not active, fair value is established using valuation techniques, which include recent arm's length transactions, discounted cash flow analysis and option pricing models.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at their amortised cost (cost less any principal repayments and any reduction for impairment) using the effective interest rate method.
Where it is probable that the Investment Firm is unable to recover a loan or receivable in accordance with the agreed terms and conditions, the item is considered impaired and an impairment loss is recognised.

Provisions for credit losses

According to IFRS 9, the expected credit loss model (ECL) is a 3-step model based on changes in the credit quality of financial assets:

• performing assets - assets that do not show significant signs of credit deterioration, are recognised at the time they are recognised, and aggregated expected losses to be incurred within the next 12 months, based on past experience and future forecasts;

• Underperforming - Assets whose credit risk has increased significantly since the date of the recognition are recognised as loss expected to occur over the lifetime of the asset, individually or in a similar pool;

• Non-performing assets - Assets that are not received / do not operate are recognised as additional losses that are expected to arise from the asset over its lifetime, individually assessed for each asset.

Derivative financial instruments

Derivative financial instruments (forward, future, swap and option contracts) are measured at their fair values. A gain or a loss on financial instruments are recognised at fair value through profit or loss. The Investment Firm does not have any derivative financial instruments which are part of hedging relationships that qualify for hedge accounting.

Property, plant and equipment

Items of property, plant and equipment comprise assets used in the Investment Firm's business whose useful life exceeds one year and which cost exceeds 640 EUR.

An item of property, plant and equipment is recognised initially at its cost. The cost of an item of property, plant and equipment comprises its purchase price (including customs duties and other non-recoverable taxes and duties) and the costs incurred in bringing the item to the location and condition necessary for it to be operating in the manner intended by management. Items of property, plant and equipment are carried at cost less any accumulated depreciation and any impairment losses.

Subsequent expenditure on an item of property, plant and equipment which improves the standard of performance of the item beyond the originally assessed one and participates in the generation of future economic benefits is capitalised and added to the carrying amount of the item. Subsequent expenditure that is aimed at maintaining the standard of performance of an item of property, plant and equipment is recognised as an expense as incurred.
Items of property, plant and equipment are depreciated over their estimated useful lives on a straight-line basis. The following annual depreciation rates are applied:

Other machines and equipment	20%
Other equipment, fixtures and fittings and IT equipment	20-35%

Intangible assets

When an intangible asset is recognised initially, it is measured at its cost. The cost of an intangible asset comprises its purchase price and directly attributable acquisition charges. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives. The following useful lives are assigned:

Software, patents, licenses, trademarks and other intangible assets	3-5 years

Financial liabilities

All financial liabilities (supplier payables, loans and borrowings, accrued expenses and other payables) are initially recognised at their fair value plus transactions costs that are directly attributable to their acquisition. Subsequent to initial recognition, financial liabilities are measured at their amortised cost.

The amortised cost of a current financial liability is generally equal to its nominal value. Therefore, current financial liabilities are measured at the amount payable. The amortised cost of a non-current financial liability is measured using the effective interest rate method. A financial liability is recognised as current when it is due to be settled within twelve months after the balance sheet date or the Investment Firm does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Loans and borrowings which are due to be settled within twelve months after the balance sheet date but which are refinanced on a long-term basis after the balance sheet date and before the financial statements are authorised for issue are classified as current liabilities. In addition, the Investment Firm classifies as current liabilities which the creditor has the right to call in at the balance sheet date due to breach of contract. Borrowing costs are recognised as an expense as incurred.

Fair value measurement

An investment firm shall measure financial instruments at fair value at each balance sheet date. The fair value measurement is based on the assumption that the sale of assets or payment of liabilities will take place in the conditions of the principal market for the asset or liability, or in the absence of a principal market in the conditions most advantageous for the asset or liability. An investment firm shall use fair value measurement techniques that use sufficient data to estimate fair value.
All assets and liabilities measured at fair value or disclosed in the financial statements are classified in accordance with the fair value hierarchy described below:
Level 1 - Quoted (unadjusted) prices in an active market for identical assets and liabilities;

Level 2 - Valuation techniques for which the significant inputs at the lowest level are directly or indirectly observable;
Level 3 - Valuation techniques where the significant inputs at the lowest level are not directly or indirectly observable.
The entity assesses at the end of each reporting period whether assets and liabilities that are recurring in the financial statements need to be reclassified between levels.

Payables to employees

Payables to employees include vacation pay liabilities as at the balance sheet date calculated in accordance with effective laws and the terms of employment contracts. Vacation pay liabilities together with associated social security and unemployment insurance charges are recognised in accrued expenses in the balance sheet and in personnel expenses in the income statement.

Corporate income tax and deferred tax

In accordance with effective legislation, in Estonia the profit earned by companies is not subject to taxation. Therefore, deferred tax assets and liabilities do not arise. Tax rates of profit distributed as dividends are as of 01.01.2019 either 20/80 or 14/86 on the last 3 years average taxable dividends paid during of the net amount to be paid. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or the period in which the dividends are distributed. The income tax and costs that have been calculated on the unpaid dividends at the time of the balance day sheet are adjusted according to the income tax rate of the new reporting year.
Income tax rate in Cyprus is 12,5% on the profit of branch adjusted for taxation purposes.

Foreign currency

Transactions in foreign currencies are translated to the presentation currency using the official exchange rates of European Central Bank quoted at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency and non-monetary financial assets and liabilities which are measured at fair value are re-translated to the Euros using the official exchange rates at the balance sheet date. Exchange gains and losses are offset and recognised in the income statement in the net amount.

Revenue

Revenue and expenses are recognised on an accrual basis. Fee income (including account management and private portfolio fees) is recognised when the service has been provided and the Investment Firm has the right to demand payment.
Interest income and dividend income are recognised when it is probable that economic benefits associated with the transaction will flow to the Investment Firm and the amount of the income can be measured reliably. Interest income is recognised on an accrual basis using the effective interest rate method except where collection of interest is uncertain. Where collection is uncertain, interest income is recognised on a cash basis. Dividends are recognised when the shareholder’s right to receive payment is established.

Statement of cash flow

The cash flow statement is prepared using the indirect method – cash flows from operating activities are found by adjusting net profit by eliminating the effect of non-cash transactions and changes in current assets and current liabilities related to operating activity. The cash flows from investment and financing activities are recorded using the direct method.

Subsequent events

The financial statements reflect significant events affecting the measurement of assets and liabilities that occurred between the balance sheet date, 31 December 2019 and the reporting date, but relate to transactions during the reporting period or earlier periods.
Events after the balance sheet date that have not been taken into account in the valuation of assets and liabilities, but which significantly affect the operations of the next financial year are disclosed in the notes to the annual report.

Offsetting

A financial asset and a financial liability are offset and the net amount is presented in the balance sheet only when the Investment Firm has a legally enforceable right to offset the recognised amounts and the Investment Firm intends either to settle on a net basis

Changes in accounting policies

Leases

As of January 1st 2019, changes have been made to the accounting policies in connection with the implementation of IFRS 16 "Leases". According to IFRS 16, lessees are generally required to recognise all leases as if they were finance leases:

• Leased assets and liabilities are recognised in the balance sheet at the present value of the lease payments;

• Depreciation on leased assets and interest expense on lease liabilities are recognised in the income statement.

Rental payments are discounted using one of two discount rates:

• the internal rate of return on the lease; alternative loan interest rate;

• the lessee's alternative loan interest rate.

The investment firm, as a lessee, uses an alternative interest rate.

Initial measurement

On initial recognition, the lessee measures the cost of the asset that is the subject of the right of use at the beginning of the lease term. The right to use the asset is reflected in a separate item in the statement of financial position.
After the commencement of the lease term, the leases are recognized as a right to use the asset as assets and a lease liability as a liability from the date that the entity obtains the right to use the asset. Leases are accounted for using the cost model. To use the cost model, the lessee measures the right-to-use asset at its cost less any accumulated depreciation and any accumulated impairment losses, adjusted for any revaluation of the lease liability. Assets held for use are generally depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term.

At the beginning of the lease term, the lessee measures the lease liability at the present value of the lease payments outstanding at that date. Lease payments are discounted using the effective interest rate of the lease or the alternative borrowing rate.

Further measurement

After the commencement of the lease term, the lessee measures the lease liability as follows:

- increasing the carrying amount according to the interest on the lease liability;
- reducing the carrying amount in accordance with the lease payments made.

The lessee recognises the interest on the lease liability in the income statement. Lease payments are apportioned between the lease term according to the finance charge (interest expense) and the installments of the lease liability, ie to reduce the carrying amount of the liability. The interest rate is the same at all times in relation to the residual value of the liability.

The Investment Firm applied IFRS 16 “Leases” retrospectively as of January 1st 2019, but has not restated the comparative information for 2018, as permitted by certain transitional provisions of the standard. Therefore, the comparative information for 2018 is presented in accordance with the previously valid IAS 17 and related interpretations.

The Investment Firm has decided not to apply the requirements of IFRS 16 to short-term leases and lease agreements which assets are of low value. Short-term leases are contracts with a lease term up to 12 months or less. Low-value assets are leases of car parks and IT equipment or house hold appliances. In the initial application, the Investment Firm used the weighted average values of the lessee’s alternative loan interest rate – 5% in the case of office space lease agreements. As of January 1st 2019, the Investment Firm recognises the assets and lease obligations in the amount of EUR 278,113, as a result of which the balance sheet volume increased. Information on lease agreements (assets, liabilities, income statement items) is disclosed in Note 9.

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019, and which the Investment Firm has not early adopted.

Changes in the conceptual framework for financial reporting
(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The revised conceptual framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance (e.g. the definition of a liability) and clarifications on the role of key areas in financial reporting, such as diligence, conservatism and measurement uncertainty. The amendments may affect the financial statements for future periods. The impact of the changes is not yet known and cannot be assessed.

Definition of a business – Amendments to IFRS 3
(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.
The effects of the changes are not yet known.

Changes in IAS 1 and IAS 8 „Definition of materiality“-
(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations

accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
The effects of the changes are not yet known.

Note 2 Risk management and capital adequacy calculation principles

The risk management of the Investment Firm assumes the continuous and consistent identification and assessment of the risks and the factors influencing thereof, which is conducted pursuant to the selected ways and methods of monitoring but also the control of the management process. The main principles of risk management and control issues occurring during the activities of the Investment Firm are provided in the provisions of the Internal Rules and the Risk Management Policy of the Investment Firm. The risk management of the Investment Firm is conducted pursuant to the valid legal norms of the Republic of Estonia and the European Union.
The risk management strategy is based on optimizing the ratio of the profitability of the Investment Firm to the level of assumed risks. Development of risk assessment methods and establishment of numerical parameters for criteria is completely in the competence of the management board of the investment firm. The principles and methodology of risk management are regularly reviewed and updated when needed. The risk management process consists of continual and persistent risk identification, risk assessment, impact of the methods chosen and control over the risk management process.

2.1. Credit risk

Credit risk is a risk that the investment firm has to bear the losses, if the parties of the securities transactions and the customers of the investment trust fail to perform their contractual obligations or fail to perform their contractual obligations duly or properly, and if the value of the security for the loan decreases. The main reasons for the occurrence of risk are giving the customers the possibility for margin trading with the liquid financial instruments serving as the security and with the term of one day (the term of the credit may be extended) and the own funds deposited in credit institutions and investment trusts.

For calculating the capital requirements necessary for securing credit risks, the investment firm uses the standard method, for assessing the value of the security the complex method is used.

As of 31 December 2019, the minimum capital requirement for covering the credit risk amounted to EUR 53,727 and was divided as follows:

2.1.1. Credit quality

Position opened to credit risk	Credit risk position before the implementation of mitigation methods (EUR)	Credit risk position after the implementation of mitigation methods (EUR)	Capital requirement 8% (EUR)
Receivables from banks	1,804,206	1,804,206	34,838
Receivables from customers	17,713,703	208	12
Other receivables	328,779	241,081	18,876
Total	**19,846,689**	**2,045,495**	**53,727**

2.2. Market risk

Market risk is the potential loss that may result from unfavourable changes in market factors such as foreign currencies, quoted securities prices or key interest rates. The total regulatory volume of capital requirements required to cover market risks amounted to EUR 791,290 calculated as follows:

	Capital requirment
Currency risk (see 2.2.1)	784,428
Risk on changes in value of securities (see 2.2.2.)	6,862
Total	**791,290**

The investment firm owns a small trading portfolio, the aim of which is to monitor compliance with the regulatory requirements for liquid assets, therefore there is no significant market risk in trading

2.2.1. Currency risk

Currency risk is the risk of unfavourable changes in exchange rates, which has a negative effect on the value of the Investment Firm's assets and liabilities when arranging their conversion into euros. The Investment Firm is exposed to currency risk with respect to foreign exchange rate fluctuations.

The Investment Firm hedges its currency risks with the help of derivatives. According to the rules of managing currency risks, the manager assesses the possible effects of currency changes on a daily basis

As of 31.12.2019, the general open currency position amounted to EUR 9,805,346 and the capital requirement for currency risk was EUR 784,428 and calculated as following:

Currency	Long net positions	Short net position	Total risk positions	Capital coverage requirement
AUD	3	0	3	0
CAD	460	0	460	37
CHF	0	8	8	1
CNY	35	0	35	3
GBP	0	43,197	43,197	3,456
HKD	7,151	0	7,151	572
JPY	14	0	14	1
RUB	7,993,891	0	7,993,891	639,511
SEK	3	0	3	0
USD	0	1,760,584	1,760,584	140,847
Total	**8,001,558**	**1,803,788**	**9,805,346**	**784,428**

2.2.2. Risk on changes in value of securities

In order to comply with the requirements for liquid assets, the Investment Company has a conservative portfolio of highly liquid securities. Given the quality of the securities and the size of the entire portfolio, this does not involve the risk of a significant change in the value of the portfolio. As of 31.12.2019, the risk position amounted to EUR 85,776 and the regulatory requirement to EUR 6,862 which is calculated as follows:

	Risk position	Weight	Weighted risk position	Capital requirements
Specific risk	1,524,900	0.25%	47,653	3,812
Global risk	1,524,900	0.20%	38,123	3,050
Total				**6,862**

2.2.3. Interest rate risk

If the Investment Firm grants loans to the customers or short-term investments with fixed interest and this turn up to be lower than market interest for similar financial instruments, then the Investment Firm may face interest rate risk. Considering the nature of the activities of the Investment Firm and the structure of requirements, the occurrence of such risk is considered unlikely.

2.3. Liquidity risk

Liquidity risk is the risk that the Investment Firm does not have sufficient liquid funds to meet its financial obligations as they fall due. The framework of liquidity risk management includes all activities required for reliable detection, measurement, inspection and monitoring of the liquidity risk.

The Investment Firm calculates the liquidity coefficient according to regulative requirements, based on which the net inflow of funds cannot be less than 75% of the net outflow.

Requirements for liquidity coverage (EUR)	31.12.2019
Liquid assets	1,296,165
Outflow	4,858,222
Inflow (75% of the outflow)	3,643,666
Net outflow	1,240,344
Capital requirement (100% of net outflow)	1.240,344
Liquidity coefficient	**6,30%**

2.4. Leverage

For calculating the financial leverage rate, the capital of the Investment Firm is divided by the total risk positions and is expressed as a percentage. The aim of the financial leverage rate is to cover the exceeding financial leverage risk. As of 31.12.2019, the financial leverage rate calculated as following :

Total leverage ratio exposure	21,369,803
TIER 1 Capital	16,244,533
Leverage ratio	**76,02%**

2.5 Stable financing

The stable financing indicator is directed for the determination of long-term financing sources and the elements which need long-term financing. The main sources of stable financing are own funds. The time interval needed for satisfying the main volume of stable financing does not exceed three months. The Investment Firm ensures the adequate satisfaction of long-term liabilities with the instruments of stable financing.

2.6 Risk concentration

Risk concentration is calculated separately for every customer or the group of associated persons. Risk concentration is high if it exceeds 10%. The risk manager of the Investment Firm constantly monitors the risk positions which exceed the given level. The risk concentration of each customer or the group of associated persons may not exceed 25% of own funds after the implementation of methods for lowering the risk. As of 31.12.2019, the Investment Firm did not exceed the legally established risk concentration threshold.

2.7. Operational risk

Operational risk is the risk that internal processes and / or systems do not function or do not function adequately due to a technical error or failure, the activity or inactivity of the Investment Firm's staff, or external factors.
Compliance control and internal audit have an important role in the assessment of operational risks. In the framework of monitoring and recording of operational risks the Investment Firm uses incident management program with automated alert system. The risk manager of the Investment Firm is responsible for monitoring the risk exposures. The Investment Firm also applies the "four eyes" principle, according to which, all cash or securities' transfers require the approval of at least two members of staff

The Investment Firm applies the base method for calculating the capital requirement for covering the operational risk. As of 31 December 2019, the capital requirement amounted to EUR 268,723.

2.8. Capital buffers

Pursuant to Directive 2013/36/EU of the European Parliament and of the Council, investment firms shall hold, in addition to other own fund requirements, a capital conservation buffer, which equals 2.5% of their total risk exposure amount.
To ensure the stability of the financial sector in relation to non-cyclic risks, which could have a serious negative impact on the national financial system, the Bank of Estonia has established a systemic risk buffer at 1%.
Since 2016, all investment firms undertake to adhere to the requirement established for own funds for covering the countercyclical capital buffer. The Bank of Estonia established the requirement rate of 0%.
KFE takes into account the compulsory capital buffers in calculation of the adequacy of capital.

2.9. Capital adequacy

Net assets for calculation of capital adequacy	**31.12.2019**	**31.12.2018**
Paid in share capital	1,612,710	1,612,710
Capital reserve	161,271	161,271
Retained earnings/losses	14,472,976	14,393,102
Intangible assets (minus)	-2,424	-2,680
TIER 1 CAPITAL	**16,244,533**	**16,164,403**
Capital requirement for credit risk of the Investment Firm and the counterparty	53,727	122,590
Capital requirement for market risk	791,290	701,909
Capital requirement for operational risk (base method)	268,723	273,141
Capital requirement for calculation of capital adequacy	**1,113,740**	**1,097,640**

Minimum capital ratio requirements	**8%**	**8%**
Systemic risk buffer %	1%	1%
Capital conservation buffer %	2.5%	2.5%
Total capital ratio requirements	**11.50%**	**11.50%**
Total capital ratio	**116.68%**	**117.81%**

In order to reduce the risks related to its reliability and the provision of its services, an Investment Firm undertakes to continuously control adherence to capital adequacy standards, the amount of own funds and capital adequacy within the internal capital adequacy assessment process (ICAAP). From the point of view of the Investment Firm, the evaluation mainly includes the number of main risk sources and the definition of their types and the distribution of the capital which is considered adequate by the company for covering the risks. This process also includes stress testing which is conducted in the form of reviewing the scenarios which include different unfavourable events. Such testing identifies the vulnerable moments of the company and allows to determine the financial security and the capital needed for covering possible risks.

The Estonian Financial Supervision Authority annually analyses the process of internal capital adequacy assurance in the form of mandatory supervision. The Investment Firm has complied with the regulatory capital requirements. According to the SREP (Supervisory Review and Evaluation Process) an Investment Firm is required to maintain an equity ratio of at least 22.23%.

Note 3 Cash and bank balances

Cash and cash equivalents	**31.12.2019**	**31.12.2018**
Cash on hand EUR	0	6
Demand deposits EUR	1,262,873	1,537,280
Demand deposits, foreign currency	538,137	4,105,347
Term deposits with a maturity of up to 3 months EUR	3,196	3,196
Total cash and cash equivalents	**1,804,206**	**5,645,829**

Note 4 Financial assets at fair value through profit or loss

Debt securities and other fixed-income securities are debt securities held for trading that are financial assets at fair value through profit or loss.

The interest rate of bonds is 1,7%-1,9% and the currency is USD.

4.1. Bonds

	2019	**2018**
As of January, 1	**1,504,878**	**2,689,705**
Acquisition of bonds	1,491,602	1,388,553
Sale (redemption)	-1,514,349	-2,598,565
Paid interest on bonds	-26,029	-25,847
Interest income during the period	28,646	24,574
Currency exchange gains/loss	28,578	5,407
Revaluation to fair value	11,574	21,051
As of December, 31 (note 19)	**1,524,900**	**1,504,878**

4.2. Derivative instruments of currency exchange

	Assets / liability (at fair value)	
	2019	**2018**
Currency futures (EUR/USD)		
As of January,1	**37,980**	**90,188**
Change of fair value	-135,288	-354,214
Currency exchange gains/loss	162	-4,734
Receipt of profit/loss	252,144	306,740
As of December, 31 (note 19)	**154,998**	**37,980**

Currency futures are used to respond to the exchange rate risk arising from open currency positions. EUR/USD currency futures are revalued daily at fair value. All contracts have a term of 3 months. Derivates are recognised at fair value through profit or loss. The Investment Firm does not use hedge accounting.

4.3. Measuring the fair value of financial assets

The fair value hierarchy of financial assets has the following levels in accordance with IFRS 13:
Level 1 - Quoted (unadjusted) prices in an active market for identical assets and liabilities;
Level 2 - Valuation techniques for which the significant inputs at the lowest level are directly or indirectly observable;
Level 3 - Valuation techniques where the significant inputs at the lowest level are not directly or indirectly observable.
Data on the fair value hierarchy of financial assets as of 31.12.2019:

	Fair value measurement	
	Level 1	**Total**
Bonds	1,524,900	1,524,900
Derivatives	154,998	154,998
Total	**1,679,898**	**1,679,898**

Note 5 Loans granted and receivables from customers

These loans include leveraged short-term loans secured by securities with an interest rate of 2,5% - 16,95% depending on the currency of the loan and costumer's risk level. According to the management, the fair value of the loans does not differ from their carrying amount.

	2019	**2018**
Loans granted	17,602,105	10,093,916
Other receivables	328,779	71,000
Loans and receivables from customers (Note 19)	**17,930,884**	**10,164,916**

Loans granted	2019	2018
Loans to legal entities	9,223,345	1,344,514
Loans to private customers	8,490,358	8,767,622
Impairment of loan receivables	-111,598	-18,220
Total	**17,602,105**	**10,093,916**

Movement of provision for impairment 2019	Loans 31.12.2019	Loans 31.12.2018
As of January,1	-18,220	-14,411
Total impairment of loan and other receivables	-105,923	-5,675
Written off during the year	14,295	0
Revaluation gain/loss	-1,750	1,866
As of December, 31	**-111,598**	**-18,220**

Change in credit quality after recognition

	Loans gross amount 31.12.2019	Expected loss model impairment		
		Performing assets	Underperforming assets	Non-performing assets
Loans and other receivables	17,713,703	17,625,929	40,405	47,369
Probability of non-receipt		0.15%	100%	100%
Effective interest rate		6,5%	-	-
Loss given default		80%	-	-
Amount of expected credit loss	-111, 598	-23,824	-40,405	-47,369

Note 6 Other receivables, accrued income and prepayments

	31.12.2019	31.12.2018
Other receivables	3,137	1,202
Total other receivables (Note 19)	**3,137**	**1,202**
Prepaid and refundable taxes (Note 7)	45,443	42,932
Prepayments	180,530	177,369
Total prepayments (Note 19)	**225,973**	**220,301**

Note 7 Taxes

	31.12.2019		31.12.2018	
	Prepayment	**Payable**	**Prepayment**	**Payable**
Value added tax	5,363	0	0	3,213
VAT paid abroad	3,212	0	3,981	0
Corporate income tax	0	367	0	820
Corporate income tax paid abroad	33,946	0	33,946	34,820
Personal income tax	0	17,181	123	11,283
Social tax	0	29,535	0	20,979
Funded pension premiums	0	1,595	0	723
Unemployment insurance premiums	0	1,254	0	733
Prepayment account	2,922	0	4,882	0
Other taxes abroad	0	1,271	0	2,809
Total taxes (Note 7,19)	**45,443**	**51,203**	**42,932**	**75,380**

Note 8 Net gain/loss on financial transactions

	2019	**2018**
Due to changes in the currency exchange rate:	-287,486	-1,027,682
Currency conversion profit from costumer transactions	*40,032*	*63,874*
revaluation gain/loss	*-327,518*	*-1,091,556*
Net gain/(-loss) from trade	9,902	-186,537
Currency derivatives:	-135,126	-358,948
at fair value	*-135,126*	*-358,948*
Lease interest expenses	-12,350	*0*
Net gain/(-loss) from financial assets at fair value	**-425,060**	**-1,573,167**

Note 9 Leases

As of entry into force of IFRS 16 in 2019, office premises leased by KIT Finance Europe AS are recognised as financial leases. The Investment Firm used the 5% alternative borrowing rate for the initial application of IFRS 16 as of January 1st 2019.

Statements of financial position include the following assets and liabilities related to leases:

Rights of use

Balance 31.12.2018	**0**
Adjustments to IFRS 16	278,113
Balance 01.01.2019	278,113
Depreciation expense	44,498
Balance 31.12.2019 (Note 10)	**233,615**

Lease liabilities

Balance 31.12.2018	**0**
Adjustments to IFRS 16	278,113
Balance 01.01.2019	278,113
Repayments of a lease obligation	-61,155
Interest expense	12,350
Balance 31.12.2019 (Note 13)	**229,308**

The lease expense of the investment firm for the following periods from non-interruptible contracts as of 31.12.2019:

during 12 months	40,661
Within 1-5 years	143,701
Total	**184,362**

Note 10 Property, plant and equipment

	Rent-of-use assets	Machinery and equipment	Other equipment	Total
Cost at 31.12.2018	**0**	**56,462**	**86,120**	**142,582**
Accumulated depreciation at 31.12.2018	**0**	**48,177**	**79,247**	**127,424**
Acquisition	0	1,380	0	**1,380**
Taken into account in connection with the implementation of IFRS 16 (Note 9)	278,113	0	0	**278,113**
Write-offs	0	0	-5,161	**-5,161**
Cost at 31.12.2019	**278,113**	**57,842**	**80,959**	**416,915**
Depreciation charge for the year (+)	44,498	3,538	1,910	**49,946**
Write-offs	0	0	-5,161	**-5,161**
Accumulated depreciation at 31.12.2019	**44,498**	**51,715**	**75,996**	**172,210**
Carrying amount at 31.12.2019	**233,615**	**6,127**	**4,963**	**244,705**

Note 11 Intangible assets

	Brokerage software, licenses, etc. purchased
Cost at 31.12.2018	**13,269**
Acquisition	0
Cost at 31.12.2019	**13,269**
Accumulated depreciation at 31.12.2018	**12,131**
Depreciation charge for the year (+)	394
Accumulated depreciation at 31.12.2019	**12,525**
Carrying amount at 31.12.2018	**1,138**
Carrying amount at 31.12.2019	**744**

Note 12 Financial liabilities at fair value through profit or loss

The Investment Firm mainly keeps its funds in euros, related to that debts in other currencies arise for the settlement of clients' transactions and they have a short-term maturity of less than 1 month.

Financial liabilities by currency	**31.12.2019**	**31.12.2018**
GBP	713,227	937,408
CHF	8	74
HKD	286,268	0
RUB	3,887,629	0
Total financial liabilities (note 19)	**4,887,132**	**937,482**

Note 13 Accrued liabilities

	31.12.2019	**31.12.2018**
Payables to employees	31,071	23,754
Deferred income	2,037	25,278
Lease obligations (Note 9)	229,308	0
Commission payables	231,291	55,841
Interest payables	40,148	89,825
Other accrued liabilities	6,433	7,512
Accrued liabilities, total	**540,288**	**202,210**

Note 14 Equity

Share capital

	31.12.2019	**31.12.2018**
Share capital (EUR)	1,612,710	1,612,710
Number of shares	244,350	244,350
Par value of a share (EUR)	6.60	6.60

The share capital is fully paid in cash. The minimum amount of the share capital is EUR 1,612,710 and the maximum authorised share capital of the Investment Firm is EUR 6,450,840, within which the share capital may be increased or reduced without changing the statute. Shareholders are entitled to receive dividends. Each share gives one vote at the general meeting of shareholders of the Investment Firm.

Dividends

In 2019, dividends in the total amount of EUR 81,912 have been declared and paid to the shareholders. The tax-free dividend payment of EUR 81,912 was made at the expense of retained earning attributed to the Cyprus' branch. In 2018 dividends were paid in the amount of EUR 356,800.

Statutory capital reserve

According to the Commercial Code, the statutory reserve capital is 1/10 of the share capital.
Reserve capital can be used to cover losses, as well as to increase share capital. No payments may be made to shareholders from the reserve capital.

Note 15 Income tax

	2019	2018
Income tax paid abroad	0	41,820
Total income tax paid abroad	**0**	**41,820**

Contingent income tax liability
As of December 31st of 2019, the Investment Firm's unrestricted equity amounted to EUR 14,611,045 (2018: EUR 14,554,888). As of the balance sheet date, it is possible to pay out EUR 11,688,836 as dividends to the owners (2018: EUR 11,643,910). The payment of dividends would result in income tax on dividends in the amount of EUR 2,922,209 (2018- EUR 2,910,978).

Note 16 Commissions and fees received

Geographical area (according to the location of the client)	2019	2018
European Union (Cyprus , Latvia, Great Britain, Estonia and others)	134,329	414,872
Rest of the World (Russia, Kazakhstan, Ukraine and others)	2,352,323	3,002,650
Total	**2,486,652**	**3,417,522**

Activity	2019	2018
Commissions and fees received (EMTAK 66121)	2,486,652	3,417,522
Total	**2,486,652**	**3,417,522**

Note 17 Net interest income

Interest income	2019	2018
On demand deposits	131,269	45,199
On financial assets at fair value through profit or loss (Note 4)	28,646	24,574
Loans granted	3,769,033	4,279,112
Total	**3,928,948**	**4,348,885**

Interest expense	2019	2018
Other interest expenses	-2,423,553	-2,384,243
Total	**-2,423,553**	**-2,384,243**

Interest income on loans according to the location of the client	2019	2018
European Union (Cyprus , Latvia, Great Britain, Estonia and others)	46,230	29,650
Rest of the World (Russia, Ukraine and others)	3,722,803	4,249,462
Total	**3,769,033**	**4,279,112**

Note 18 Assets pledged as collateral

The Investment Firm has a MasterCard issued by AS SEB Bank. The credit limit is EUR 3,196 and the facility is secured with a security deposit of EUR 3,196.

Note 19 Financial instruments

Assets and liabilities by currency

31.12.2019	EUR	USD	GBP	RUB	HKD	Other	Total
Assets							
Cash and bank balances	1,266,069	528,097	0	9,524	0	516	1,804,206
Financial assets at fair value through profit or loss including:	0	1,679,898	0	0	0	0	1,679,898
Financial assets held for trading	*0*	*1,524,900*	*0*	*0*	*0*	*0*	*1,524,900*
Derivative instruments	*0*	*154,998*	*0*	*0*	*0*	*0*	*154,998*
Loans and receivables from customers	26,818	5,062,571	671,011	11,875,997	294,487	0	17,930,884
Other receivables	3,137	0	0	0	0	0	3,137
Accrued income and prepayments	225,973	0	0	0	0	0	225,973
Total	**1,521,997**	**7,270,566**	**671,011**	**11,885,521**	**294,487**	**516**	**21,644,098**
Liabilities							
Financial liabilities at fair value through profit or loss	0	0	713,227	3,887,629	286,268	8	4,887,132
Payables to suppliers	10,762	11,532	0	3,604	0	0	25,898
Taxes payable	51,203	0	0	0	0	0	51,203
Accrued liabilities	267,068	269,618	981	1,553	1,068	0	540,288
Total	**329,033**	**281,150**	**714,208**	**3,892,786**	**287,336**	**8**	**5,504,521**

31.12.2018	EUR	USD	GBP	RUB	HKD	Other	Total
Assets							
Cash and bank balances	1,537,280	3,838,102	0	23,654	161,361	85,432	5,645,829
Financial assets at fair value through profit or loss including:	37,980	1,504,878	0	0	0	0	1,542,858
Financial assets held for trading	*0*	*1,504,878*	*0*	*0*	*0*	*0*	*1,504,878*
Derivative instruments	*37,980*	*0*	*0*	*0*	*0*	*0*	*37,980*
Loans and receivables from customers	1,205,578	2,143,979	1,233,731	5,562,055	97	19,476	10,164,916
Other receivables	1,202	0	0	0	0	0	1,202
Accrued income and prepayments	220,301	0	0	0	0	0	220,301
Total	**3,002,341**	**7,486,959**	**1,233,731**	**5,585,709**	**161,458**	**104,908**	**17,575,106**
Liabilities							
Financial liabilities at fair value through profit or loss	0	0	937,408	0	0	74	937,482
Payables to suppliers	24,032	17,957	0	5,472	0	0	47,461
Taxes payable	75,380	0	0	0	0	0	75,380
Accrued liabilities	32,546	149,487	1,669	18,501	0	7	202,210
Total	**131,958**	**167,444**	**939,077**	**23,973**	**0**	**81**	**1,262,533**

Risk management principles are given in Note 2

Note 20 Off-balance sheet assets and liabilities

AS KIT Finance Europe acts as an accounts manager. Therefore, it intermediates, has in its possession and is liable for following funds of costumers:

Assets	**31.12.2019**	**31.12.2018**
Customers’ cash	19,016,429	150,912,046
Customers’ securities	256,138,062	350,851,959
Total	**275,154,491**	**501,764,005**

Liabilities	**31.12.2019**	**31.12.2018**
Customers’ securities	65,596	**13,677**
Total	**65,596**	**13,677**

Securities are presented in their fair value.

Note 21 Transactions with related parties

Related party transactions include transactions with the parent and subsidiary companies, other group companies, shareholders, members of management, their close family members and companies controlled by them.
The Investment Firm’s parent company is KIT Finance Broker (JSC).

In the reporting period, the Investment Firm performed transactions with related parties as follows:

	2019		**2018**	
Transactions with related parties	Commissions and fees paid	Commissions and fees received	Commissions and fees paid	Commissions and fees received
Group´s parent	718,574	147,593	849,300	22,454
Other group companies	0	1,189,623	0	1,717,336
Other related parties	0	1,264	0	18,491
Total transactions	**718,574**	**1,338,480**	**849,300**	**1,758,281**

Interest income	**2019**	**2018**
Group´s parent	4,348	217
Other group companies	2,920,571	3,536,421
Total interest income	**2,924,919**	**3,536,638**

Interest expenses		
Group´s parent	1,633,479	1,505,105
Total interest expenses	**1,633,479**	**1,505,105**

Net income from trade		
Group´s parent	193	89
Other group companies	56,888	8,861
Total net income from trade	**57,081**	**8,950**

Balances with related parties:	**31.12.2019**	**31.12.2018**
Cash and bank balances		
Bank accounts in parent company	0	15,019
Total cash and bank balances	**0**	**15,019**
Short-term receivables		
Group´s parent	1,590	0
Other group companies	9,437,814	168,339
Other related parties	0	87
Total short-term receivables	**9,439,404**	**168,426**
Short-term payables		
Group´s parent	357	314
Total short-term payables	**357**	**314**
Accrued liabilities and prepayments		
Group´s parent	0	0
Other group companies	2,037	25,278
Total accrued liabilities and prepayments	**2,037**	**25,278**

Calculated remuneration to the board	**31.12.2019**	**31.12.2018**
Members of the management board and supervisory board	253,504	279,911
Total remuneration calculated	**253,504**	**279,911**

The members of the Supervisory Board and Management Board of the Investment Firm have been paid contractual fee in the reporting year in accordance with the decisions of the Supervisory Board and the sole shareholder. No compensation is paid to supervisory board members upon expiry of powers. Therefore, members of the management will get remuneration of three months average.

Members of the management board and supervisory board do not have a stock option at AS KIT Finance Europe.

Note 22 Post Balance Sheet Events

The existence of coronavirus (Covid-19) was confirmed in early 2020 and by now it has spread across the world, including Estonia, causing disruptions to businesses and economic activity.

The Company considers this outbreak to be a non-adjusting post balance sheet event.

As the situation is uncertain and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company.

SIGNATURES

The management board authorised the management report and the annual financial statements of AS KIT Finance Europe for issue on April 9, 2020.

The supervisory board of AS KIT Finance Europe has reviewed the annual report, including the management report and the annual financial statements, and the independent auditor's report and has approved their presentation to the general meeting of the shareholders.

This annual report is signed by members of the management board.

Name	Position	Signature	Date
Pavel Arhipov	Member of the Management Board		09.04.2020
Galina Ruban	Member of the Management Board		09.04.2020

Crowe

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS KIT Finance Europe

Opinion

We have audited the financial statements of AS KIT Finance Europe (the Company), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISAs (EE)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 22 in the financial statements, which indicates that the Company operates in high level uncertainty environment due to corona virus outbreak and overall economy slowdown in 2020 and these events or conditions can indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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, 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted in 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.

Auditor's Responsibilities 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 auditor's 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 (EE) 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 (EE), 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 auditor's 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 auditor's 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 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.

April 9, 2020
In behalf of Crowe DNW Ltd

Vadim Donchevski
Certified Public Accountant

PROFIT ALLOCATION PROPOSAL

(EUR)

Retained earnings	14,472,976
Net profit for 2019	138,069
Total as at 31.12.2019:	***14,611,045***

The Management Board of AS KIT Finance Europe proposes to the General Meeting of the Shareholders not to distribute the profit.

LIST OF ACTIVITIES

Activity	**2019**
Securities and commodity contracts brokerage (EMTAK 66121)	2,486,652
Total	**2,486,652**

Activities planned for the new reporting year:

Securities and commodity contracts brokerage (EMTAK 66121)