Annual Report

AS KIT Finance Europe

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Beginning of the financial year:	01 January 2017
End of the financial year:	31 December 2017
Management board	Andrei Galushkin Galina Ruban
Chairman of the Board:	Elena Shilova
Members of the supervisory board:	Maivi Ots Alexander Bolshakov
Auditor	DNW Audit OÜ
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

AS KIT Finance Europe ('KFE' or 'Investment Firm') is an Investment Firm registered in Estonia in 2004. KFE's sole shareholder is KIT Finance PJSC, one of the leading brokers in the Russian securities market. KFE is mainly governed by the Estonian Securities Market Act and financially supervised by the Estonian Financial Supervision Authority. KFE's core activity is provision of brokerage services to private and institutional investors. Currently the Investment Firm offers trading access to the USA, European, Russian and Hong Kong securities markets.

Business review

In 2017, KFE continued offering investment services and developing customer relations. KFE continues to provide services through its Limassol (Cyprus) branch and representative office in St. Petersburg (Russia).

Compared to the end of 2016, the customer base has grown by 10%.

Business environment

In 2017, international finance markets were affected by the rising economic activity in the US and Europe as well. The development of the world economy was also positively affected by the decrease in political uncertainty compared with the last year. In 2017 the economic growth has slowed down in the developed countries, nevertheless it still has continued.
Economic growth accelerated in the world's largest economic regions: 2.3% in the US, 2.5% in the Euro zone, 6.9% in China, 1.6% in Japan. The economic production in Russia amounted to 1.8% after a slight decline in 2016. The Purchasing Manager's Index forecasts the continuous growth in 2018.
The development of inflation has been very different. In spring the core inflation decreased in the US, but it picked up back to 2 per cent by the end of the year. The core inflation of the Euro zone has remained stable between 0.9-1.1 % in recent years. The labour market situation has remained stable and the unemployment rate has fallen to the lowest level of 8 years. The inflation in Russia was at a record low 2.5%, which enabled the Russian Central Bank to lower the key interest rate from 10 per cent to 7.75 per cent.
Since the end of the last year the prices have increased in global stock markets. Strong economic results also supported these equity process. The key stock indices in the US have reached a record level. The stock market was strong where the S&P index rose more than 19 per cent in 2017. Positive economic parameters and good corporate results have supported the rise of the stock prices also elsewhere, although the stock indices in Europe have risen less compared with the US. The reason behind this is uncertainty about the Britain's withdrawal from the EU, and elections taking place in several euro-area countries.

On 29 March, the UK government made an announcement to launch Article 50 of the Lisbon Treaty of the European Union. In December, the European Union and the United Kingdom reached the initial agreement on exit conditions regarding three key issues: the divorce bill, the matter of the Irish border issue and the rights of the EU and British citizens after Brexit. The transitional period will last until the end of 2020. Today, it is still unclear what will the trade relations between the United Kingdom and the European Union become.
Pound sterling has depreciated against the euro to its lowest level of the last eight years. The Eurozone economy has started to grow moderately, however, the UK economic growth has, on the contrary, slowed down after the Brexit vote. The British pound has appreciated against the dollar, but depreciated against the euro. In November, the Bank of England raised its monetary policy interest rate by 25 basis points to 0.5%, as the central bank estimates that the United Kingdom has been facing price and wage pressures.

At the end of the accounting year, tax reform continued to be the main economic issue in the US, which promised to reduce corporate income tax from 35% to 20% and simplify the declaration of personal taxes and tax burden for residents.

In 2017, the Governing Council of the European Central Bank has kept the monetary policy interest rates at the lowest ever level in the economic and monetary union: the interest rate for the main refinancing operations is 0.00%, the interest rate for marginal lending facility is 0.25%, and the interest rate for deposit facility is -0.40%. In addition to low interest rates the Eurosystem has introduced several monetary policy measures to vigorously support the achievement of the objective of price stability through alleviating financing conditions and stimulating credit supply. Within the purchase programme for assets, the assets will be purchased for 60 billion Euros per month from April 2017 to December 2017. At the meeting in October, the Governing Council of the European Central Bank decided to extend the purchase of assets: from January to September 2018 the assets will be purchased for EUR 30 billion per month. The purchases are expected to continue at least until September, or if necessary for the longer period, that is, until the inflation rate is in accordance with the Eurosystem's objective of price stability.

The euro strengthened to the dollar, rising above the dollar level of 1.2, which is more than 14% in 2016. By the end of the accounting year the euro reached its highest level of the last three years. The rate between the US dollar and Russian rouble has remained stable in the range of 56-61 roubles. After the strong result in 2016, the MEOX index fell in summer 2017 almost by 20%, which was 5% in a year.

The popularity of cryptocurrency became particularly hot top in the world. Since the beginning of the accounting year, the best-known cryptocurrency Bitcoin in dollars have risen by 900% in November. At the same time, the volatility of the price of Bitcoin and other cryptocurrency significantly exceeds the volatility of traditional stock indices. Today, the legal status of cryptocurrency is not specifically regulated in Estonia or in the European Union. Since December 2017 it is possible to trade at CME and CBOE exchanges with financial derivatives, which underlying asset is cryptocurrency that enables to hedge the risks of Bitcoin positions. This will bring the traders many benefits, incl. transparency, guarantees for the efficient pricing, liquidity and a centralised control system.

Economic results

KFE transaction fees and interest income figure was in 2017 EUR 7,262,962 (in 2016 – EUR 5,667,145, increased by 28% compared to previous year), administrative and personnel expenses were in 2017 – EUR 1,448,224 (in 2016 – EUR 1,486,113, dropped by 3% compared to previous year). The net profit for the 2017 year was EUR 81,368 (in 2016 – EUR 356,800, decreased by 77% compared to previous year).

Investment Firm´s key financial figures and ratios

(EUR)

	2017	2016	Change
Revenue, fees and interest income	7,262,962	5,667,145	28%
Net profit	81,368	356,800	-77%
Average equity	16,745,871	17,039,459	-2%
Return on equity (ROE), %	0.5	2.1	
Assets, average	19,334,408	20,343,027	-5%
Return on assets (ROA), %	0.4	1.8	
Total operating expenses	1,448,224	1,486,113	-3%
Total income	1,540,555	1,842,913	-16%
Expense / income ratio, %	94.0	80.6	

- 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

KFE employees

At the end of the year 2017, the Investment Firm (including branches) employed 27 people (2016 – 29 employees), four of whom were on parental leave.

During the financial year employees were paid social-tax-assessed salary (including branches) in the amount of EUR 452,718 (2016 – EUR 402,048).

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 and ensure a high quality of the services provided to customers.

ANNUAL FINANCIAL STATEMENTS

Statement of financial position
(EUR)

	Note	31.12.2017	31.12.2016
ASSETS			
Current Assets			
Cash and bank balances	3,19	8,022,996	2,431,019
Financial assets	4	2,689,705	1,634,691
Derivative instruments	5,19	90,188	0
Loans and receivables from customers	6,19	6,614,735	16,714,771
Other receivables	7,19	0	42
Accrued income and prepayments	7,19	224,828	223,137
Non-current assets			
Property and equipment	10	7,980	10,997
Intangible assets	11	1,338	2,388
TOTAL ASSETS		**17,651,770**	**21,017,045**
LIABILITIES AND EQUITY			
Current liabilities			
Payables to customers	12,19	860,219	3,798,971
Derivative instruments	5,19	0	46,568
Payables to suppliers	19	50,770	45,606
Taxes payable	8,19	41,288	25,375
Accrued liabilities	13,19	175,610	132,666
TOTAL LIABILITIES		**1,127,887**	**4,049,186**
Equity			
Share capital	14	1,612,710	1,612,710
Statutory capital reserve	14	161,271	161,271
Retained earnings		14,668,534	14,837,078
Profit for the period		81,368	356,800
TOTAL EQUITY		**16,523,883**	**16,967,859**
TOTAL LIABILITIES AND EQUITY		**17,651,770**	**21,017,045**

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Statement of comprehensive income
(EUR)

	Note	01/01/17 - 31/12/17	01/01/16 - 31/12/16
Commission and fees received	16	4,102,405	3,163,225
Commissions and fees paid		-2,597,452	-1,441,950
Net commission and fee income		**1,504,953**	**1,721,275**
Interest income	17	3,160,557	2,503,920
Interest expense		-2,252,863	-2,353,800
Net interest income		**907,694**	**150,120**
Net gain / loss on financial transactions	9	**-872,092**	**-28,482**
Data processing expenses		-332,912	-391,386
Administrative expenses		-326,572	-313,550
Other operating income/ expenses		105,679	72,617
Personnel expenses		-889,437	-847,827
Depreciation, amortization and impairment losses	10,11	-4,982	-5,967
Total expenses		**-1,448,224**	**-1,486,113**
Profit for the year		**92,331**	**356,800**
Income tax	15	-10,963	0
Total comprehensive income for the year		**81,368**	**356,800**
Total comprehensive income for the year attributable to shareholders		**81,368**	**356,800**

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Statement of cash flows
(EUR)

	Note	2017	2016
Cash flows from operating activities			
Profit for the period		81,368	356,800
Adjustments for:			
Depreciation, amortization and impairment losses	10,11	4,982	5,967
Gain/loss from financial investments	4	-22,483	5,908
Net interest income		-907,694	-150,120
Income tax	15	10,963	0
Change in receivables and prepayments		-300,124	117,392
Change in payables and deferred income		35,719	-72,355
Income tax paid		-12,000	-8,500
Change in loans receivable and payable		7,371,819	-562,473
Interest received and paid		888,217	142,933
Net cash generated from operating activities		**7,150,767**	**-164,448**
Cash flows from investing activities			
Acquisition of property and equipment	10	-915	-6,918
Acquisition of intangible assets	11	0	-3,000
Acquisition of bonds	4	-1,248,728	-3,264,253
Receipts from sale of bonds	4	216,197	1,623,654
Net cash used in / from investing activities		**-1,033,446**	**-1,650,517**
Cash flows from financing activities			
Dividends paid	14	-525,344	-500,000
Net cash used in / from financing activities		**-525,344**	**-500,000**
Net cash flows		**5,591,977**	**-2,314,965**
Cash and cash equivalents at the beginning of period	3	**2,431,019**	**4,745,984**
Changes in cash and cash equivalents		**5,591,977**	**-2,314,965**
Cash and cash equivalents at the end of period	3	**8,022,996**	**2,431,019**

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Statement of changes in equity
(EUR)

	Share capital	Statutory capital reserve	Retained earnings	**Total**
As of 31 December 2015	**1,612,710**	**161,271**	**15,337,078**	**17,111,059**
Net profit for the period	0	0	356,800	**356,800**
Dividends	0	0	-500,000	**-500,000**
As of 31 December 2016	**1,612,710**	**161,271**	**15,193,878**	**16,967,859**
Net profit for the period	0	0	81,368	**81,368**
Dividends	0	0	-525,344	**-525,344**
As of 31 December 2017	**1,612,710**	**161,271**	**14,749,902**	**16,523,883**

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

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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, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Management authorized these financial statements for issue on March 29, 2018. The financial statements will be reviewed by the supervisory board and approved by the general meeting of the shareholders. The general meeting has the power to amend the financial statements.

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, 2017 and ended on December 31, 2017. The financial statements are presented in euros, unless indicated otherwise. All financial information in the financial statements has been presented in integers, 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 authorized for issue. The final outcome of transactions recognized 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 recognized as short-term financial investments.

Financial assets

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

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments

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

When a financial asset is recognized 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 principally 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 recognized 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 amortized 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 recognized. The amount of an impairment loss is the difference between the asset's carrying amount and recoverable amount. The recoverable amount of a receivable is the amount of its estimated future cash flows, discounted by applying a market interest rate charged from similar debtors. The recoverability of receivables is estimated on an individual basis, considering the information available on the debtor's creditworthiness. Impairment losses are recognized as an expense in the period in which they are incurred. Doubtful receivables are written down to their recoverable amount. Irrecoverable receivables are written off the balance sheet.

Receivables from customers

Receivables from customers include receivables acquired in the ordinary course of business except for receivables from other group companies and associated companies. Receivables from customers are measured at their amortized cost (at cost less any impairment losses).
The recoverability of receivables is estimated separately for each customer. Where individual estimation is not possible due to the large number of items involved, only significant items are reviewed on an individual basis. Other receivables are reviewed collectively by reference to historical experience with irrecoverable items. The recovery of items which have been written down due to impairment is recognized as a reduction of expenses from doubtful receivables.

Derivative financial instruments

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

Property and equipment

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Items of property 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 and equipment is recognized initially at its cost. The cost of an item of property 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 and equipment are carried at cost less any accumulated depreciation and any impairment losses.

Subsequent expenditure on an item of property 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 capitalized 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 and equipment is recognized as an expense as incurred.

Items of property 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 recognized 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 amortization 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 recognized at their fair value plus transactions costs that are directly attributable to their acquisition. Subsequent to initial recognition, financial liabilities are measured at their amortized cost.

The amortized cost of a current financial liability is generally equal to its nominal value. Therefore, current financial liabilities are measured at the amount payable. The amortized cost of a non-current financial liability is measured using the effective interest rate method. A financial liability is recognized 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 authorized 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 recognized as an expense as incurred.

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 recognized in accrued expenses in the balance sheet and in personnel expenses in the income statement.

Lease accounting

Financial lease is situation in which all important risks and rewards regarding the ownership carried over to the lessee. Other rental contracts are understood as operational leasing. Investment Firm´s rental contracts are operational leasing contracts. Operating lease payments are recognized as an expense line over the lease term.

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. In place of profit earned, income tax is levied on dividends distributed from retained earnings. The tax rate is 20/80 of the amount distributed as the net dividend. The income tax payable on dividends is recognized 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%.

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 recognized in the income statement in the net amount.

Revenue

Revenue and expenses are recognized on an accrual basis. Fee income (including account management and private portfolio fees) is recognized when the service has been provided and the Investment Firm has the right to demand payment.
Interest income and dividend income are recognized 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 recognized on an accrual basis using the effective interest rate method except where collection of interest is uncertain. Where collection is uncertain, interest income is recognized on a cash basis. Dividends are recognized 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 annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the balance sheet date (31 December 2017) and the date on which the financial statements were authorized for issue but are related to transactions of the reporting or prior periods.

Subsequent events, that have not been considered in the valuation of assets and liabilities, but which will have a significant effect on the activities of the next financial year, are disclosed in the notes to the annual financial statements.

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 recognized amounts and the Investment Firm intends either to settle on a net basis.

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for the Investement Firm from 1 January 2017:

Disclosure initiative - Amendments to **IAS 7** (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The amendment does not have a significant impact on the disclosures in the financial statements.

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Investment Firm has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI).
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model.
- Hedge accounting requirements were amended to align accounting more closely with risk management.

The Investment Firm does not expect IFRS 9 to have a significant impact on the financial statements. The classification and measurement of the entity's financial instruments are not expected to change. However, the entity could foresee that impairment losses might increase using expected credit loss model.

IFRS 15 " Revenue from Contracts with Customers" (effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price.

The new standard is not expected to affect significantly the Investment Firm's financial statements.

IFRS 16 "Leases" (effective for the periods beginning on or after 1 January 2019)

The standard specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Investment Firm has not yet fully completed its initial assessment of the potential impact of IFRS 16 on the entity's financial statements, however, management does not expect that the new standard, when initially applied, will have a material impact on the entity's financial statements.

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

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non- monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Investment Firm does not expect that the interpretation, when initially applied, will have a material impact on the financial statements.

Other new standards, amendments to standards and interpretations, that are not yet effective, have been analysed by the management of the Investment firm and these are not expected to have a significant impact on the entity's financial statements:

IFRS 17 "Insurance Contracts" (Effective for annual periods beginning on or after 1 January 2021, not yet endorsed by the EU.)

Amendments to IFRS 2: "Classification and Measurement of Share-based Payment Transactions" (Effective for annual periods beginning on or after 1 January 2018)

Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Effective for annual periods beginning on or after 1 January 2018)

Amendments to IFRS 10 and IAS 28: "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (The European Commission decided to defer the endorsement indefinitely.)

Amendments to IAS 40 "Transfers of Investment Property" (Effective for annual periods beginning on or after 1 January 2018, not yet endorsed by the EU).

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

Annual Improvements to IFRSs 2014-2016 cycle (Effective for annual periods beginning on or after 1 January 2018 except for the changes to IFRS 12 that shall be applied for annual periods beginning on or after 1 January 2017) – main changes affect IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 12 "Disclosure of Interest in Other Entities" and IAS 28" Investments in Associates and Joint Ventures".

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Annual Improvements to IFRS 2015-2017 Cycle (Effective for annual periods beginning on or after 1 January 2019, not yet endorsed by the EU) - main changes affect IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements”.

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 2017, the minimum capital requirement for covering the credit risk amounted to EUR 369,449 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	8,022,904	4,606,760	368,541
Receivables from customers	6,566,722	6,197	496
Other receivables	62,516	5,154	412
Total	**14,652,142**	**4,618,111**	**369,449**

According to the management, the credit quality of the portfolio of Investment Firm is high and meets the requirements of the risk management policy.

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2.2. Market risk

Market risk involves potential losses which may occur in result of the adverse changes of such market factors as foreign currencies, rates of listed securities or base interest rates.
The total regulative volume of the capital requirements necessary for covering the market risks was 806,853 euros.

2.2.1. Currency risk

Currency risk is the risk that a change in an exchange rate will affect the value of the Investment Firm's assets and revenue when translated to the Euros disproportionately with the change in the value of the Investment Firm's liabilities and expenses. The Investment Firm is exposed to currency risk arising from fluctuations in the exchange rates of foreign currencies.
The investment firm owns a small trading portfolio, the aim of which is to monitor adherence to the regulative requirements established for liquid assets, which is why there is no substantial market risk from trading activities.
The investment firm hedges its currency risks through derivatives. The risk manager assesses the potential changes in exchange rates on a daily basis, in accordance with the rules on currency risk management.
As of 31 December 2017 the total open currency position was EUR 10,004,914 and the currency risk capital requirement totaled to EUR 800,393.

2.2.2. Risk of changes in value of securities

With the aim to adhere to the requirements established for liquid assets, the Investment Firm owns a conservative portfolio consisting of high liquidity securities. Considering the quality of the securities and the volume of the portfolio, there is no significant risk of change in the value of the portfolio. As of 31.12.2017, the risk position formed EUR 80,756 and the normative capital requirement EUR 6,460.

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)	**31.12.2017**
Liquid assets	2,286,249
Outflow	860,219
Inflow (75% of the outflow)	645,164
Net outflow	215,055
Capital requirement (80% of net outflow)	**172,044**
Liquidity coefficient	**1329 %**

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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 31.12.2017, the financial leverage rate is 94.81%.

Total leverage ratio exposure	17,340,509
TIER 1 Capital	16,441,177
Leverage ratio	94.81%

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 31.12.2017, 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 2017, the capital requirement amounted to EUR 305,847.

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. In 2017, 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	**31.12.2017**	**31.12.2016**
Paid in share capital	1,612,710	1,612,710
Capital reserve	161,271	161,271
Retained earnings/losses	14,668,534	14,837,078
Intangible assets (minus)	-1,338	-2,388
TIER 1 CAPITAL	**16,441,177**	**16,608,671**
Capital requirement for credit risk of the Investment Firm and the counterparty	369,449	40,598
Capital requirement for market risk	806,853	909,965
Capital requirement for operational risk (base method)	305,847	552,694
Capital requirement for calculation of capital adequacy	**1,482,149**	**1,503,257**
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	**88.74%**	**88.39%**

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 unfavorable 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 analyses the process of internal capital adequacy assurance (SREP) within the framework of European Banking Authority (EBA) mandatory supervision and directive. SREP assessment for the year 2016 was not performed by the Financial Supervision Authority. The Investment Firm is guided by the previously issued position of the regulatory authority and other regulative requirements established on capital.

Note 3 Cash and bank balances

Cash and cash equivalents	**31.12.2017**	**31.12.2016**
Cash on hand EUR	92	192
Demand deposits EUR	1,387,875	2,139,214
Demand deposits, foreign currency	6,631,833	288,417
Term deposits with a maturity of up to 3 months EUR	3,196	3,196
Total cash and cash equivalents	**8,022,996**	**2,431,019**

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Note 4 Financial assets

According to management the bonds and other fixed-income securities are classified as financial assets at fair value through profit or loss.

The interest rate of bonds is 0,75%-1,3% and the currency is USD.

	Bonds 2017	Bonds 2016
As of January, 1	**1,634,691**	**0**
Acquisition of bonds	1,477,967	3,194,793
Sale (redemption)	-197,683	-1,620,009
Coupons receipt	-18,514	-3,645
Coupons gained	22,800	10,577
Currency exchange gains/loss	-229,239	69,460
Revaluation to fair value	-317	-16,485
As of December, 31 (note 19)	**2,689,705**	**1,634,691**

Note 5 Foreign currency derivatives

	Number of contracts	Asset / Liability (at fair value)
Balance 31.12.2016		
Currency future (EUR/USD)	34	-46,568
Total derivatives	**34**	**-46,568**
Balance 31.12.2017		
Currency future (EUR/USD)	34	90,188
Total derivatives	**34**	**90,188**

The AS KIT Finance Europe uses currency futures to alleviate the exchange rate risk arising from open currency positions. The EUR/USD currency futures are re-evaluated on a daily basis in their fair value. All contracts are entered for a fixed term of 3 months. The EUR/USD amount of one contract is EUR 125,000.

Note 6 Loans and receivables from customers

	2017	2016
Loans granted	6,552,311	16,693,748
Other receivables	62,424	21,023
Loans and receivables from customers (Note 19)	**6,614,735**	**16,714,771**

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Loans granted	**2017**	**2016**
Loans to legal entities	1,125,349	7,951,104
Loans to private customers	5,441,373	8,926,188
Provision for impairment	-14,411	-183,544
Total	**6,552,311**	**16,693,748**

Movement of provision for impairment 2017	**Loans 31.12.2017**	**Loans 31.12.2016**
As of January,1	-183,544	-145,098
Total impairment of loan receivables	99,357	-30,933
Allowances for the year	*0*	*-30,933*
Change in allowance during the year	*99,357*	*0*
Written off during the year	52,919	0
Profit/loss from the revaluation	16,857	-7,513
As of December, 31	**-14,411**	**-183,544**

Loans granted are financial margin short-term loans, which are secured by securities and amount to EUR 6,552,311 (interest rate of 5%- 21,95%). According to management's assessment, the fair values of loans do not differ significantly from their carrying amounts.

Note 7 Other receivables, accrued income and prepayments

	31.12.2017	**31.12.2016**
Other receivables	0	42
Total other receivables (Note 19)	**0**	**42**
Prepaid and refundable taxes (Note 8)	42,056	45,041
Prepayments	182,772	178,096
Total prepayments (Note 19)	**224,828**	**223,137**

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Note 8 Taxes

	31.12.2017		31.12.2016	
	Prepayment	Payable	Prepayment	Payable
Value added tax	0	13,254	5,737	0
VAT paid abroad	5,406	0	3,236	0
Corporate income tax	0	1,283	0	1,603
Corporate income tax paid abroad	33,946	0	32,909	0
Personal income tax	0	7,205	0	6,275
Social tax	0	14,853	0	13,852
Funded pension premiums	0	765	0	502
Unemployment insurance premiums	0	636	0	529
Prepayment account	2,704	0	3,159	0
Other taxes abroad	0	3,292	0	2,614
Total taxes (Note 7,19)	**42,056**	**41,288**	**45,041**	**25,375**

Note 9 Net gain/loss on financial transactions

	2017	2016
Due to changes in the currency exchange rate:	-1,334,062	624,342
revaluation gain/loss	*-1,334,062*	*624,342*
Net gain/(-loss) from trade	-517	-16,485
Currency derivatives:	462,487	-636,339
at fair value	*462,487*	*-636,339*
Net gain/(-loss) from financial assets	**-872,092**	**-28,482**

Note 10 Property and equipment

	Machinery and equipment	Other equipment	Total
Cost at 31.12.2016	**53,237**	**84,604**	**137,841**
Addition	915	0	**915**
Write-offs	-837	-790	**-1,627**
Cost at 31.12.2017	**53,315**	**83,814**	**137,129**
Accumulated depreciation at 31.12.2016	**45,702**	**81,142**	**126,844**
Depreciation charge for the year (+)	2,767	1,165	**3,932**
Write-offs	-837	-790	**-1,627**
Accumulated depreciation at 31.12.2017	**47,632**	**81,517**	**129,149**
Carrying amount at 31.12.2016	**7,535**	**3,462**	**10,997**
Carrying amount at 31.12.2017	**5,683**	**2,297**	**7,980**

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Lisa 11 Intangible assets

	Brokerage software, licenses, etc. purchased
Cost at 31.12.2016	**12,419**
Cost at 31.12.2017	**12,419**
Accumulated depreciation at 31.12.2016	**10,031**
Depreciation charge for the year (+)	1,050
Accumulated depreciation at 31.12.2017	**11,081**
Carrying amount at 31.12.2016	**2,388**
Carrying amount at 31.12.2017	**1,338**

Note 12 Payables to customers

Payables to customers by currency	**31.12.2017**	**31.12.2016**
GBP	860,219	414,129
RUB	0	3,384,842
Total payables to customers (Note 19)	**860,219**	**3,798,971**

The Investment Firm keeps its funds primarily in euro and due to that debts with customers occur in other currencies (manly in GBP), and these are short term debts.

Note 13 Accrued liabilities

	31.12.2017	**31.12.2016**
Payables to employees	66,300	58,199
Accrued income	283	327
Other accrued liabilities	109,027	74,140
Total accrued liabilities	**175,610**	**132,666**

Note 14 Equity

Share capital

	31.12.2017	**31.12.2016**
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 share capital of the Investment Firm is EUR 1,612,710 and the maximum authorized 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 carries one vote at meetings of the Investment Firm.
Earnings per share in 2017 equaled to EUR 0.33

Dividends
A total of EUR 525,344 was announced and paid out in dividends to shareholder in 2017. A tax-free dividend payment of EUR 525,344 was made from the retained earnings of the Cyprus branch.
Dividend per share in 2017 equaled to EUR 2.15.

Statutory capital reserve
The capital reserve has been established in accordance with the requirements of the Commercial Code. The reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and for increasing share capital but it may not be distributed to shareholders.

Note 15 Income tax

	2017	2016
Income tax paid abroad	10,963	0
Tulumaks kokku	**10,963**	**0**

Contingent income tax liability
On the date of the 31st of December 2017, the Investment Firm's unrestricted equity amounted to EUR 14,749,902 (2016: EUR 15,193,878). At the balance sheet date, the Investment Firm could distribute a dividend of EUR 11,801,648 (2016: EUR 12,347,914), including free of dividend income tax in the amount of EUR 8,634, that is attributed to Cyprus branch. The distribution would give rise to income tax expense of EUR 2,948,254 (2016: EUR 2,845,964).

Note 16 Commissions and fees received

Geographical area (according to the location of the client)	2017	2016
European Union (Great Britain, Poland, France, Cyprus, Latvia and others)	412,964	343,867
Rest of the World (Russia, Kazakhstan, Ukraine and others)	3,689,441	2,819,358
Total	**4,102,405**	**3,163,225**

Activity	2017	2016
Commissions and fees received (EMTAK 66121)	4,102,405	3,163,225
Total	**4,102,405**	**3,163,225**

Note 17 Net interest income

Interest income	2017	2016
On demand deposits	14,555	2,846
On financial assets at fair value through profit or loss (Note 4)	22,800	10,577
On loans	3,123,202	2,490,497
Total	**3,160,557**	**2,503,920**

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Interest expense	2017	2016
Other interest expenses	-2,252,863	-2,353,800
Total	**-2,252,863**	**-2,353,800**

Interest income on loans according to the location of the client	2017	2016
European Union (Great Britain, Poland, France, Cyprus, Latvia and others)	116,231	61,255
Rest of the World (Russia, Ukraine and others)	3,006,971	2,429,242
Total	**3,123,202**	**2,490,497**

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

31.12.2017	EUR	USD	GBP	RUB	HKD	Other	Total
Assets							
Cash and bank balances	1,391,163	2,685,483	105	3,738,557	150,207	57,481	8,022,996
Financial assets	0	2,689,705	0	0	0	0	2,689,705
Derivatives	90,188	0	0	0	0	0	90,188
Loans and receivables from customers	675,072	2,608,232	1,016,974	2,312,755	545	1,157	6,614,735
Accrued income and prepayments	224,631	197	0	0	0	0	224,828
Total	**2,381,054**	**7,983,617**	**1,017,079**	**6,051,312**	**150,752**	**58,638**	**17,642,452**
Liabilities							
Payables to customers	0	0	860,219	0	0	0	860,219
Payables to suppliers	9,771	40,323	0	676	0	0	50,770
Taxes payable	41,288	0	0	0	0	0	41,288
Accrued liabilities	70,345	99,124	945	5,084	0	112	175,610
Total	**121,404**	**139,447**	**861,164**	**5,760**	**0**	**112**	**1,127,887**

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31.12.2016	EUR	USD	GBP	RUB	CAD	Other	Total
Assets							
Cash and bank balances	2,142,602	234,522	336	6,063	4,110	43,386	2,431,019
Financial assets	0	1,634,691	0	0	0	0	1,634,691
Loans and receivables from customers	248,367	1,521,216	491,551	14,373,330	0	80,307	16,714,771
Other receivables	42	0	0	0	0	0	42
Accrued income and prepayments	223,137	0	0	0	0	0	223,137
Total	**2,614,148**	**3,390,429**	**491,887**	**14,379,393**	**4,110**	**123,693**	**21,003,661**
Liabilities							
Payables to customers	0	0	414,129	3,384,842	0	0	3,798,971
Derivative instruments	46,568	0	0	0	0	0	46,568
Payables to suppliers	8,786	32,170	108	4,542	0	0	45,606
Taxes payable	25,375	0	0	0	0	0	25,375
Accrued liabilities	63,140	63,418	327	5,425	0	356	132,666
Total	**143,869**	**95,588**	**414,564**	**3,394,809**	**0**	**356**	**4,049,186**

Risk management principles are given in Note 2

Note 20 Off-balance sheet assets and liabilities

The Investment Firm acts as a custodian. Therefore, it intermediates and has in its possession and is liable for customer funds. At the year-end the balances were as follows:

Assets	**31.12.2017**	**31.12.2016**
Customers' cash	151,099,752	164,410,853
Customers' securities	713,485,065	840,675,213
Total	**864,584,817**	**1,005,086,066**

Liabilities	**31.12.2017**	**31.12.2016**
Customers' securities	155,656	264,089
Total	**155,656**	**264,089**

Securities are stated at their fair values.

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 (PJSC), ultimate controlling party is KIT Finance Holding Company LLC.

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

	2017		2016	
Transactions with related parties	Commissions and fees paid	Commissions and fees received	Commissions and fees paid	Commissions and fees received
Group´s parent	689,256	103,471	537,974	8,635
Other group companies	0	2,202,635	0	1,486,297
Other related parties	0	698	0	675
Total transactions	**689,256**	**2,306,804**	**537,974**	**1,495,607**

Interest income	**2017**	**2016**
Group´s parent	68	127
Other group companies	1,191,047	1,249,837
Total interest income	**1,191,115**	**1,249,964**
Interest expenses		
Group´s parent	1,489,063	1,381,402
Total interest expenses	**1,489,063**	**1,381,402**
Net income from trade		
Group´s parent	168	0
Other group companies	2,307	10,855
Total net income from trade	**2,475**	**10,855**

Balances with related parties:

	31.12.2017	**31.12.2016**
Cash and bank balances		
Bank accounts in parent company	3,735,804	0
Total cash and bank balances	**3,735,804**	**0**
Short-term receivables		
Group´s parent	1,274	0
Other group companies	698,885	207,759
Total short-term receivables	**700,159**	**207,759**
Short-term payables		
Group´s parent	360	811
Total short-term payables	**360**	**811**
Accrued liabilities and prepayments		
Group´s parent	39	0
Other group companies	244	327
Total accrued liabilities and prepayments	**283**	**327**

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Short-term loans given to the related parties are guaranteed by the customers' funds and portfolio of securities in the value of 103,693,747 EUR.

In the financial year, the remuneration of executive management members formed the amount of EUR 214,530 EUR (2016 – EUR 200,339). No compensation is paid to supervisory board members upon expiry of powers. Members of the management board and supervisory board do not have a stock option at AS KIT Finance Europe.

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KIT Finance Europe

SIGNATURES

The management board authorized the management report and the annual financial statements of AS KIT Finance Europe for issue on March 29, 2018.

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
Andrei Galushkin	Member of the Management Board		29.03.2018
Galina Ruban	Member of the Management Board		29.03.2018

Crowe Horwath.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of KIT Finance Europe

Opinion

We have audited the financial statements of KIT Finance Europe (the Company), which comprise the statement of financial position as at December 31, 2017, 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, 2017, 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.

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

29th of March 2018

In Behalf of DNW Audit Ltd

Darja Roos

Auditor´s number 552

Activity license number 284

PROFIT ALLOCATION PROPOSAL

(EUR)

Retained earnings	14,668,534
Net profit for 2017	81,368
Total as at 31.12.2017:	***14,749,902***

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	2017
Commissions and fees received (EMTAK 66121)	4,102,405
Total	**4,102,405**

Activities planned for the new reporting year:

Securities and commodity contracts brokerage (EMTAK 66121)