AS LHV Varahaldus

Annual Report 2013

(Translation of the Estonian original)

Annual Report	**01.01.2013 - 31.12.2013**
Business Name	AS LHV Varahaldus
Commercial Registry No.	10572453
Legal address	Tartu mnt. 2, Tallinn 10145
Phone	(372) 6800400
Fax	(372) 6800402
Main activities	Fund management, EMTAK 66301 (Estonian version of NACE)
Management Board	Mihkel Oja
	Kerli Lõhmus
Supervisory Board	Andres Viisemann
	Rain Lõhmus
	Erki Kilu
	Erkki Raasuke
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

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

In 2013, the main activity of the Company was the provision of fund management services to five compulsory pension funds, one voluntary pension fund and two UCITSs investing in equities.

During the year company's operating income increased 52%. The volume of fund assets managed by the Company increased 48% - from 252 million euros to 374 million euros. The number of active clients of compulsory pension funds increased from 106 thousand to 122 thousand (market share of 19,6%).

In terms of the volume of funds and number of clients, the Company is the third largest pension fund management company in Estonia. In 2013, the returns of the compulsory pension funds of LHV varied between 0,55% (LHV pf XS) and 6,60% (LHV pf XL). The return of LHV Supplementary Pension Fund was 7,55%. The investment strategy of LHV's pension funds became more cautious during the year. We estimate that, unless the outlook for the global economy improves, there is little to be gained and potentially considerably more to be lost in the stock markets. For this reason, the share of equity investments among LHV's pension funds was modest at the end of 2013 and the main goal was to avoid major losses.

Between 15 May and 15 September, those who had joined the compulsory pension funds were able to file an application to increase their contribution rate, pursuant to which the pension contributions will increase to 3% + 6% for four years beginning with 2014. As at September, 21% of the clients of LHV's pension funds had completed this application. Together with those who had submitted applications for continuation of voluntary contributions in 2009, more than a half of the clients of LHV's funds will receive a 6% contribution from the state.

In 2013, the return of LHV Pension Gulf Fund was 49,48% and the volume of the fund increased 6,7 times during the year. At the award ceremony held in Dubai at 24 April, Zawya Thomson Reuters nominated the fund "The Best Equity GCC Fund of 2012". In January 2014, the international financial information company that follows and assesses the activities of fund managers, Citywire awarded the fund manager of the LHV Persian Gulf Fund, Joel Kukemelk, the highest AAA rating that has been given to fewer than 2% of the 9000 fund managers followed by Citywire around the world. The fund is available in the Baltic and Scandinavian countries.

In the reporting period, the wages and salaries of employees totalled EUR 528 042 (2012: EUR 383 345) and the average number of employees in the Company was 32 (2012: 29), of whom 18 worked part-time (2012: 15). Employment contracts signed with employees only provide for payment of fixed wages. Fees paid to the members of the Management Board are disclosed in Note 13. No fees were paid to the members of the Supervisory Board for participation in the Supervisory Board.

In 2013, the parent company AS LHV Group approved the terms and conditions of performance fees and share options of the members of the Management Board, department heads and employees treated as such. The prerequisite for receiving share options is the financial results of 2013, which are evaluated by the Management and Supervisory Boards of AS LHV Group. The size of share options depends on the successful fulfilment of individual performance targets set for 2013, which for the Management Board is tied to the growth of business volumes, for fund managers to the returns of funds as well as other quantitative and qualitative indicators for at least the last three years, for department heads and employees treated as such to the productivity and employee contribution. The decision regarding the granting of share options will be made at the next General Meeting of Shareholders after the auditing of the financial year of AS LHV Group. In 2013, similar principles were used for determining performance fees for prior periods, including returns of funds in 2010-2012 and the growth in the volume of funds.

FINANCIAL STATEMENTS

Balance Sheet

(in euros)

Assets	Note	31.12.2013	31.12.2012
Current assets			
Cash and cash equivalents	2	383 430	101 631
Short term financial investments	3	1 669 692	1 001 150
Other receivables	13	549 075	372 534
Accrued income		42 507	33 215
Other prepaid expenses		142 336	136 878
Total currents assets		**2 787 040**	**1 645 408**
Non-current assets			
Units of managed pension funds	4	4 006 052	2 883 192
Units of managed investment funds	4	209 511	162 131
Tangible assets	5	1 992	3 690
Intangible assets	5	74 245	38 114
Total non-current assets		**4 291 800**	**3 087 127**
Total assets		**7 078 840**	**4 732 535**
Liabilities and equity			
Current liabilities			
Supplier payables	6,13	174 768	66 861
Accrued expenses and other liabilities	7	122 991	110 534
Current portion of long-term borrowings	8	1 037 315	102 148
Total current liabilities		**1 335 074**	**279 543**
Non-currents liabilities			
Subordinated liabilities	8	550 000	1 000 000
Total non-current liabilities		**550 000**	**1 000 000**
Equity			
Share capital		4 000 000	4 000 000
Statutory reserve capital		6 206	0
Accumulated losses		-553 214	-671 040
Net profit/loss for financial year		1 740 774	124 032
Total equity	9	**5 193 766**	**3 452 992**
Total liabilities and equity		**7 078 840**	**4 732 535**

The Notes presented on pages 9 – 18 are an integral part of the Financial Statements.

Income statement

(in euros)

	Note	31.12.2013	31.12.2012
Fee income	10,13	5 810 371	3 804 332
Other operating income		0	26 250
Total operating income		**5 810 371**	**3 830 582**
Operating expenses	11,13	-3 374 180	-3 387 539
Personnel expenses			
Wages and salaries	11	-630 546	-471 962
Social security costs		-207 163	-150 153
Unemployment insurance expense		-5 262	-4 919
Total personnel expenses		-842 971	-627 034
Depreciation and amortization	5	-28 009	-20 036
Other operating expenses		-7 690	-3 118
Total operating expenses		**-4 252 850**	**-4 037 727**
Operating profit (-loss)		**1 557 521**	**-207 145**
Financial income and expenses			
Profit from revaluation of short-term securities	3	76 021	133 344
Profit from revaluation of units of managed funds	4	156 697	316 290
Other financial income		69 381	0
Interest income	2	604	677
Interest expense	8,13	-118 510	-118 623
Foreign exchange losses		-940	-511
Total financial income and expense		**183 253**	**331 177**
Net profit for the financial year		**1 740 774**	**124 032**

The Notes presented on pages 9 – 18 are an integral part of the Financial Statements.

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Kuupäev/date 31.01.14
PricewaterhouseCoopers, Tallinn

Statement of cash flows

(in euros)

	Note	2013	2012
Cash flow from operating activities			
Operating loss		1 557 521	-207 145
Adjustments:			
Depreciation and amortization	5	28 009	20 036
Change in receivables and prepayments		-191 291	-192 517
Change in supplier payables	6,7	120 364	-147 223
Interests paid		-113 962	-81 803
Total change in working capital		**-156 880**	**-401 507**
Total cash from/-used in operating activities		**1 400 641**	**-608 652**
Cash flow from investing activities			
Purchase of non-current assets	5	-62 442	-34 122
Repayments of loans granted		0	12 496
Purchase of short-term financial investments	3	-801 534	-182 420
Sale of short-term financial investments	3	169 303	180 740
Purchase of long-term financial investments	4	-1 013 543	-742 171
Sale of long-term financial investments	4	0	441 886
Dividends and interest received		40 314	40 427
Total cash flow used in investing activities		**-1 667 902**	**-283 164**
Cash flow from financing activities			
Covering of losses through monetary contributions		0	950 000
Issue of subordinated bonds	8	550 000	0
Total cash flow from financing		**550 000**	**950 000**
Total cash flow		**282 739**	**58 184**
Cash and cash equivalents at beginning of the period	2	101 631	43 958
Change in cash and cash equivalents		**282 739**	**58 184**
Effect of exchange rate differences		-940	-511
Cash and cash equivalents at the end of the period	2	**383 430**	**101 631**

The Notes presented on pages 9 – 18 are an integral part of the Financial Statements.

Statement of changes in equity

(in euros)

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total equity
Balance at 01.01.2012	**5 100 000**	**495 605**	**0**	**-3 216 645**	**2 378 960**
Covering the loss of previous periods	-1 100 000	-495 605	0	1 595 605	0
Monetary contributions to cover losses	0	0	0	950 000	950 000
Net profit for financial year	0	0	0	124 032	124 032
Balance at 31.12.2012	**4 000 000**	**0**	**0**	**-547 008**	**3 452 992**
Balance at 01.01.2013	**4 000 000**	**0**	**0**	**-547 008**	**3 452 992**
Statutory reserve capital	0	0	6 206	-6 206	0
Net profit for financial year	0	0	0	1 740 774	1 740 774
Balance at 31.12.2013	**4 000 000**	**0**	**6 206**	**1 187 560**	**5 193 766**

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

The Notes presented on pages 9 – 18 are an integral part of the Financial Statements.

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.

The enforcement of New Accounting Standards Board guidelines effective from 1 January 2013 did not have any major impact to accounting policies.

1.2 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.

1.3 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.

1.4 Trade receivables

All receivables (accrued income, loans granted and other short and long-term receivables) 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.

1.5 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. The recognition of tangible assets acquired with financial lease is similar to purchased tangible 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 acquired with financial lease. 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.

1.6 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%.

1.7 Financial and operating leases

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

Assets leased under finance lease terms are recognised at the lower of the fair value of the asset and minimum lease payments in the balance sheet of the lessee. Lease payments are divided into finance cost (interest expense) and payment of the lease liability. Financial expenses are allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Assets acquired under finance lease terms are depreciated as purchased tangible assets, whereas the depreciation period is either the useful life of the asset or the rental period, depending which is shorter. Expenses directly related with finance lease contracts are included initially in cost of the tangible 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.

1.8 Financial liabilities

All financial liabilities (supplier payables, accrued expenses, issued bonds and other short-term) 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.

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.

1.9 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.

1.10 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.

1.11 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.

1.12 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 arise from dividend payments from retained earnings is presented in the notes of the annual report.

1.13 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

	31.12.2013	31.12.2012
Bank accounts, except related parties	382 946	61 155
Account at AS LHV Pank (Note 13)	483	40 476
Total cash and cash equivalents	**383 429**	**101 631**

In 2013, the interests earned on bank accounts totals 604 euros (2012: 308 euros).

Note 3 Short term financial investments

	31.12.2013	31.12.2012
Shares	0	890
Fond shares	439 560	0
Bonds	1 230 132	1 000 260
Total at fair value through profit or loss	**1 669 692**	**1 001 150**

Securities are accounted accounted for on the basis of market prices quoted in an active market.

In 2013, securities were acquired in the amount of 801 970 euros (2012: 182 420 euros) and sold in the amount of 169 303 euros (2012: 180 741 euros).

Note 4 Long-term financial investments

	31.12.2013	31.12.2012
Units of pension funds	4 006 052	2 883 192
Units of investment funds	209 511	162 131
Total at fair value through profit or loss	**4 215 563**	**3 045 323**

In 2013, the units of pension funds under management were acquired in the total amount of EUR 1 013 543 (2012: EUR 742 171). In 2012, the units of pension funds under management were redeemed in the total amount of EUR 119 772. The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is EUR 3 533 782. In 2012, the units of investment funds under management were redeemed in the total value of EUR 322 114. The units of investment funds were purchased at their nominal value and the total acquisition cost of these fund units is EUR 200 000.

Note 5 Tangible and intangible assets

	Tangible assets	Intangible assets
	Computer technology	Licences
Carrying value at 31.12.2011	**2 301**	**25 417**
Changes occurred in 2012		
Purchased non-currents assets	3 495	30 627
Depreciation/amortization	-2 106	-17 930
Balance at 31.12.2012		
Acquisition cost	18 025	56 044
Accumulated depreciation	-14 335	-17 930
Carrying value 31.12.2012	**3 690**	**38 114**
Changes occurred in 2013		
Purchased non-currents assets	0	62 442
Depreciation/amortization	-1 698	-26 311
Balance at 31.12.2013		
Acquisition cost	18 025	118 486
Accumulated depreciation	-16 033	-44 241
Carrying value 31.12.2013	**1 992**	**74 245**

Note 6 Accounts payable

	31.12.2013	31.12.2012
Accounts payable (except related parties)	171 356	47 324
Liabilities to related parties (Note 13)	3 412	19 537
Total accounts payable	**174 768**	**66 861**

Note 7 Accrued expenses and other liabilities

	31.12.2013	31.12.2012
Payables to employees	68 386	66 119
Tax liabilities	54 605	44 415
incl. social security tax	29 936	25 263
incl. personal income tax withheld	17 434	14 324
incl. unemployment insurance premium	2 387	2 381
incl. contributions to mandatory pension	1 839	1 371
incl. corporate income tax	203	-24
incl. value-added tax	2 807	1 100
Total	**122 991**	**110 534**

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 funds. In 2011, bonds were issued to an independent party in the amount of 1 million euros. The underlying currency of subordinated bonds is the euro and the maturity date of bonds is three years, with the right for extension for four more years. In 2013, bonds were issued to the parent company in the amount of 550 thousand euros. The underlying currency of the bonds is the euro and the maturity date of bonds is seven years. The right for premature repayment applies to the new bonds issued.

Subordinated bonds	Interest rate	Amount
Issue in 2011	8%*	1 000 000
Balance at 31.12 2011		**1 000 000**
Balance at 31.12 2012		**1 000 000**
Issue in 2013	8%	550 000
Balance at 31.12 2013		**1 550 000**

* The management company has received a permit from the Financial Supervision Authority to redeem the bonds included within the Tier 2 own funds. As a consequence, adjustment has been made to the interest expenses recognised at the effective interest rate of 11.65% in 2011 and 2012. The difference between the contractual interest rate of 8% and the original effective rate of 11.65% is included within other finance income.

As at 31.12.2013, the amount due of subordinated loans with maturities of under 1 year was 1 000 000 euros derived from premature repayment (31.12.2012: 0) and the amount due of subordinated loans with maturities of over 5 years was 550 000 (31.12.2012: 1 000 000) euros.

Interest expenses on subordinated loans in the amount of 117 548 euros are included within interest expenses in the income statement (2012: 116 819 euros). In the balance sheet, the current portion of non-current liabilities includes an interest payable in the amount of 37 315 euros (31.12.2012: 102 148 euros).

Note 9 Own funds

	31.12.2013	31.12.2012
Share capital (in euros)	4 000 000	4 000 000
Issued shares (pcs)	4 000 000	4 000 000
Nominal value of shares	1	1

The Company's own funds consist of:	31.12.2013	31.12.2012
Tier 1 own funds	**4 570 181**	**3 414 878**
Share capital, incl. share premium	4 000 000	4 000 000
Accumulated losses	-547 008	-671 040
Reviewed net profit for the financial year	1 191 434	124 032
Intangible assets	-74 245	-38 114
Tier 2 own funds	**1 400 000**	**1 000 000**
Subordinated fixed-term liabilities	1 400 000	1 000 000
Total own funds	**5 970 181**	**4 414 878**

Note 10 Fee income

	2013	2012
Pension fund management (note 13)	5 368 219	3 605 644
Investment fund management (note 13)	306 952	98 716
Fund issue and redemption fees	135 200	99 972
Total	**5 810 371**	**3 804 332**

In the financial year and in 2012, the Company's services were rendered only in Estonia.

Note 11 Operating expenses

	2013	2012
Marketing expenses	2 205 056	2 422 510
Advertising expenses	41 138	25 774
Other purchased services	275 036	280 738
Office expenses	94 635	65 604
Depository fees	418 236	274 109
Registration fees	81 508	91 424
Supervision and guarantee fees	43 489	39 704
Legal consultations and audit	31 390	25 193
Communication costs	5 715	8 639
Travel and training cots	28 691	10 582
Transport expenses	18 192	19 294
Bank services, management and transaction fees	2 510	2 132
IT expenses	128 584	121 836
Total operating expenses	**3 374 180**	**3 387 539**

In the calculation of minimum requirements of the pension fund manager´s own funds for covering the general expenses, fixed general expenses also include the depreciation of non-current assets and other operating expenses that are reported in the income statement under a separate item.

In the reporting period, the wages and salaries of employees totalled EUR 528 042 (2012: EUR 383 345). The amount of management remuneration is disclosed in Note 13. In the reporting year, the average number of employees in the Company was 32 (2012: 29), of whom 18 worked part-time (2012: 15).

Note 12 Operating lease

The Company leases passenger cars and office space under the operating lease terms. In the reporting period, the rent for the office space in the total amount of 69 556 euros (2012: 50 439 euros) and rent for passenger cars in the total amount of 13 217 euros (2012: 15 188 euros) were recognized under other operating expenses in the income statement. Interest expenses in the amount of 963 euros (2012: 1 804 euros)

arising from payment of operating lease instalments are recognized under interest expenses in the income statement.
All lease agreements are cancellable upon the consent of both parties. The minimum amount of unilaterally cancellable agreements in the subsequent periods is 8 819 euros (2012: 25 530), the current portion of which is 8 819 euros (2012: 10 848 and the non-current portion is 0 euros (2012: 14 682).

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);
- other subsidiaries and associates of the parent company;
- 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 31.12.2013, 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 2012**	**Receivable as at 31.12.2013**	**Revenues 2012**	**Receivables as at 31.12.2012**
Pension funds (note 10)	5 368 219	511 389	3 605 644	364 578
Investment funds (note 10)	306 952	37 686	98 716	7 956
Total	**5 675 171**	**549 075**	**3 704 360**	**372 534**

In 2013, LHV pension and investment funds were repaid the management fees and commissions in the total amount of EUR 12 946 (2012: EUR 31 377).

In 2013, units of managed pension funds were bought in the amount of EUR 1 013 543 (2012: EUR 742 171). In 2012, units of managed pension funds were redeemed for EUR 119 772. The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is EUR 3 533 782. Units of managed investment funds were redeemed for EUR 322 114 in 2012. The units of investment funds were purchased at their nominal value and the total acquisition cost of these fund units is EUR 200 000. See note 4.

As at 31.12.2013, AS LHV Pank's (LHV's) account held demand deposits in the amount of EUR 483 (31.12.2012: EUR 40 476), see also Note 2.

In 2013, advertising and administrative services were purchased from LHV in the total amount of EUR 87 430 (2012: EUR 184 327). The expenses are included in the income statement under the other operating expenses. As at 31.12.2013, the balance sheet includes a payable to LHV in the amount of EUR 3 412 (31.12.2012: EUR 18 313). In 2013, training and consultation services were sold to LHV in the total amount of EUR 877 (2012: EUR 26 000).

As registrar, LHV mediated to AS LHV Varahaldus subscription and redemption fees of LHV World Equities Fund and LHV Persian Gulf Fund. In 2013, redemption fees were paid in the amount of EUR 7 107 (2012: EUR 6 921), no subscription fees were paid (2012: EUR 3 200).

In 2013, the sales fee of investment funds paid to LHV Bank totalled EUR 6 067 (2012: EUR 6 210).

In 2013, subordinated bonds were issued to the parent company AS LHV Group in the amount of EUR 550 000, with maturity date of sever years and interest rate of 8%. The interest expenses in year 2013 amounted to EUR 37 767.

In 2012, the parent AS LHV Group made a contribution to the equity reserves of AS LHV Varahaldus in the amount of EUR 950 000, of which EUR 500 000 was used in June 2012 and EUR 450 000 was used in November 2012 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 total remuneration of EUR 102 504 (2012: 88 617). Supervisory Board member remunerations were not paid. Members of the Supervisory Board with an employment contract were paid the total remuneration of EUR 40 190 (2012: EUR 38 086). As at 31.12.2013, the payables to members of the Management Board totalled EUR 8 776 (31.12.2012: EUR 6 554). As at 31.12.2013, payables to members of the Supervisory Board totalled EUR 456 (31.12.2012: EUR 9 751).

In 2013 and 2012, 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.

Signatures of the Management Board to the 2013 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 2013. The financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company.

31.01.2014

Members of the Management Board:

Mihkel Oja /Signed/

Kerli Lõhmus /Signed/

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder 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 2013 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes comprising 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 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 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 the Company as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.

AS PricewaterhouseCoopers

/signed/	/signed/
Ago Vilu Auditor's Certificate No.325	Verner Uibo Auditor's Certificate No.568

31 January 2014

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* *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.*

Profit allocation proposal

The Management Board of AS LHV Varahaldus proposes to the General Meeting of Shareholders to allocate the net profit for financial year ended 31 December 2013 as follows:

Transfer to statutory reserve capital	87 039 euros
Transfer to accumulated losses	1 653 735 euros

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 profit allocation proposal for financial year and approved it for presentation at the General Meeting of Shareholders.

03.02.2014

Chairman of the Supervisory Board:

Erkki Raasuke /Signed/

Members of the Supervisory Board:

Andres Viisemann /Signed/

Rain Lõhmus /Signed/

Erki Kilu /Signed/

The revenue of AS LHV Varahaldus according to EMTA classificator

EMTAK	Field of activity	2013	2012
66301	Fund management	5 810 371	3 830 582
	Total	**5 810 371**	**3 830 582**

Report of compulsory pension funds' management

(in euros)	2013	2012
Fee income	**5 442 115**	**3 648 871**
Management fees	5 317 503	3 564 609
Redemption fees	124 613	84 262
Fee expenses	**-597 947**	**-465 468**
Depositary fees	-418 236	-274 109
Registrar fees	-125 853	-132 127
Other fee expenses	-53 857	-59 232
incl. other fee expenses to related parties	-23 904	-23 904
Personnel and operating expenses	**-3 281 790**	**-3 364 141**
Wages and salaries	-700 021	-505 917
Supervisory fees	-40 445	-37 719
Guarantee Fund fees	-114 732	-73 026
Marketing and advertising fees	-2 084 164	-2 436 374
Other operating expenses	-342 428	-311 105
incl. other operating expenses to related parties	-1 262	-772
Other income and expenses	**-26 048**	**-5 097**
Operating profit/loss	**1 536 331**	**-185 835**
Financial income and expenses	**167 948**	**310 141**
Net profit/loss for the financial year	**1 704 279**	**124 306**

Report of compulsory pension funds' management is composed according to accounting policies and procedures of AS LHV Varahaldus. In the calculation of income and expenses related to compulsory pension funds' management are recognized in accordance with fund manager's income and expenses in the related income statement. Direct costs of compulsory pension funds' management are calculated using the direct method. Indirect costs are allocated proportionally according to the volume of assets. Costs not related to compulsory pension funds' management are eliminated.