

AS LHV Varahaldus

Annual Report 2011

(Translation of the Estonian original)

Annual Report	01.01.2011 - 31.12.2011
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Main activities	Fund management, EMTAK 66301 (Estonian version of NACE)
Management Board	Mihkel Oja Kerli Lõhmus
Supervisory Board	Andres Viisemann Rain Lõhmus Erki Kilu
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

AS LHV Varahaldus is a fund management company for investment funds.

In 2001, the main activity of the Company was the provision of the fund management service to five compulsory pension funds, one voluntary pension fund and three UCITs investing in equities, one of which was liquidated at the end of the year.

The year 2011 was a weak year for the global stock markets. At the beginning of the year, the US Federal Reserve continued its money printing policy, which helped stimulate the economy, and boosted equity and commodity prices. This upward trend was temporarily interrupted by the earthquake which occurred in Japan in March and the nuclear disaster that followed it. However, the stock markets were hit the hardest in August when investors became worried about the sustainability of Italy's debt, the prices of Italian government bonds fell and the capital adequacy of European banks as well as the survival of the Eurozone became questionable. The stock markets fell sharply all over the world while the European stock markets were hit the hardest, dropping by over 20% in five days. In the last few months of the year, the stock markets recovered slightly and for the year, the European stock markets fell by 17%. LHV funds, which invest in the equity markets, ended the year with a negative return.

In 2011, the bond markets were characterised mainly by the escalation of problems in the euro area over the last months. However, the decline in the expected return of "risk-free" German and US bonds continued even before that – the return of 5-year German and US bonds declined by 2.05% and 2.2%, respectively, over the year from the level of 0.7%. On the other hand, the prices of bonds of the Southern European countries continued to decline, with the Italian 5-year bond ending the year at the return of 5.9%. This forced the European Central Bank to more actively intervene in the bond markets – the earlier increase in interest rates was reversed at the end of the year and, in addition, the banks of the euro area were offered a loan at an interest rate of 1% in an unlimited amount during two auctions (the second of the two auctions was held at the beginning of 2012). The latter measure, in particular, provided a significant support to the market of both government and corporate bonds. However, this could not compensate for a decline in the prices of corporate bonds in the autumn and therefore they yielded only a minimum positive return in the year. LHV pension funds, which invest only in bonds, ended the year with a positive return.

During the year, the volume of fund assets managed by the Company increased from EUR 84 million (at the end of 2010) to EUR 144 million (at the end of 2011). The number of active clients of compulsory pension funds also increased from 53 thousand to 84 thousand (market share of 13.6%).

In 2011, changes occurred in the set of LHV funds. One of the UCITs investing in the equities managed by the Company - LHV Emerging Europe Alfa Fund - was liquidated due to the lack of interest among investors. The liquidation was decided by the Supervisory Board on 25 July and was completed on 22 December. The Company continues to manage two UCITs – LHV World Equities Fund and LHV Persian Gulf Fund. Both funds are publicly offered in Estonia, Latvia and Lithuania; LHV Persian Gulf Fund is additionally also offered in Sweden, Finland and Norway.

The conditions of all funds changed for regulatory reasons several times: on 1 January due to the adoption of the euro and on 30 June due to amendments to the legislation. The conditions of compulsory pension funds also changed on 1 August as a result of changes taking effect in the funded pension system. Since August, the investment limitations of conservative pension funds became stricter, i.e. assets of a conservative pension fund may be invested only in investment-grade bonds. In August, restrictions on change of mandatory

pension funds also changed – payments can be directed to a new fund on an ongoing basis and the existing units can be transferred to another fund three times a year (in addition, units can be changed also partially). The conditions of mandatory pension funds changed also at the beginning of 2012, when the strategy of LHV Pension Fund XL changed so that the Fund can invest, instead of 50% (so-called progressive strategy), up to 75% (so-called aggressive strategy) in the equity markets.

At 31.12.2011, the Company had 26 employees (31.12.2010: 23 employees). In the reporting period, total remuneration of EUR 346,663 was paid (2010: EUR 297,882), of which the members of the Management Board were paid EUR 56,373 (2010: EUR 63,915). No fees were paid to the members of the Supervisory Board for participation in the Supervisory Board.

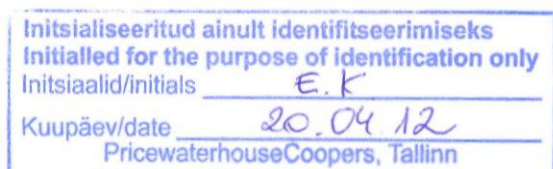
FINANCIAL STATEMENTS

Balance Sheet

(in euros)

Assets	Note	31.12.2011	31.12.2010
Current assets			
Cash and cash equivalents	2	43 958	43 811
Short term financial investments	3	905 836	845 739
Loans receivable	13	12 536	0
Other receivables	13	226 508	134 365
Accrued income		0	19 527
Other prepaid expenses		123 602	98 128
Total currents assets		1 312 440	1 141 570
Non-current assets			
Units of managed pension funds	4	1 991 552	1 938 462
Units of managed investment funds	4	437 196	632 535
Tangible assets	5	2 301	19 577
Intangible assets	5	25 417	0
Total non-current assets		2 456 466	2 590 574
Total assets		3 768 906	3 732 144
Liabilities and equity			
Current liabilities			
Supplier payables	6,13	228 226	190 161
Accrued expenses and other liabilities	7	96 392	95 624
Current portion of long-term borrowings	5,8	65 328	35 255
Total current liabilities		389 946	321 040
Non-currents liabilities			
Finance lease liabilities	5	0	8 010
Subordinated liabilities	8	1 000 000	1 000 000
Total non-current liabilities		1 000 000	1 008 010
Equity			
Share capital		5 100 000	4 700 000
Share premium		495 605	303 105
Accumulated losses		-1 200 012	-1 455 917
Net loss for financial year		-2 016 633	-1 144 094
Total equity	9	2 378 960	2 403 094
Total liabilities and equity		3 768 906	3 732 144

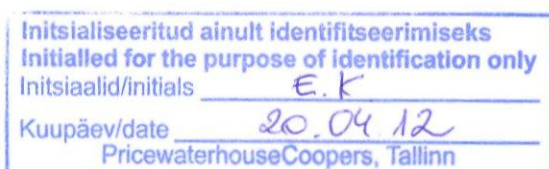
The Notes to these financial statements presented on pages 10 – 19 are an integral part of the Annual Report.



Income statements*(in euros)*

	Note	2011	2010
Fee income	10,13	2 376 688	1 432 644
Other operating income		26 003	0
Total operating income		2 402 691	1 432 644
Operating expenses	11,13	-3 607 395	-2 407 196
Personnel expenses			
<i>Wages and salaries</i>	11	-346 663	-297 882
<i>Social security costs</i>		-108 653	-96 301
<i>Unemployment insurance expense</i>		-3 736	-3 015
Total personnel expenses		-459 052	-397 198
Depreciation and amortization	5	-6 149	-10 028
Other operating expenses		-6 089	-3 013
Total operating expenses		-4 078 685	-2 817 435
Operating loss		-1 675 994	-1 384 791
Financial income and expenses			
Profit from revaluation of short-term securities	3	11 581	88 061
Profit from revaluation of units of managed funds	4	-219 970	269 540
Interest income	2,13	1 597	393
Interest expense	8,13	-133 513	-115 185
Foreign exchange losses		-334	-2 112
Total financial income and expense		-340 639	240 697
Net loss for the financial year		-2 016 633	-1 144 094

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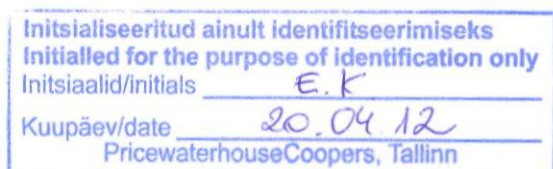


Cash flow statement*(in euros)*

	Note	2011	2010
Cash flow from operating activities			
Operating loss		-1 675 994	-1 384 791
Adjustments:			
Depreciation and amortization	5	6 149	10 028
Change in receivables and prepayments		-97 201	-92 181
Change in supplier payables		37 944	42 947
Interests paid		-97 095	-121 323
Total change in working capital		-150 203	-160 529
Total cash used in operating activities		-1 826 197	-1 545 320
Cash flow from investing activities			
Purchase of non-current assets	5	-25 417	-4 914
Sale of non-current assets	5	11 127	0
Loans granted	13	-20 700	0
Repayments of loans granted		7 981	0
Purchase of short-term financial investments	3	-446 797	-286 912
Sale of short-term financial investments	3	353 580	829 661
Purchase of long-term financial investments	4	-493 178	-444 235
Sale of long-term financial investments	4	415 457	0
Dividends and interest received		46 480	59 389
Total cash flow from investing activities		-151 467	152 989
Cash flow from financing activities			
Finance lease payments	12	-14 355	-6 437
Issue of share capital	9	592 500	976 671
Covering of losses through monetary contributions	9	1 400 000	0
Short-term loans received	13	0	19 173
Repayment of short-term loans received	13	0	-19 173
Issue of subordinated bonds	8	1 000 000	400 000
Redemption of subordinated bonds	8	-1 000 000	0
Total cash used in / cash flow from financing activities		1 978 145	1 370 234
Total cash flow		481	-22 097
Cash and cash equivalents at beginning of the period	2	43 811	68 020
Change in cash and cash equivalents		481	-22 097
Effect of exchange rate differences ¹		-334	-2 112
Cash and cash equivalents at the end of the period	2	43 958	43 811

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¹ In the account the effect of exchange rate differences of bank accounts is recorded.



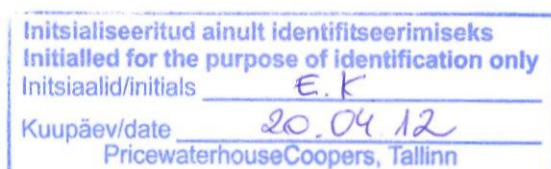
Statement of changes in equity

(in euros)

	Share capital	Share premium	Accumulated loss	Total equity
Balance at 01.01.2010	4 026 434	262 038	-1 717 955	2 570 517
Share premium used to cover the loss for previous periods	0	-262 038	262 038	0
Issue of share capital	673 566	303 105	0	976 671
Net loss for financial year	0	0	-1 114 095	-1 114 095
Balance at 31.12.2010	4 700 000	303 105	-2 600 012	2 403 093
Balance at 01.01.2011	4 700 000	303 105	-2 600 011	2 403 093
Issue of share capital	400 000	192 500	0	592 500
Monetary contributions to cover losses	0	0	1 400 000	1 400 000
Net loss for financial year	0	0	-2 016 633	-2 016 633
Balance at 31.12.2011	5 100 000	495 605	-3 216 645	2 378 960

More detailed information on share capital is provided in Note 9.

The Notes to these financial statements presented on pages 10 – 19 are an integral part of the Annual Report.



Notes to the Financial Statements**Note 1 Accounting policies and measurement bases adopted in the preparation of the financial statements****1.1 General principles**

The financial statements of AS LHV Varahaldus have been prepared in accordance with the accounting principles generally accepted in Estonia, whose main requirements are prescribed by the Accounting Act of the Republic of Estonia and that are supplemented by the guidelines issued by the Accounting Standards Board. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below. The financial statements are presented in euros.

1.2 Changes in accounting policies and measurement bases

On 1 January 2011, the Republic of Estonia joined the euro area and adopted the euro as its national currency, replacing the Estonian kroon. Consequently, starting from 1 January 2011, the company's functional currency is the euro and annual reports of 2011 and following years submitted to the Financial Supervisory Authority are presented in euros. In the financial statements, the comparatives have been translated from the Estonian kroons into euros using the conversion rate EUR 1 = EEK 15.6466. As this exchange rate was also the fixed exchange rate prevailing in previous periods, no currency translation differences arose.

1.3 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits held at call with banks, as well as term deposits with original maturities of three months or less.

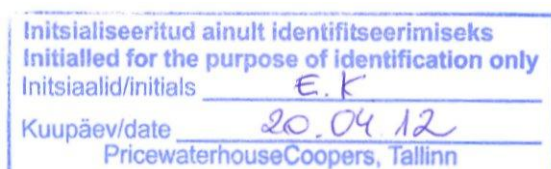
1.4 Shares and securities

Securities held for the purpose of trading are classified as short-term shares and other securities. Other long-term shares and securities include securities not expected to be sold within the next 12 months. Purchases of shares and securities are recognised at the settlement date.

Short and long-term investments in shares and other equity instruments are subsequently carried at fair value, if their fair value can be measured reliably. Shares and other equity instruments which fair value cannot be measured reliably are recognised at cost (that is acquisition cost less any impairment, when the carrying amount of the investment is not recoverable). Fund units are recognised at their NAV (net asset value). The fair value of listed securities (for which an active market exists) is their current bid price. For determining the fair value of investments that are not actively traded in the market, alternative methods such as the prices used in recent transactions (if they occur under active market conditions), the discounted cash flow model or the option pricing model are used.

Short-term and long-term financial investments in bonds and other debt instruments are recognised at fair value. The fair value is based on the quoted market price of a financial instrument.

The changes in the fair value of shares and other securities held for trading as well as those in the fair value of long-term financial investments are taken to profit or loss of the reporting period. To account for the purchases and sales of financial assets at fair value through profit or loss, the change in the value of assets to be acquired in the period between the transaction and balance sheet date is taken to profit or loss of the reporting period. All financial investments in this annual report are accounted at fair value.



1.5 Trade receivables

All receivables (accrued income, loans granted and other short and long-term receivables), except for receivables acquired for the purpose of selling, are carried at amortised cost. The amortised cost of the short-term receivables normally equals their cost value (less any impairment); therefore short-term receivables are stated in the balance sheet in their redemption value. Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently interest income is calculated on the receivable using the effective interest rate method. Receivables acquired for selling purposes are measured at fair value.

Impairment of trade receivables is accounted in case there is objective evidence that the estimated collections do not correspond to initial terms of contract. Such situations, that indicate possible downturn of value of trade receivables, are the buyers' bankruptcy or significant financial difficulties and inability to fulfil their obligations. Impairment of trade receivables (i.e. the need for allowance) is assessed individually of each specific debtor, on basis of estimated present value of future cash flows. The value of impairment loss of trade receivables is the difference between the carrying value of these receivables and present value of future cash flows, using effective interest rate method. The carrying value of trade receivables is reduced by the amount of impairment loss of receivables and loss from impairment is charged to the income statement as operating expenses. If the receivable is assessed to be irrecoverable, it is removed from the balance sheet. The collection of previously recognised impairment loss is reversed by adjusting the allowance account.

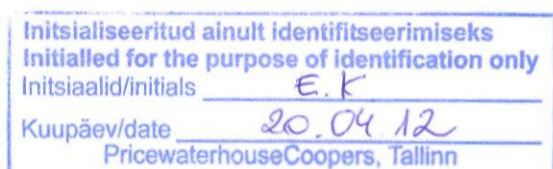
1.6 Tangible assets

Tangible assets are assets used in the operations of the Company with a useful life of over one year. An item of tangible assets is initially recognised at its cost which consists of the purchase price (inc. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. An item of tangible assets is carried in the balance sheet at its cost less any accumulated depreciation and any impairment losses. Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.

Items of tangible assets leased under the finance lease terms are accounted for similarly to acquired non-current assets.

Subsequent expenditures on tangible assets are accounted as non-current assets when it is probable that the company will gain future economic benefit from these assets and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at their occurrence.

Depreciation is calculated on the straight-line basis. The annual depreciation rate for software is 33% and 20% for the equipment and machinery leased under the finance lease terms. Depreciation is commenced at the time when the asset can be used for the purpose intended by management and is terminated when the residual value exceeds the carrying amount, until the final removal of the asset from use or upon reclassification into "non-current assets held for sale". At each balance sheet date, the validity of depreciation rates, the depreciation method and the residual value is assessed. The accounting of an item of tangible assets is terminated when asset is sold or when no more economic benefits can be gained from use or sale of the asset. The gain or loss from disposal of non-current asset is recognised in income statement as other operating revenues or other operating expenses.



1.7 Intangible assets

An intangible asset is initially recognised at cost, comprising of its purchase price and any directly attributable expenditure. After initial recognition, an intangible asset is carried in the balance sheet at its cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with indefinite useful lives (goodwill which arose in a business combination) are not subject to amortisation, but an impairment test is carried out at each balance sheet date to review their value. The impairment test on intangible assets that are amortised is carried out when there are indications that the value of the assets may have impaired. If their recoverable amount turns out to be lower than their carrying amount, they are written down to their recoverable amount. The recoverable amount of the asset is the higher of the fair value less costs to sell or its value in use. For the purpose of assessing impairment, the recoverable amount is assessed either for each individual asset or the smallest group of assets for which it is possible to distinguish cash flow. The impairment loss of assets is reported as expenses in the accounting period. The depreciation rate for intangible assets with definite useful lives is 33%.

1.8 Finance and operating leases

Leases of Tangible assets which transfer substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

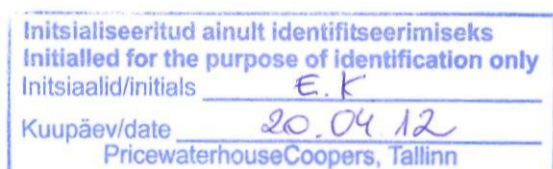
Finance leases are recognised in the balance sheet as assets and liabilities at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charges (interest expense) and reduction of the outstanding liability. The finance cost (interest expense) is charged to the income statement over the lease period so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The assets acquired under finance lease are depreciated similarly to purchased assets over the shorter of the useful life of the asset and the lease term. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

Leases of Tangible assets where all significant risks and rewards of ownership are not transferred to the lessee are classified as operating lease. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

1.9 Financial liabilities

All financial liabilities (supplier payables, loans received, accrued expenses, issued bonds and other short-term and long-term borrowings) are initially recorded at the acquisition cost that includes all transaction costs related to acquisition. After initial recognition, financial liabilities are measured at amortised cost (except for financial liabilities acquired for the purpose of selling and derivatives with negative fair value that are carried at their fair value).

The amortised cost of non-current financial liabilities normally equals their nominal value, therefore non-current financial liabilities are stated in the balance sheet at their redemption value. To calculate the amortised cost of long-term financial liabilities, they are initially recorded at fair value of the proceeds received (less transaction costs), taking into consideration the interest expense in following periods using effective interest rate method. Financial liabilities are classified as short-term, when their payment date is within 12 months after the balance sheet date or the Company does not have an unconditional right to postpone the settlement of the liability for later than 12 months after the balance sheet date. Borrowings that are due within 12 months



after the balance sheet date, but that are refinanced after the balance sheet date but before the financial statements are authorised for issue as non-current, are recognised as short-term. Also, borrowings are classified as short-term that the lender could recall at the balance sheet date due to the breach of conditions set forth in the agreement.

1.10 Provisions and contingent liabilities

Commitments arising from an obligating event before the balance sheet date, which realisation time or amount are not certain, are recognised as provisions in the balance sheet. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party. Other possible or existing contingent obligations, for which it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

1.11 Foreign currency transactions and assets and liabilities denominated in a foreign currency

All currencies, except for the euro (i.e. the functional currency of the Company) are considered as foreign currencies. Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the dates of the transactions. Monetary financial assets and liabilities and non-monetary financial assets and liabilities denominated in foreign currencies, which are measured at fair value, are translated into euros at the balance sheet date based on the foreign currency exchange rates of the European Central Bank. Profits and losses from foreign currency transactions are recognised in the income statement as income or expenses for that period.

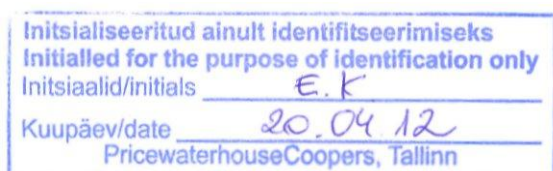
Non-monetary assets and liabilities denominated in foreign currency (prepayments, non-current assets) are not revaluated on balance sheet date, but accounted continuously at the European Central Bank rate as of transaction date.

1.12 Revenues and expenses

Revenues and expenses have been recognised under the accrual basis of accounting. Revenue is recognised when the sold service has been provided and the risks and benefits have been transferred to the buyer and AS LHV Varahaldus has the right for the receivable. The management fees related to activities of investment funds are accounted during the period of providing services. Revenue arising from interest and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the effective interest rate. Dividends are recognised when the right to receive payment is established.

1.13 Corporate income tax

According to income tax legislation currently in force the profit for financial year of a company is not a subject for taxation. Income tax is paid for dividends, fringe benefits, gifts, sponsorship, guest admission expenses, expenses not related to business and transfer pricing corrections. From 1.01.2008 the distribution of retained earnings is subject to a dividend tax of 21/79 of net dividend paid. In certain circumstances the dividends received can be distributed forward without additional income tax expense. The corporate income



tax related to dividend payments is accounted as liability and tax expense in income statement the same period the dividend is announced, no matter for which period the dividend is announced or when the dividend payment is actually carried out. The liability for income tax payment is on the 10 day of the next month of dividend payment.

Arising from individuality of taxation there are no differences related to tax calculations and book values of assets and derived from that also not deferred tax receivables or liabilities. Contingent tax liabilities, that would arise from dividend payments from retained earnings, are not accounted in balance sheet. The maximum tax liability, that would

1.14 Statutory reserve capital

Statutory reserve capital must be formed to comply with the requirements of the Commercial Code. Statutory reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Statutory reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from statutory reserve capital.

Note 2 Cash and cash equivalents

	31.12.2011	31.12.2010
Bank accounts, except related parties	4 215	9 742
Account as AS-s LHV Pank (Note 13)	39 743	34 069
Total cash and cash equivalents	43 958	43 811

In 2011, the interests earned on bank accounts totals 446 euros (2010: 393 euros).

Note 3 Short term financial investments

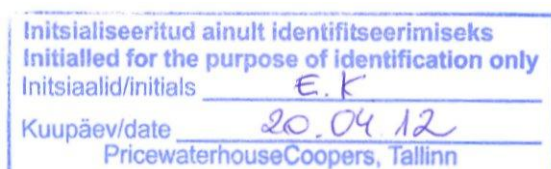
	31.12.2011	31.12.2010
Shares	3 819	0
Bonds	902 017	845 739
Total at fair value	905 836	845 739

In 2011 and 2010, the total bond position was accounted for on the basis of market prices quoted in an active market.

Note 4 Non-current financial investments

	31.12.2011	31.12.2010
Units of pension funds	1 991 552	1 938 462
Units of investment funds	437 196	632 535
Total at fair value through profit or loss	2 428 748	2 570 997

In 2011, the units of pensions funds were acquired in the total amount of 493 178 euros (2010: 444 235 euros) and redeemed in the total amount of 306 824 euros (2010: 0 euros). The acquisition cost of the units of pension funds recognized at fair value in the balance sheet is 1 623 101 euros. The units of investment funds were purchased at their nominal value and the total acquisition cost of these fund units is 600 000 euros. In 2011, LHV Emerging Europe Alfa Fund was liquidated and the units of the Fund were redeemed for EUR 108,633.



Note 5 Tangible and intangible assets

In 2008, the Company acquired a passenger car under the finance lease agreement for 34 054 euros
In July 2011, the passenger car was sold with the carrying value of 11 127 euros, see Note 12.

	Tangible assets		Intangible assets	
	Computer technology	Machinery and equipment	Licences	Goodwill
Carrying value at 31.12.2009	2 802	21 889	0	0
Changes occurred in 2010				
Purchased non-currents assets	4 914	0	0	0
Depreciation/amortization	-3 217	-6 811	0	0
Balance at 31.12.2010				
Acquisition cost	17 182	34 054	0	0
Accumulated depreciation	-12 683	-18 976	0	0
Carrying value	4 499	15 078	0	0
Changes occurred in 2011				
Purchased non-currents assets	0	0	25 417	0
Sold non-current assets at carrying value	0	-11 127	0	0
Depreciation/amortization	-2 198	-3 951	0	0
Balance at 31.12.2011				
Acquisition cost	17 182	0	0	0
Accumulated depreciation	-14 881	0	0	0
Carrying value	2 301	0	25 417	0

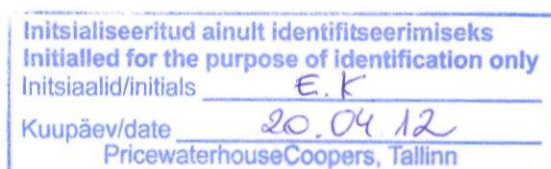
During the reporting period, computing equipment with the acquisition cost of EUR 2,652 was derecognised, with the residual value being zero, and a means of transport was sold at its residual value.

Note 6 Accounts payable

	31.12.2011	31.12.2010
Accounts payable (except related parties)	208 411	184 099
Liabilities to related parties (Note 13)	19 815	6 062
Total accounts payable	228 226	190 161

Note 7 Accrued expenses and other liabilities

	31.12.2011	31.12.2010
Payables to employees	41 308	57 777
Tax liabilities	55 084	37 847
incl. social security tax	17 691	20 967
incl. personal income tax withheld	10 540	12 469
incl. unemployment insurance premium	1 949	1 074
incl. contributions to mandatory pension	802	232
incl. corporate income tax	1 937	557
incl. value added tax	22 165	2 548
Total	96 392	95 624



Note 8 Subordinated liabilities

AS LHV Varahaldus has issued subordinated bonds to comply with the standards imposed by law on the management company's own resources. In 2008 and 2010, the bonds were purchased by parent company AS LHV Group. The interest rate of bonds issued in 2008 was higher, because bonds were issued then to cover the financial losses that were created under the conditions of the financial crisis. The bonds issued in 2010 and 2011 were aimed at covering losses arising from an increase in the market share through the active selling activities. In 2011, the bonds issued to the parent company were repurchased and, in place of them, new bonds were issued that were acquired by an independent party. The underlying currency of subordinated bonds is the euro and the maturity date of bonds is seven years.

Subordinated bonds	Intressimäär	Summa
Issue in 2008	16%	800 000
Redemption in 2009		-200 000
Balance at 31.12 2009		600 000
Issue in 2010	10%	400 000
Balance at 31.12 2010		1 000 000
Issue in 2011		-1 000 000
Redemption in 2011	11,65%	1 000 000
Balance at 31.12 2011		1 000 000

As at 31.12.2011, the amount due of subordinated loans with maturities of 1 to 5 years was 0 euros (31.12.2010: 600 000 euros) and that of loans with maturities of more than 5 years was 1 000 000 euros (31.12.2010: 400 000 euros).

Interest expenses on subordinated loans in the amount of 132 351 euros are included within interest expenses in the income statement (2010: 114 027 euros). In the balance sheet, the current portion of non-current liabilities includes an interest payable in the amount of 65 328 euros (31.12.2010: 28 910 euros).

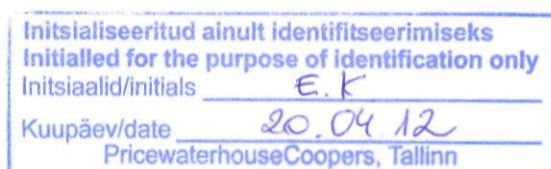
Note 9 Own funds

	31.12.2011	31.12.2010
Share capital (in euros)	5 100 000	4 700 000
Issued shares (pcs)	5 100 000	4 700 000
Nominal value of shares	1	1

In the second half of year 2011, the share capital was increased. 400 000 new shares were issued, including 150 000 shares with a price of 1,45 euros and 250 000 shares with a price of 1,50 euros. The increase of share capital was paid in cash and in the total amount of 592 500 euros.

At the end of 2010, share capital was converted into euros. Upon converting the share capital, the nominal value of shares was changed so that a shareholder received 0.639 shares with a nominal value of EUR 1 for each share with a nominal value of EEK 10.

The Company's own funds consist of:	31.12.2011	31.12.2010
Tier 1 own funds	2 353 543	2 403 094
Share capital, inci. share premium	5 595 605	5 003 105
Accumulated losses	-1 200 012	-1 455 917
Net loss for the financial year	-2 016 633	-1 144 094
Intangible assets	-25 417	0



Tier 2 own funds	1 000 000	1 000 000
Subordinated fixed-term liabilities	1 000 000	1 000 000
Subordinated fixed-term liabilities	3 353 543	3 403 094

Note 10 Fee income

	2011	2010
Pension fund management (note 13)	2 197 694	1 276 251
Investment fund management (note 13)	126 336	108 822
Fund issue and redemption fees	52 658	47 571
Total	2 376 688	1 432 644

In the financial year and in 2010, the Company's services were rendered only in Estonia.

Note 12 Operating expenses

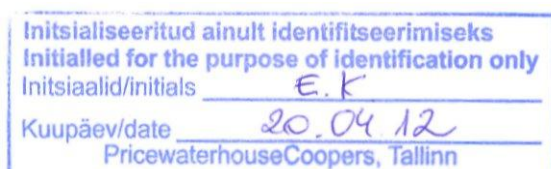
	2011	2010
Marketing expenses	2 765 013	1 872 573
Advertising expenses	113 756	101 080
Other purchased services	238 274	28 787
Office expenses	66 605	65 894
Depository fees	178 027	109 488
Registration fees	94 332	73 354
Supervision and guarantee fees	34 161	32 710
Legal consultations and audit	26 233	30 964
Communication costs	28 131	30 295
Travel and training costs	16 730	26 280
Transport expenses	23 505	19 367
Bank services, management and transaction fees	2 075	2 981
IT expenses	20 553	13 423
Total operating expenses	3 607 395	2 407 196

A significant increase in marketing expenses is related to more active sales activities targeted at attracting new customers to the funds managed by LHV Varahaldus.

In the reporting period, the wages and salaries of employees totalled EUR 290 290 (2010: EUR 234 517) and the average number of employees was 26 (2010: 12), of whom 13 worked part-time. The amount of management remuneration is disclosed in Note 13.

Note 12 Finance and operating lease

The Company leases passenger cars and office space under the operating lease terms and a passenger car under the finance lease terms. In the reporting period, the rent for the office space in the total amount of 48 499 euros (2010: 45 482 euros) and rent for passenger cars in the total amount of 18 754 euros (2010: 14 375) were recognized under other operating expenses in the income statement. Interest expenses in the amount of 1 162 euros (2010: 1 159 euros) arising from payment of financial lease installments are recognized under interest expenses in the income statement. Principal payments of the finance lease totalled 14 355 euros (2010: 6437 euros) and they are recognized as a deduction of financial lease liabilities. The finance lease agreement was terminated in July 2011 upon the consent of both parties.



All lease agreements are cancellable upon the consent of both parties. The minimum amount of unilaterally cancellable agreements in the subsequent periods is 39 310 euros (2010: 71 779 euros), the current portion of which is 10 848 euros (2010: 20 783 euros) and the non-current portion is 28 462 euros (2010: 50 996 euros).

Note 13 Related party transactions

For the purpose of preparation of the annual report of AS LHV Varahaldus, the related parties include:

- Owners (parent company and owners of the parent company);
- Fellow subsidiaries and associates;
- Members of the Management Board, manager of the internal audit department and the entities under their control (together referred to as management);
- Members of the Supervisory Board
- Close relatives of the persons mentioned above and the companies related to them;
- Funds managed by LHV Varahaldus

As at 31.12.2011, the owner of AS LHV Varahaldus was AS LHV Group (ownership interest: 100%).

AS LHV Varahaldus conducted transactions with managed funds in the following amounts (see also Note 4):

Management fees	Revenues	Receivable as at	Revenues 2010	Receivable as at
	2011	31.12.2011		31.12.2010
Pension funds (note 11)	2 197 694	217 648	1 276 251	119 080
Investment funds (note 11)	126 336	8 860	108 822	15 285
Total	2 324 030	226 508	1 385 073	134 365

In 2011, LHV pension and investment funds were repaid the management fees and commissions in the total amount of EUR 29,212 (2010: EUR 1,097).

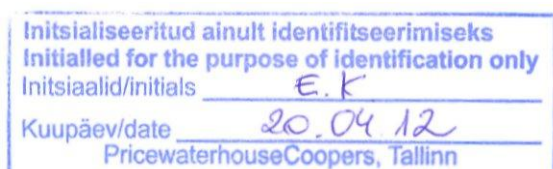
At 31.12.2011, AS LHV Pank (LHV)'s account held demand deposits in the amount of EUR 39,743 (31.12.2010: EUR 34,069), see also Note 2.

At the end of the first quarter of 2010, LHV Varahaldus received from LHV a short-term liquidity loan in the amount of EUR 19,174 (EEK 300,000) at an interest rate of 10% and paid an interest expense of EEK 1,833. No loans were received in 2011.

In 2011, the rental, advertising and administration services were purchased from LHV in the total amount of EUR 182,178 (2010: EUR 134,769). The expenses are included in the income statement under the other operating expenses. At 31.12.2011, the balance sheet includes a payable to LHV in the amount of EUR 19,815 (31.12.2010: EUR 6,062). In 2011, the advertising, training and consultation services were sold to LHV in the total amount of EUR 34,848 (2010: EUR 585).

In 2011, the subordinated bonds were repurchased from parent AS LHV Group. At 31.12.2010, the balance sheet included a subordinated liability to the parent company in the amount of EUR 1,000,000 and unpaid accrued interest in the amount of EUR 28,910, see Note 8. In 2011, the interest expense amounted to EUR 26,937.

In the second half of 2011, parent AS LHV Group made a contribution to the equity reserves of AS LHV Varahaldus in the amount of EUR 1,400,000, which was used in December 2011 to cover the losses of previous periods.



The Company has signed contracts with the members of the Management Board, which do not provide for severance benefits upon termination of the contract. In any matters not regulated by the contract, the parties adhere to the procedure specified in the legislation of the Republic of Estonia.

In the reporting period, the members of the Management Board were paid the total fees of EUR 56,373 (2010: EUR 63,915). Supervisory board member fees were not paid. Members of the Supervisory Board with an employment contract were paid the total remuneration of EUR 20,040 (2010: EUR 19,949). At 31.12.2011, the payables to members of the Management Board totalled EUR 10,482 (31.12.2010: EUR 27,520). At 31.12.2011, payables to members of the Supervisory Board total EUR 1,552 (31.12.2010: EUR 6,251).

In 2011 and 2010, no impairments were made with regard to receivables from the related parties.

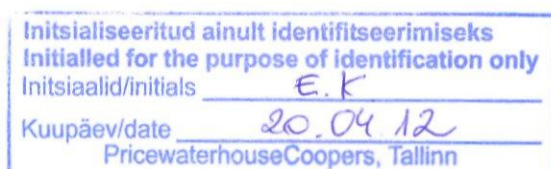
Note 14 Contingent liabilities

Tax authorities have the right to review to the Company's tax records for up to 6 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The Company's management estimates that there are not any circumstances which may lead tax authorities to impose additional taxes on the Company.

Note 15 Events after the balance sheet date

After the end of the financial year, no significant changes have occurred at AS LHV Varahaldus which would have an effect on the Company's assets and liabilities at the balance sheet date 31.12.2011.

In January 2012, the Supervisory Board approved a resolution to cover the issue premium in the amount of EUR 495,605 to cover the losses of the previous periods. By a proposal of the Supervisory Board of February 2012, share capital was reduced by EUR 1,100,000, which was used to cover the retained losses of previous periods.



Signatures of the Management Board to the 2011 Annual Report

The Management Board has prepared the management report and the financial statements of AS LHV Varahaldus for the financial year ended on 31 December 2011. The financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company.

20.04.2012

Members of the Management Board:

Mihkel Oja /signed/**Kerli Lõhmus** /signed/



INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS LHV Varahaldus

We have audited the accompanying financial statements of AS LHV Varahaldus (the Company), which comprise the balance sheet as of 31 December 2011 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation, and true and fair presentation of these financial statements in accordance with accounting principles generally accepted in Estonia, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 true 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 give a true and fair view of the financial position of the Company as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.

AS PricewaterhouseCoopers

/signed/

Tiit Raimla
Auditor's Certificate No.287

/signed/

Erki Mägi
Auditor's Certificate No.523

20 April 2012

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Proposal for covering net loss for financial year

The Management Board of AS LHV Varahaldus proposes to the General Meeting of Shareholders to add the loss for 2011 in the amount of 2 016 633 euros to the accumulated losses from previous years.

Signatures of the Supervisory Board to the Annual Report

The Supervisory Board has reviewed the annual report, which consists of management report and financial statements, independent auditor's report and the proposal of allocation of net loss for financial year and approved it for presentation at the General Meeting of Shareholders.

20.04.2012

Chairman of the Supervisory Board:

Andres Viisemann /signed/

Members of the Supervisory Board:

Rain Lõhmus /signed/**Erki Kilu** /signed/

The revenue of AS LHV Varahaldus according to EMTA classificator

EMTAK	Field of activity	2011	2010
66301	Fund management	2 402 691	1 432 644
	Total	2 402 691	1 432 644