# Annual Report

## AS KIT Finance Europe

| | |
|---|---|
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| **E-mail:** | office@kfe.ee |
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| **Beginning of financial year:** | 01 January 2011 |
| **End of financial year:** | 31 December 2011 |
| **Management board:** | Kaido Kaljulaid<br>Zhyulnar Asfari |
| **Chairman of the supervisory board:** | Alexander Svintsov |
| **Members of the supervisory board:** | Maivi Ots<br>Elena Shilova |
| **Auditor:** | Donoway Assurance OÜ |
| **Attached documents:** | 1. Independent auditor's report<br>2. Profit allocation proposal<br>3. List of activities |

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# MANAGEMENT REPORT

### AS KIT Finance Europe

AS KIT Finance Europe (KFE) is an investment company registered in Estonia in 2004 and part of the Russian-domiciled KIT Finance banking group. KFE's sole shareholder is KIT Finance (OOO), one of the leading brokers in the Russian securities market.

KFE's core activity is provision of brokerage services to private and institutional investors. Currently the company offers trading access to the UK, USA, Russian, Germany, Canada, Ukraine, Netherlands, France, Italy, Hong-Kong securities markets.

### Business review

In 2011, KFE continued offering investment services and developing customer relations. KFE continues to provide services through its London (UK) and Limassol (Cyprus) branches and representative office in St. Petersburg (Russia). Compared to the end of 2010, the customer base has grown by 34%.

### Business environment

2011 was characterized by high volatility in major equity markets, II and III quarter were dominated by the downward trend in stock markets. The worsening of euro area debt crisis and the triple downgrade of USA A rating by Standard & Poors in August caused the wave of sale in different stock markets.

Compared to the beginning of the financial year in the end of September euro area stock prices fell 20,7 %, in USA 11,0 % and in Russia 25,6 %. Currency markets were characterized by the weakening of the euro against other major currencies. The main reason of that was the deepening of euro area debt crises, but also the lower-than-expected economic figures at the end of the year. The euro area debt crisis was also the main reason of international investment bank MF Global Inc. bankruptcy. MF Global Inc, whose subsidiary services KFE trades to its clients' interests, was one of the biggest service providers of the derivative financial instruments in the market.

### Events related to the bankruptcy of MF Global

31.10.2011 AS KIT Finance Europe partner MF Global UK Limited (MF Global) submitted the bankruptcy petition to the UK court. Due to that the company's customers' assets which were invested by the company were temporally blocked in this company. KPMG LLP was appointed to the trustee in bankruptcy.

According to the agreements between AS KIT Finance Europe and MF Global customers' assets are allocated from MF Global bankruptcy assets. It is in accordance with the rules which apply to the clients' assets maintenance in the UK. According to the information issued by the trustee in bankruptcy the return of assets to the creditors starts in the first half of 2012.

AS KIT Finance Europe aim in this process is to protect its clients' interests and return the assets as soon as possible, for that company cooperates with the trustee in bankruptcy. Company has been selected to the monitoring comity of MF Global, which provides continuous and accurate overview of the process of bankruptcy and return of clients' assets. AS KIT Finance Europe constructed reserve (648 524 EUR) for potential legal costs which may occur during the bankruptcy process.

**Key economic events in 2011**

KFE transaction fees and interest income was in 2011 – 12 386 644 EUR (in 2010 – 10 279 034 EUR) and the net profit of the year was 733 694 EUR (in 2010 – 4 181 180 EUR).

In 2011, M.Tsyganov, a Supervisory board member of KFE, stepped down and the board elected A.Svintsov as a new member. Management board members were paid social-tax-assessed remuneration in the amount of 146 505 EUR (2010 – 108 125 EUR) and employees were paid 607 310 EUR (2010 – 1 042 379 EUR).

**The company´s key financial figures and ratios**

| | 2011 | 2010 |
|---|---|---|
| Fees and interest income | 12 386 644 | 10 279 034 |
| Net profit | 733 694 | 4 181 180 |
| Average equity | 28 994 388 | 26 536 915 |
| Return on equity (ROE), % | 2,5 | 15,8 |
| Assets, average | 37 309 987 | 28 669 953 |
| Return on assets (ROA), % | 2,0 | 14,6 |
| Total operating expenses | 6 632 164 | 2 502 266 |
| Total income | 7 365 858 | 6 721 921 |
| Expense / income ratio, % | 90,1 | 37,2 |

The ratios above have been calculated using the following formulas:

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 + other income on counseling services

KFE operating expenses growth compared to the year before is caused by the undervaluation of security loans claims (4 021 552 EUR) and conducting a reserve related to the bankruptcy of MF Global (648 524 EUR). The expense and income ratio of the financial year was 90,1 % (2010 – 37,2 %).

At the end of 2011 the total number of employees including branches was 30 (2010 – 32).

**Objectives for the next financial year**

Based on the business and financial environment forecasts for the next year, the main objective of AS KIT Finance Europe is to maintain and strengthen the company's position in the financial markets.

# ANNUAL FINANCIAL STATEMENTS

## Statement of financial position

(EUR)

| | Note | 31.12.2011 | 31.12.2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and bank balances | 3 | 21 500 015 | 5 991 228 |
| Short-term investments | 4 | 4 504 120 | 18 979 226 |
| Financial assets | 5 | 0 | 104 984 |
| Receivables from customers | 6 | 17 254 020 | 5 467 408 |
| Other receivables | 7 | 257 157 | 62 122 |
| Accrued income and prepayments | 7 | 203 842 | 239 008 |
| Property and equipment | 10 | 25 603 | 27 999 |
| Intangible assets | 11 | 870 | 2 372 |
| **TOTAL ASSETS** | | **43 745 627** | **30 874 347** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| Payables to customers | 12 | 12 626 800 | 179 340 |
| Derivative instruments | 9 | 134 970 | 44 159 |
| Payables to suppliers | | 889 990 | 1 915 938 |
| Taxes payable | 8 | 45 154 | 49 083 |
| Accrued expenses | 13 | 38 954 | 58 286 |
| Allocations | 14 | 648 524 | 0 |
| **TOTAL LIABILITIES** | | **14 384 392** | **2 246 806** |
| **Equity** | | | |
| Share capital | 15 | 15 616 811 | 15 616 811 |
| Statutory capital reserve | | 659 760 | 450 705 |
| Retained earnings | | 12 350 970 | 8 378 845 |
| Profit for the period | | 733 694 | 4 181 180 |
| **TOTAL EQUITY** | | **29 361 235** | **28 627 541** |
| **TOTAL LIABILITIES AND EQUITY** | | **43 745 627** | **30 874 347** |

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## Statement of comprehensive income
(EUR)

| | Note | 01/01/11 - 31/12/11 | 01/01/10 - 31/12/10 |
|---|---|---|---|
| Commission and fees received | 16 | 7 118 671 | 7 877 887 |
| Commissions and fees paid | | -4 707 229 | -2 880 287 |
| **Net commission and fee income** | | **2 411 442** | **4 997 600** |
| Interest income | 17 | 5 266 983 | 2 401 146 |
| Interest expense | 17 | -241 602 | -76 565 |
| **Net interest income** | | **5 025 381** | **2 324 581** |
| Net income/ loss from trade | 9 | 66 568 | -549 857 |
| Net gain / loss on marketable debt securities | 5,9 | -138 523 | -50 403 |
| **Net gain / loss on financial transactions** | | **-71 955** | **-600 260** |
| **Other income from consulting services** | 16 | **990** | **0** |
| Data processing expenses | | -554 232 | -631 039 |
| Administrative expenses | | -442 091 | -499 690 |
| Other operating expenses | 22 | -4 682 857 | 0 |
| Personnel expenses | | -937 185 | -1 326 545 |
| Depreciation, amortisation and impairment losses | 10,11 | -15 799 | -44 992 |
| **Total expenses** | | **-6 632 164** | **-2 502 266** |
| **Profit before tax** | | **733 694** | **4 219 655** |
| **Income tax** | | 0 | -38 475 |
| **Profit for the year** | | **733 694** | **4 181 180** |
| **Total comprehensive income for the year** | | **733 694** | **4 181 180** |
| **Total comprehensive income for the year attributable to** | | | |
| **Shareholders** | | **733 694** | **4 181 180** |

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## Statement of cash flows
(EUR)

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | | 733 694 | 4 181 180 |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment losses | 10,11 | 18 253 | 44 992 |
| Gain / loss on financial assets | 5, 9 | 3 553 | 6 244 |
| Net interest income | | -5 025 381 | -2 324 581 |
| Income tax | | 0 | 38 475 |
| Change in receivables and prepayments | | 747 684 | 414 826 |
| Change in payables and deferred income | | -309 874 | 1 861 486 |
| Income tax paid | | -46 200 | -38 475 |
| Interest paid | | -241 602 | -78 099 |
| **Net cash from operating activities** | | **-4 119 873** | **4 106 047** |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment | 10 | -14 356 | -10 770 |
| Acquisition of intangible assets | 11 | 0 | -1 344 |
| Income from debt securities | 5 | 100 000 | 100 000 |
| Change in term deposits | | 14 475 106 | 1 543 607 |
| Loans granted | | -12 452 862 | -2 378 957 |
| Interest received | | 5 073 312 | 2 367 529 |
| **Net cash from / used in investing activities** | | **7 181 200** | **1 620 065** |
| **Cash flows from financing activities** | | | |
| Change in loans from customers | | 12 447 460 | -1 632 370 |
| **Net cash used in / from financing activities** | | **12 447 460** | **-1 632 370** |
| **Net cash flows** | | **15 508 787** | **4 093 742** |
| **Cash and cash equivalents at beginning of period** | 3 | **5 991 228** | **1 897 486** |
| **Changes in cash and cash equivalents** | | **15 508 787** | **4 093 742** |
| **Cash and cash equivalents at end of period** | 3 | **21 500 015** | **5 991 228** |

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## Statement of changes in equity
(EUR)

| | Share capital | Statutory capital reserve | Retained earnings | **Total** |
|---|---|---|---|---|
| **At 31 December 2009** | **15 616 811** | **271 113** | **8 558 437** | **24 446 361** |
| Transfer to capital reserve | 0 | 179 592 | -179 592 | **0** |
| Net profit for the period | 0 | 0 | 4 181 180 | **4 181 180** |
| **At 31 December 2010** | **15 616 811** | **450 705** | **12 560 025** | **28 627 541** |
| Transfer to capital reserve | 0 | 209 055 | -209 055 | **0** |
| Net profit for the period | 0 | 0 | 733 694 | **733 694** |
| **At 31 December 2011** | **15 616 811** | **659 760** | **13 084 664** | **29 361 235** |

Further information on share capital and movements in share capital is presented in note 15.

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# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## Note 1. Significant accounting policies

AS KIT Finance Europe (the "company") is an investment company which was registered in Estonia on August 2, 2004. The company's registered office address is Roosikrantsi 11, Tallinn, Estonia. The company is involved in the provision of brokerage 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, 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Management authorised these financial statements for issue on April 16, 2012. 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.

### Change in functional currency

01.01.2011 the Republic of Estonia joined the euro area and since then the euro has been the national currency, which replaced the Estonian kroon. Due to that fact, since January 1, 2011, the Company's functional currency has been the euro. The change in functional currency is reflected prospectively. At January 1, 2011 the company carried out the balances in the accounts of the conversion, based on exchange rate of EEK 15.6466 / euro. The reference data in this report is converted from Estonian kroons into the euro with changeover rate 15.6466 kroon / euro. Because this rate was also valid in previous periods as the pe-fixed exchange rate, no exchange rate differences occurred during the conversion.

### Basis of preparation

The financial statements have been prepared on the historical cost basis except where indicated otherwise in these financial statements. 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 company's reporting year began on January 1, 2011 and ended on December 31, 2011. The financial statements are presented in the euros, which is the company's functional currency. 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 company'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.

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**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 three months and units in money market funds.
Term deposits with a term of three 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
- Available-for-sale financial assets, which include investments whose fair value cannot be measured reliably and are therefore measured at cost (less any impairment losses).

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 of a financial asset 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 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 company 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. 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, taking into account the information available on the debtor's creditworthiness. Impairment losses are recognised 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 amortised 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 recognised 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 recognised in profit or loss in the period in which it arises. The company does not have any derivative financial instruments which are part of hedging relationships that qualify for hedge accounting.

**Property and equipment**

Items of property and equipment comprise assets used in the company's business whose useful life exceeds one year and which cost exceeds 640 euros.

An item of property and equipment is recognised 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 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 and equipment is recognised 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 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, licences, trademarks and other intangible assets | 3-5 years |

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**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 company 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 company 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.

**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.

**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. Company´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. From 1 January 2008, the tax rate is 21/79 of the amount distributed as the net dividend. 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.

The maximum income tax liability which could arise on a dividend distribution is disclosed in the notes to the annual financial statements.

The income statement includes the income tax calculated for the Cyprus subsidiary in compliance with the legislation of Cyprus.

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**Foreign currency**

Transactions in foreign currencies are translated to the presentation currency using the official exchange rates of European Central Bank (before 31.12.2010 rates of Bank of Estonia) 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 (before 31.12.2010 rates of Bank of Estonia). 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 company 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 company 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 annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the balance sheet date (31 December 2011) and the date on which the financial statements were authorised 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 company has a legally enforceable right to offset the recognised amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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**New International Financial Reporting Standards and Interpretation of the Financial Reporting Interpretations Committee (IFRIC)**

To date, a number of new standards, amendments to standards, and interpretations have been published, which will be mandatory for the company in annual periods beginning on or after January 1, 2011. The following is management's assessment of the impact the new and revised standards and interpretations may have on the company's financial statements in the period of their initial application.

***Amendment to IAS 24, Related Party Disclosures*** The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties [, and provided disclosures of only individually significant transactions with government-related entities.] The revised IAS 24 does not impact the company's financial statements.

***Improvements to International Financial Reporting Standards, issued in May 2010*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity [(this amendment was adopted previously by the Group in its prior year's financial statements)]; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

***Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14*** This amendment applies to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The revised IFRIC 14 does not impact the company's financial statements.

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***IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*** This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. *[ The revised IFRIC 19 does not impact the company's financial statements. ]*

***Standards, amendments and interpretations of standards which have not yet entered into force and which the company has not previously applied.***

***Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters - Amendment to IFRS 1*** Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The revised IFRS 1 does not impact the company's financial statements.

***Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters – Amendments to IFRS 1*** (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. *[The Group is currently assessing the impact of the amendments on its financial statements.]*

***Disclosures—Transfers of Financial Assets – Amendments to IFRS 7*** (effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. *[The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.]*

***Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. *[The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.]*
There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

***IFRS 9, Financial Instruments: Classification and Measurement*** (effective for annual periods beginning on or after 1 January 2015; not yet adopted by the EU). IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9

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was further amended in October 2010 to address the classification and measurement of financial liabilities, and in December 2011 to change its effective date and add transition disclosures. *The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.*

***IFRS 10, Consolidated Financial Statements*** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. *[The Group is currently assessing the impact of the standard on its financial statements.]*

***IFRS 11, Joint Arrangements*** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. *[The Group is currently assessing the impact of the standard on its financial statements.]*

***IFRS 12, Disclosure of Interest in Other Entities*** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarized financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. *[The Group is currently assessing the impact of the standard on its financial statements.]*

***Presentation of Items of Other Comprehensive Income, amendments to IAS 1***, (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. *The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.*

***Recovery of Underlying Assets – Amendments to IAS 12*** (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. *[The Group is currently assessing the impact of the amendments on its financial statements.]*

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***Amended IAS 19, Employee Benefits*** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), makes significant changes (i) to the recognition and measurement of defined benefit pension expense and termination benefits, and (ii) to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. *[The Group is currently assessing the impact of the amended standard on its financial statements.]*

***IFRS 13, Fair Value Measurement*** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. *[The Group is currently assessing the impact of the standard on its financial statements.]*

***IAS 27 (revised 2011), Separate Financial Statements*** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. *[The Group is currently assessing the impact of the amended standard on its financial statements.]*

***IAS 28 (revised 2011), Investments in Associates and Joint Ventures*** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard was revised following the issue of IFRS 11 and it now includes the requirements for joint ventures, as well as associates, to be equity accounted. *[The Group is currently assessing the impact of the amended standard on its financial statements.]*

***Classification of Rights Issues - Amendment to IAS 32*** The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. *[The revised IAS 32 does not impact the company's financial statements.]*

***Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*** (effective for annual periods beginning on or after 1 January 2014; not yet adopted by the EU). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. *[The Group is currently assessing the impact of the amendments on the Group and the timing of its adoption by the Group.]*

***IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The interpretation clarifies that benefits

from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realized in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognize these costs as a 'stripping activity asset' within nonimproved access to ore, the entity should recognize these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met. *[The revised IFRIC 20 does not impact the company's financial statements.]*

## Note 2 Financial risk management

The principles for determining, managing and auditing risks arising in the course of AS KIT Finance Europe's activities were established by the Risk Management Policy developed by the management; it was developed in concert with the Republic of Estonia's Securities Market Act and the recommendations of the Basel Committee. 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 establishing of numerical parameters for criteria is completely in the competence of the management board of the investment firm.
An investment company has exposure to credit risk, currency risk, liquidity risk and operational risk.

### Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to meet its contractual obligations related to the transfer of cash and / or securities.
In the case of customers, exposure to credit risk is mitigated by demanding that the customer deposit the funds and securities necessary for settling a securities transaction with the company before the transaction is performed. Exceptions to this rule are made on a case-by-case basis by the company's management. In 2008, exceptions were made in the case of customers belonging to the same consolidation group as the company.
The maximum amount of the loan depends on the market value of the collateral and establishing of limits.

### Currency risk

Currency risk is the risk that a change in an exchange rate will affect the value of the company's assets and revenue when translated to the Euros disproportionately with the change in the value of the company's liabilities and expenses.
The company's revenues mostly arise in US dollars and Russian ruble and expenses arise in euros. As a result, the company is exposed to currency risk arising from fluctuations in the exchange rates of those currencies. In addition, the company is exposed to currency risk in connection with the acquisition of securities and assumption of liabilities denominated in foreign currencies.
Information on assets and liabilities bearing currency risk is provided in Note 20.

### Liquidity risk

Liquidity risk is the risk that the company does not have sufficient liquid funds to meet its financial obligations as they fall due.

The company invests its free monetary funds in deposits and fixed income securities so that it would be possible to meet all financial liabilities on a timely basis in the event of any scenario. Fixed income securities which are acquired by the company can be traded in a secondary market.

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### 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 company's staff, or external factors.
During the reporting period, the company implemented the "four eyes" principle to mitigate operational risk. According to the principle, all cash or securities transfers require the approval of at least two members of staff.
Conformity control has an important role in the assessment of operation risks.

### Capital management

KFE complies with requirements established for capital as set forth in the Republic of Estonia's Securities Market Act. In order to ensure its reliability and mitigate risks related to provision of investment services, the investment firm is obliged to consistently adhere to prudential standards.
Reporting is submitted monthly to supervisory authorities regarding compliance with the capital requirements necessary to comply with prudential standards established for the investment firm and to cover risks.
All material risks for the investment firm must be adequately covered by equity at every point in time. The investment firm's equity must be equal to or exceed the minimum amount of share capital set forth in legislation (730 000 euros) and 25% of the investment firm's fixed overhead expenses. As of the balance sheet date, the company's equity exceeds the minimum amount established in legislation. There were no problems in 2011 in complying with the capital adequacy requirements.

## Note 3 Cash and bank balances

| **Cash and cash equivalents** | **31.12.2011** | **31.12.2010** |
|---|---|---|
| Cash on hand, foreign currency | 34 | 6 |
| Demand deposits, EUR | 18 282 234 | 761 |
| Demand deposits, foreign currency | 2 214 551 | 2 487 265 |
| Term deposits with a maturity of up to 3 months | 1 003 196 | 3 503 196 |
| **Total cash and cash equivalents** | **21 500 015** | **5 991 228** |

## Note 4 Short-term investments

| | **31.12.2011** | **31.12.2010** |
|---|---|---|
| Term deposits (3 to 12 months) | 4 504 120 | 18 979 226 |
| **Total short-term investments** | **4 504 120** | **18 979 226** |

The annual interest rates of term deposits range from 1,1% - 9,15%.

## Note 5 Financial assets

Debt and other fixed income securities are classified as financial assets at fair value through profit and loss.

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The annual interest rate of debt security is 6.45% and the base currency is the euro.

| | Debt securities 2011 | Debt securities 2010 |
|---|---|---|
| **At beginning of period** | **104 984** | **213 280** |
| Sales (redemption) | -100 000 | -100 000 |
| Interest income accrued during the period | 5 019 | 12 198 |
| Interest received during the period | -6 450 | -14 250 |
| Change in fair value | -3 553 | -6 244 |
| **At end of period** (note 20) | **0** | **104 984** |

## Note 6 Receivables from customers

| | 2011 | 2010 |
|---|---|---|
| Accounts receivable from the group companies (note 23) | 0 | 1 030 |
| Other loans | 17 245 643 | 4 792 781 |
| Other receivables | 8 377 | 673 597 |
| **Total receivables from customers (note 20)** | **17 254 020** | **5 467 408** |

Recognized among "other loans" are financial margin loans with terms of several days, which were secured by securities and which amount to 16 245 643 EUR (interest rate of 7-15%) and a short-term loan of 1 000 000 EUR, that was granted to a non-related company with a term of up to 31.01.2012 at an interest rate of 2.5%.

In 2011 security loans claims were discounted in amount of 4 021 552 EUR (in 2010 there were no evaluation due to the decrease of value). The management board assessed security loan claims individually, based on the principle of conservatism and taking into consideration all information, including client´s solvency, the value of the collateral and stock market liquidity. Discounting claims management board based on expected value of cash flows discounted at the interest rate stated in the contract while realizing the securities and also management board considered the predicted period which realizing securities may take.

## Note 7 Other receivables, accrued income and prepayments

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Interest receivable on deposits with group companies (note 23) | 0 | 56 273 |
| Parent company interest receivable (note 23) | 1 558 | 0 |
| Other interest receivables | 255 489 | 5 672 |
| Miscellaneous receivables | 110 | 177 |
| **Total other receivables (note 20)** | **257 157** | **62 122** |

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| | | |
|---|---|---|
| Prepaid and refundable taxes (note 8) | 98 671 | 39 012 |
| Prepayments | 105 171 | 199 996 |
| **Total accrued income and prepayments (note 20)** | **203 842** | **239 008** |

Fixed-term deposits receivable interests are reflected on the balance sheet as claim for interests in amount of 255 489 EUR.
Prepayments of 105 171 EUR comprise prepaid licence fees, fees paid to the Financial Supervision Authority and other prepayments.

## Note 8 Taxes

| | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | **Prepayment** | **Payable** | **Prepayment** | **Payable** |
| Value added tax | 7 757 | 0 | 7 173 | 0 |
| VAT paid abroad | 3 214 | 0 | 5 168 | 0 |
| Corporate income tax | 0 | 563 | 0 | 306 |
| Corporate income tax paid abroad | 83 984 | 0 | 25 334 | 0 |
| Personal income tax | 0 | 14 176 | 0 | 13 793 |
| Social tax | 0 | 24 711 | 0 | 23 746 |
| Funded pension premiums | 0 | 1 147 | 0 | 916 |
| Unemployment insurance premiums | 0 | 1 937 | 0 | 1 985 |
| Prepayment account | 3 691 | 0 | 1 337 | 0 |
| Other taxes abroad | 25 | 2 620 | 0 | 8 337 |
| **Total taxes (notes 7, 20)** | **98 671** | **45 154** | **39 012** | **49 083** |

## Note 9 Net gain/loss on financial transactions

| | **2011** | **2010** |
|---|---|---|
| Due to changes in the currency exchange rate: | 504 867 | 283 269 |
| *foreign exchange gain from customers' transactions* | *166 616* | *48 178* |
| *revaluation gain/loss* | *338 251* | *235 091* |
| Net income/ loss from trade | -155 616 | -575 269 |
| Currency derivatives: | -282 683 | -257 857 |
| *settled in cash (+received/-paid)* | *-282 683* | *-257 857* |
| **Net profit/loss from trading** | **66 568** | **-549 857** |

| | **2011** | **2010** |
|---|---|---|
| Currency derivatives at fair value | -134 970 | -44 159 |
| Net gain / loss on marketable debt securities | -3 553 | -6 244 |
| **Net gain/loss from financial assets** | **-138 523** | **-50 403** |

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## Note 10 Property and equipment

| | Machinery and equipment | Other equipment and fixtures | Total |
|---|---|---|---|
| **Cost at 31.12.2010** | **60 223** | **106 189** | **166 412** |
| Addition | 4 020 | 10 336 | **14 356** |
| Disposals | -28 451 | -7 795 | **-36 246** |
| **Cost at 31.12.2011** | **35 792** | **108 730** | **144 522** |
| | | | **0** |
| **Accumulated depreciation at 31.12.2010** | **55 081** | **83 332** | **138 413** |
| Depreciation charge for the year (+) | 3 161 | 11 135 | **14 296** |
| Disposals | -28 451 | -5 339 | **-33 790** |
| **Accumulated depreciation at 31.12.2011** | **29 791** | **89 128** | **118 919** |
| | | | **0** |
| **Carrying amount at 31.12.2010** | **5 142** | **22 857** | **27 999** |
| **Carrying amount at 31.12.2011** | **6 001** | **19 602** | **25 603** |

## Note 11 Intangible assets

| **Movements:** | Brokerage software, licences, etc purchased |
|---|---|
| **Carrying amount at 31.12.2010** | **2 373** |
| Depreciation charge for the year | -1 503 |
| Accumulated depreciation at 31.12.2011 | -48 784 |
| **Carrying amount at 31.12.2011** | **870** |

## Note 12 Payables to customers

| | **31.12.2011** | **31.12.2010** |
|---|---|---|
| Payables to customers in USD | 4 976 388 | 63 717 |
| Payables to customers in GBP | 822 133 | 0 |
| Payables to customers in CAD | 164 129 | 115 623 |
| Payables to customers in RUB | 6 663 965 | 0 |
| Payables to customers in SEK | 185 | 0 |
| **Total payables to customers (note 20)** | **12 626 800** | **179 340** |

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The company keeps its funds primarily in euro and due to that debts with customers occur in other currencies (manly in USD and RUB), and they are short term debts. Compared to previous year debts have increased, it is due to increasing customer transaction volume.

## Note 13 Accrued expenses

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Payables to employees | 11 713 | 33 425 |
| Interest payable | 0 | 12 143 |
| Other accrued expenses | 27 241 | 12 718 |
| **Total accrued expenses** | **38 954** | **58 286** |

## Note 14 ~~Allocations~~ PROVISIONS

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Other ~~allocations~~ PROVISIONS | 648 524 | 0 |
| **Total other ~~allocations~~** PROVISIONS | **648 524** | **0** |

In relation to MF Global bankruptcy AS KIT Finance Europe created a reserve of 648 524 EUR for potential legal costs which may occur during the bankruptcy process. Management board assesses those costs to be likely in future.

## Note 15 Equity

### Share capital

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Share capital (in euros) | 15 616 811 | 15 616 811 |
| Number of shares | 244 350 | 244 350 |
| Par value of a share (in euros) | 64 | 64 |

The minimum share capital of the company is 15 616 811 EUR and the maximum authorised share capital of the company is 62 467 244 EUR. Changes within the authorised limits do not require amendment of the Articles of Association.
Shareholders are entitled to dividends as declared from time to time. Each share carries one vote at meetings of the company.

### Statutory capital reserve

The capital reserve has been established in accordance with the requirements of the Commercial Code. The capital reserve is created with net profit transfers. Every year, the company has to transfer to the capital reserve at least one twentieth of its net profit for the period until the reserve amounts to one tenth

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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.

**Contingent income tax liability**

On the date of the 31st of December 2011, the company's unrestricted equity (considering the requirement to transfer one twentieth of net profit for the period to the capital reserve) amounted to 13 047 979 EUR (2010: 12 350 926 EUR). At the balance sheet date, the company could distribute a dividend of 10 307 904 EUR (2010: 9 757 232 EUR) and the distribution would give rise to income tax expense of 2 740 075 EUR (2010: 2 593 694 EUR).

## Note 16 Commissions and fees received

| Geographical area | 2011 | 2010 |
|---|---|---|
| European Union (Cypros, Latvia, Great Britain, Finland, Germany, Sweden) | 584 465 | 841 061 |
| Rest of the World (Russia, Kazakhstan, Armenia, Ukraine etc) | 6 535 196 | 7 036 826 |
| **Total** | **7 119 661** | **7 877 887** |

| Activity | 2011 | 2010 |
|---|---|---|
| Commissions and fees received (EMTAK 66121) | 7 118 671 | 7 877 887 |
| Other income from consulting services (EMTAK 66191) | 990 | 0 |
| **Total** | **7 119 661** | **7 877 887** |

## Note 17 Net interest income

| Interest income | 2011 | 2010 |
|---|---|---|
| On term deposits | 746 321 | 1 693 029 |
| On demand deposits | 6 429 | 304 |
| On financial assets at fair value through profit or loss (note 5) | 5 019 | 12 198 |
| On loans | 4 509 214 | 695 615 |
| **Total** | **5 266 983** | **2 401 146** |

| Interest expence | 2 011 | 2 010 |
|---|---|---|
| Other interest expenses | -241 602 | -76 565 |
| **Total** | **-241 602** | **-76 565** |
| **Interest income on loans according to the location of the client** | **2 011** | **2 010** |
| European Union (Cypros, Latvia, Great Britain, Finland, Germany, Sweden) | 1 290 115 | 48 060 |
| Rest of the World (Russia, Kazakhstan, Armenia, Ukraine etc) | 3 219 099 | 647 555 |
| **Total** | **4 509 214** | **695 615** |

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| **Interest income on term deposits according to the location of the bank** | **2 011** | **2 010** |
|---|---|---|
| European Union (Estonia) | 2 574 | 68 |
| Rest of the World (Russia) | 743 747 | 1 692 961 |
| **Total** | **746 321** | **1 693 029** |

## Note 18 Operating lease

In year 2011 the company leased a vehicle under the terms of operating lease. Total rental payments for 2011 amounted to 9991 EUR . Operating lease payments of subsequent periods break down as follows:

| | **31.12.2011** | **31.12.2010** |
|---|---|---|
| Payable within 1 year | 9 991 | 9 991 |
| Between 1 and 5 years | 3 330 | 13 321 |

Company leased office space under the terms of operating lease. Total rental payments for 2011 amounted to 106 527 EUR (including branches)

## Note19 Assets pledged as collateral

The company has a VISA credit card issued by AS SEB Bank. The credit limit is 3196 EUR and the facility is secured with a security deposit of 3196 EUR.

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## Note 20 Financial instruments

### Assets and liabilities by currency

| 31.12.2011 | EUR | USD | GBP | RUB | CAD | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and bank balances | 18 952 809 | 1 544 909 | 0 | 983 267 | 0 | 19 030 | 21 500 015 |
| Short term investments | 1 990 000 | 0 | 0 | 2 514 120 | 0 | 0 | 4 504 120 |
| Financial assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and receivables from customers | 1 077 682 | 6 395 027 | 1 031 346 | 8 580 985 | 168 980 | 0 | 17 254 020 |
| Other receivables | 86 809 | 0 | 0 | 170 348 | 0 | 0 | 257 157 |
| Accrued income and prepayments | 182 779 | 0 | 19 650 | 1413 | 0 | 0 | 203 842 |
| **Total** | **22 290 079** | **7 939 936** | **1 050 996** | **12 250 133** | **168 980** | **19 030** | **43 719 154** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Payables to customers | 0 | 4 976 388 | 822 133 | 6 663 965 | 164 129 | 185 | 12626800 |
| Derivative instruments | 134 970 | 0 | 0 | 0 | 0 | 0 | 134970 |
| Payables to suppliers | 109 053 | 14 299 | 78 | 766 560 | 0 | 0 | 889990 |
| Taxes payable | 44 146 | 0 | 1008 | 0 | 0 | 0 | 45154 |
| Accrued expences | 676 233 | 2 405 | 5 128 | 3 607 | 0 | 105 | 687478 |
| **Total** | **964402** | **4993092** | **828347** | **7434132** | **164129** | **290** | **14384392** |

| 31.12.2010 | EUR | USD | GBP | RUB | CAD | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and bank balances | 3 713 002 | 77 049 | 208 868 | 1 992 309 | 0 | 0 | 5 991 228 |
| Short term investments | 17 754 531 | 0 | 0 | 1 224 695 | 0 | 0 | 18 979 226 |
| Financial assets | 104 984 | 0 | 0 | 0 | 0 | 0 | 104 984 |
| Loans and receivables from customers | 531 394 | 2 063 970 | 40 | 2 872 004 | 0 | 0 | 5 467 408 |
| Other receivables | 9 181 | 1 | 0 | 52 940 | 0 | 0 | 62 122 |
| Accrued income and prepayments | 215 696 | 0 | 23 287 | 25 | 0 | 0 | 239 008 |
| **Total** | **22 328 788** | **2 141 020** | **232 195** | **6 141 973** | **0** | **0** | **30 843 976** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Payables to customers | 0 | 63 717 | 0 | 0 | 115 623 | 0 | 179340 |
| Derivative instruments | 44 159 | 0 | 0 | 0 | 0 | 0 | 44159 |
| Payables to suppliers | 248 634 | 0 | 9 847 | 1 657 457 | 0 | 0 | 1915938 |
| Taxes payable | 42 157 | 0 | 6926 | 0 | 0 | 0 | 49083 |
| Accrued expences | 30 332 | 7 593 | 16 908 | 3 453 | 0 | 0 | 58286 |
| **Total** | **365282** | **71310** | **33681** | **1660910** | **115623** | **0** | **2246806** |

General principles of risk management are given in Note 2.

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**Currency risk**

The company operates in international securities markets and has entered into transactions in currencies that are different from functional currency (euro). The company reduces its currency risk by using derivatives. According to the rules of the currency risk management, risk controller assesses the potential effects of changes in foreign currency on a daily basis.

Sensitivity analysis of currency risks arising from open positions the possible effects of changes in the statement of comprehensive income, if all other variables are constant in the table below:

| Effect on statement of comprehensive income | Exchange fluctuation % | 31.12.2011 | Exchange fluctuation % | 31.12.2010 |
|---|---|---|---|---|
| USD exchange rate | 10% | 294 684 | 10% | 206 946 |
| | -10% | -294 684 | -10% | -206 946 |
| RUB exchange rate | 10% | 481 600 | 10% | 448 104 |
| | -10% | -481 600 | -10% | -448 104 |
| GBP exchange rate | 10% | 21 600 | 10% | 19 142 |
| | -10% | -21 600 | -10% | -19 142 |

**Credit risk**

Credit risk is the risk that a company have to carry out losses when company fails to meet its contractual obligations related to the transfer of cash and / or securities.
Credit risk may arise in the following cases:

- Company puts its assets to the bank's deposits, bonds and other financial assets;
- Crediting company´s clients in the securities market;
- Due to customers' operations, if the company allows customers to perform transactions without collateral prior approval;
- Company pays the counterparty for securities before receiving them or it transfers the securities before the fee is received;
- All other transactions, which bring along an unsecured obligations before the Company.

Investment Company uses the standard method to calculate the credit risk capital requirements. The following table shows the credit risk capital requirement 31.12.2011 and 31.12.2010:

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| | 31.12.2011 | | | 31.12.2010 | | |
|---|---|---|---|---|---|---|
| **Assets** | **Value** | **Risk weight %** | **Capital requirement** | **Value** | **Risk weight%** | **Capital requirement** |
| Cash and cash equivalents | 20 496 819 | 0% | 0 | 2 488 032 | 0% | 0 |
| Term deposits (up to 3 months) | 1 003 196 | 20% | 20 064 | 3 503 196 | 20% | 70 064 |
| Short-term investments | 4 504 120 | 100% | 450 412 | 18 979 226 | 100% | 1 897 923 |
| Financial assets | 0 | 0% | 0 | 104 984 | 100% | 10 498 |
| Loans and receivables from customers | 17 254 020 | 100% | 1 725 402 | 5 467 408 | 100% | 546 741 |
| Other receivables | 257 157 | 100% | 25 716 | 62 122 | 100% | 6 212 |
| Accrued and prepayments | 203 842 | 100% | 20 384 | 239 008 | 100% | 23 901 |
| Property and equipment | 25 603 | 100% | 2 560 | 27 999 | 100% | 2 800 |
| **Total** | **43 744 757** | | **2 244 538** | **30 871 975** | | **2 558 139** |

**Interest rate risk**
If the company 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 company may face interest rate risk. The Company's management estimates that the occurrence of interest rate risk low, because they constantly monitor interest rates profitability and interest rate movements in the market.

**Fair values of assets and liabilities**
The fair values of assets and liabilities do not differ significantly from their carrying amounts. The largest portion of assets is made up of cash and bank balances. Receivables from and payables to credit institutions and customers have a very short duration.

## Note 21 Off-balance sheet assets and liabilities

The company 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** | **31.12.2011** | **31.12.2010** |
|---|---|---|
| Customers' cash | 76 162 081 | 199 065 927 |
| Customers' securities | 2 473 612 759 | 2 908 041 515 |
| **Total** | **2 549 774 840** | **3 107 107 442** |

| **Liabilities** | **31.12.2011** | **31.12.2010** |
|---|---|---|
| Customers' securities | 10 046 270 | 10 495 407 |
| **Total** | **10 046 270** | **10 495 407** |

Securities are stated at their fair values.

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## Note 22 Other operating expenses

| | 2011 | 2010 |
|---|---|---|
| Loan claims discount (note 6) | -4 021 552 | 0 |
| Allocation (note 14) | -648 524 | 0 |
| Other expenses | -12 781 | 0 |
| **Total** | **-4 682 857** | **0** |

## Note 23 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 company's parent company is KIT Finance (OOO) and the parent company of a group is KIT Finance Holding (OOO).
In the reporting period, the company performed transactions with related parties as follows:

| **Transactions with related parties** | 2011 | | 2010 | |
|---|---|---|---|---|
| | Commissions and fees paid | Commissions and fees received | Commissions and fees paid | Commissions and fees received |
| Parent company of a group | 436 496 | 39 | 407 326 | 10 705 |
| Other group companies | 0 | 21 801 | 13 882 | 505 508 |
| **Total transactions** | **436 496** | **21 840** | **421 208** | **516 213** |

| **Interest income** | **2011** | **2010** |
|---|---|---|
| Parent company of a group | 5352 | 0 |
| Other group companies | 1215 | 1 793 935 |
| **Total interest income** | **6567** | **1793935** |
| **Interest expenses** | | |
| Parent company of a group | 62 560 | 1640 |
| **Total interest expenses** | **62 560** | **1640** |
| Net income/loss from trade | | |
| Other group companies | 0 | 2706 |
| **Net income/loss from trade** | **0** | **2706** |

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**Balances with related parties:**

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Cash and bank balances** | | |
| Bank accounts in parent company | 15 505 182 | 0 |
| Bank accounts in the group companies | 0 | 2 069 574 |
| Deposits in the group companies (note 4) | 0 | 18 979 226 |
| **Total cash and bank balances** | **15 505 182** | **21 048 800** |

| **Short-term receivables** | **31.12.2011** | **31.12.2010** |
|---|---|---|
| Interest receivable from the parent company | 1558 | 0 |
| Accounts receivable from the group companies | 0 | 1030 |
| Interest receivable from the group companies (note 7) | 0 | 56 273 |
| **Total short-term receivables** | **1558** | **57 303** |
| **Short-term payables** | | |
| Parent company | 1561 | 2057 |
| Other group companies | 0 | 58 |
| **Total short-term payables** | **1561** | **2115** |

According to management's assessment, the prices applied in transactions with related parties did not differ significantly from market prices.

Management board members were paid remuneration taxable by social taxes in the amount of 146 505 EUR (2010 – 108 125 EUR). The management board's members are eligible for severance pay of 3 months of remuneration. 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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## SIGNATURES

The management board authorised the management report and the annual financial statements of AS KIT Finance Europe for issue on April 16, 2012.

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 all members of the management and supervisory boards.

| Name | Position | Signature | Date |
|---|---|---|---|
| Kaido Kaljulaid | Member of the Management Board | | 30.04.12 |
| Zhyulnar Asfari | Member of the Management Board | | 30.04 |
| Alexander Svintsov | Chairman of Supervisory Board | | |
| Maivi Ots | Member of Supervisory Board | | |
| Elena Shilova | Member of Supervisory Board | | |

Crowe Horwath.

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## INDEPENDENT AUDITOR'S REPORT

**To the shareholders of AS KIT Finance Europe**

We have audited the accompanying financial statements of AS KIT Finance Europe presented on pages 5 to 30 which comprise the statement of financial position as of December 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of AS KIT Finance Europe as of December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, April 30, 2012

In behalf of Donoway Assurance LLC

Vadim Donchevski
*Authorised Public Accountant*

# PROFIT ALLOCATION PROPOSAL

(EUR)

| | |
|---|---|
| Retained earnings | 12 350 970 |
| Profit for the period | 733 694 |
| ***Total as at 31.12.2011:*** | ***13 084 664*** |

The Management Board of AS KIT Finance Europe proposes to the General Meeting of the Shareholders to distribute the profit as follows:

| | |
|---|---|
| Transfer to capital reserve | 36 685 |
| ***Retained earnings after distribution of profit*** | ***13 047 979*** |

In addition, the management board proposes that no dividends be distributed.

# LIST OF ACTIVITIES

| Activity | 2011 |
|---|---|
| Commissions and fees received ( EMTAK 66121) | 7 118 671 |
| Financial advice (EMTAK 66191) | 990 |
| **Total** | **7 119 661** |

**Activities planned for the new reporting year:**

Securities and commodity contracts brokerage (EMTAK 66121)