AS LHV Varahaldus

Annual Report 2014

(Translation of the Estonian original)

Annual Report	**01.01.2014 - 31.12.2014**
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
	Joel Kukemelk (since 17.12.2014)
	Kerli Lõhmus (until 2.02.2015)
Supervisory Board	Andres Viisemann
	Rain Lõhmus (until 21.03.2014)
	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 2014, 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 the Company's operating income increased 46%. The volume of fund assets managed by the Company increased 35% - from 374 million euros to 504 million euros. The number of active clients of compulsory pension funds increased from 122 thousand to 129 thousand (market share of 20,5%).

In terms of the number of clients, the Company is the third largest compulsory pension fund management company in Estonia and second largest by the volume of funds' assets in 2014. The returns of the compulsory pension funds of LHV varied between 1,26% (LHV pf XL) and 5,51% (LHV pf XS). The return of LHV Supplementary Pension Fund was 1,68%. Bond markets, where LHV had invested throughout the year, performed better than expected. Bond markets are usually perceived to be safer than equity markets during uncertain times. Tallinn stock market fell by 7,7%, European and developing markets were on average up by 2%. On the other hand, the U.S. stock market performed better than expected. The investment strategy of LHV's pension funds was more conservative than usual due to high risks involved. Overall, fewer investments were made in the equity market than allowed.

The Company manages two UCITS compliant funds – LHV World Equities Fund and LHV Persian Gulf Fund. The latter has been very popular among foreign investors who own the majority of fund units. To further increase the marketing of the fund and increase tax effectiveness, the Company decided to redomicile the Fund to Luxembourg. The Swedbank Group platform has been chosen as the most optimal alternative for redomicilation. The redomicilation will occur through a cross border merger with a Luxembourg-based fund. The Financial Supervision Authority gave the permission to merge the two funds on the 18th of February 2015 and on the 13th of April 2015 SEF – LHV Persian Gulf Fund as the merging fund and LHV Persian Gulf Fund as the receiving fund will be merged together. SEF – LHV Persian Gulf Fund is SICAV, which complies with all the UCITS regulations and whose assets are going to be managed by the Company under a service agreement. During the year the volume of LHV Persian Gulf Fund increased by 24% and the return of the fund was 11.9%. Zawya Thomson Reuters awarded the fund "The Best Equity GCC Fund of 2013" second year in a row on the 1st of June 2014. On the 25th of November 2014, LHV Persian Gulf Fund won the International Finance Magazine award for the fastest growing GCC region equity fund. The same ceremony acknowledged the Company as the Best Fund Management Company in Estonia.

In the reporting period, the wages and salaries of employees totalled EUR 660 821 (2013: EUR 528 042) and the average number of employees in the Company was 26 (2013: 32), of whom 17 worked part-time (2013: 18). 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 2014, 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 goal for share options is to merge employee interests with that of management and clients. Furthermore, it is important to offer the same selection of employee benefits as do competitors. The size of share options depended on the successful fulfilment of individual performance targets set for 2013. Share option contracts were concluded for a three year period. Share options can be exercised after a three year period.

On the 17th of December, the Supervisory Board elected a new member of the Management Board – fund manager Joel Kukemelk.

FINANCIAL STATEMENTS

Balance Sheet

(in euros)

Assets	Note	31.12.2014	31.12.2013
Current assets			
Cash and cash equivalents	2	637 025	383 430
Short term financial investments	3	2 377 543	1 669 692
Other receivables	13	735 267	549 075
Accrued income		295 538	42 507
Other prepaid expenses		158 111	142 336
Total currents assets		**4 203 484**	**2 787 040**
Non-current assets			
Units of managed pension funds	4	5 587 996	4 006 052
Units of managed investment funds	4	0	209 511
Tangible assets	5	839	1 992
Intangible assets	5	1 125	74 245
Total non-current assets		**5 589 960**	**4 291 800**
Total assets		**9 793 444**	**7 078 840**
Liabilities and equity			
Current liabilities			
Supplier payables	6,13	229 193	174 768
Accrued expenses and other liabilities	7	157 530	122 991
Current portion of long-term borrowings	8	4 278	1 037 315
Total current liabilities		**391 001**	**1 335 074**
Non-currents liabilities			
Subordinated liabilities	8	550 000	550 000
Total non-current liabilities		**550 000**	**550 000**
Equity			
Share capital		4 000 000	4 000 000
Statutory reserve capital		93 245	6 206
Accumulated profit/loss		1 136 786	-553 214
Net profit for financial year		3 622 412	1 740 774
Total equity	9	**8 852 443**	**5 193 766**
Total liabilities and equity		**9 793 444**	**7 078 840**

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

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Income statement

(in euros)

	Note	31.12.2014	31.12.2013
Fee income	10,13	8 456 043	5 810 371
Total operating income		**8 456 043**	**5 810 371**
Operating expenses	11,13	-3 919 358	-3 374 180
Personnel expenses	11	-1 014 888	-842 971
Depreciation and amortization	5	-74 663	-28 009
Other operating expenses		-4 441	-7 690
Total operating expenses		**-5 013 350**	**-4 252 850**
Operating profit (-loss)		**3 442 693**	**1 557 521**
Financial income and expenses			
Profit from revaluation of short-term securities	3	109 712	76 021
Profit from revaluation of units of managed funds	4	122 979	156 697
Other financial income	8	0	69 381
Interest income	2	3 161	604
Interest expense	8,13	-52 549	-118 510
Foreign exchange losses		-3 584	-940
Total financial income and expense		**179 719**	**183 253**
Net profit for the financial year		**3 622 412**	**1 740 774**

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Statement of cash flows

(in euros)

	Note	2014	2013
Cash flow from operating activities			
Operating loss		3 442 693	1 557 521
Adjustments:			
Depreciation and amortization	5	74 663	28 009
Share option reserve		36 265	0
Change in receivables and prepayments		-454 998	-191 291
Change in supplier payables	6,7	88 964	120 364
Interests paid		-85 586	-113 962
Total change in working capital		**-340 692**	**-156 880**
Total cash from/-used in operating activities		**3 102 001**	**1 400 641**
Cash flow from investing activities			
Purchase of non-current assets	5	-390	-62 442
Purchase of short-term financial investments	3	-1 437 386	-801 534
Sale of short-term financial investments	3	784 534	169 303
Purchase of long-term financial investments	4	-1 469 086	-1 013 543
Sale of long-term financial investments	4	219 632	0
Dividends and interest received		57 874	40 314
Total cash flow used in investing activities		**-1 844 822**	**-1 667 902**
Cash flow from financing activities			
Covering of losses through monetary contributions	8	- 1 550 000	0
Issue of subordinated bonds	8	550 000	550 000
Total cash flow from financing		**-1 000 000**	**550 000**
Total cash flow		**257 179**	**282 739**
Cash and cash equivalents at beginning of the period	2	383 430	101 631
Change in cash and cash equivalents		**257 179**	**282 739**
Effect of exchange rate differences		-3 584	-940
Cash and cash equivalents at the end of the period	2	**637 025**	**383 430**

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Statement of changes in equity

(in euros)

	Share capital	Statutory reserve capital	Retained earnings	Total equity
Balance at 01.01.2013	**4 000 000**	**0**	**-547 008**	**3 452 992**
Statutory reserve capital	0	6 206	0	6 206
Retained earnings	0	0	-6 206	-6 206
Net profit for financial year	0	0	1 740 774	1 740 774
Balance at 31.12.2013	**4 000 000**	**6 206**	**1 187 560**	**5 193 766**
Balance at 01.01.2014	**4 000 000**	**6 206**	**1 187 560**	**5 193 766**
Statutory reserve capital	0	87 039	-87 039	0
Share options	0	0	36 265	36 265
Net profit for financial year	0	0	3 622 412	3 622 412
Balance at 31.12.2013	**4 000 000**	**93 245**	**4 759 198**	**8 852 443**

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.

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 Short- and long-term financial investments

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

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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, or until the final removal of the asset from use. 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.

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 Operating leases

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 and subordinated liabilities) 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 Share-based payments

AS LHV Varahaldus owner LHV Group operates a share-based compensation plan, under which the parent company receives services from subsidiary employees as consideration for equity instruments (options) of LHV Group. The fair value of the employee services received in exchange for the grant of the options is recognised during the shared-based compensation program as an expense and as an increase in the equity (retained earnings). The total amount to be expensed is determined by the fair value at the time of issuing the options. The fair value of the options granted:

- including any market performance conditions influencing the share price (e.g. LHV Group share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

At the end of each reporting period, the bank revises its estimates of the number of options that are expected to vest based on the vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, LHV Group issues new shares. According to the contractual conditions of the share options there are no social tax charges when excercising the options after the 3-year period.

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, tangible and intangible assets) are not revaluated on balance sheet date, but accounted continuously at the European Central Bank rate as at the 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 1.01.2015 the distribution of retained earnings is subject to a dividend tax of 20/80 of net dividend paid (until 31.12.2014 the retained earnings were subject to a dividend tax of 21/79). 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.

1.14 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

	31.12.2014	31.12.2013
Bank accounts, except related parties	446 378	382 946
Account at AS LHV Pank (Note 13)	190 647	483
Total cash and cash equivalents	**637 025**	**383 429**

In 2014, the interests earned on bank accounts totalled EUR 3 161 (2013: EUR 604).

Note 3 Short term financial investments

	31.12.2014	31.12.2013
Term deposits at AS LHV Pank (Note 13)	1 002 861	0
Total short term financial investments measured at amortised cost	**1 002 861**	**0**
Fund shares	491 583	439 560
Bonds	883 099	1 230 132
Total short term financial investments measured at fair value through profit or loss	**1 374 682**	**1 669 692**
Total short term financial investments	**2 377 543**	**1 669 692**

Securities are accounted for on the basis of market prices quoted in an active market, term deposits at amortised cost.

In 2014, securities were acquired in the amount of EUR 438 112 (2013: EUR 801 970) and sold in the amount of EUR 784 534 (2013: EUR 169 303).

In 2014, dividends from investments amounted to EUR 13 297 (2013: EUR 0) and interest income amounted to EUR 41 416 (2013: EUR 39 710).

Note 4 Long-term financial investments

	31.12.2014	31.12.2013
Units of pension funds	5 587 996	4 006 052
Units of investment funds	0	209 511
Total at fair value through profit or loss	**5 587 996**	**4 215 563**

In 2014, the units of pension funds under management were acquired in the total amount of EUR 1 469 086 (2013: EUR 1 013 543). The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is EUR 4 777 055. In 2014, the units of investment funds under management were redeemed in the total value of EUR 219 632 (2013: EUR 0).

Note 5 Tangible and intangible assets

	Tangible assets	Intangible assets
	Computer technology	Licences
Carrying value at 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**
Changes occurred in 2014		
Purchased non-currents assets	0	390
Liquidated assets	0	-47 257
Depreciation/amortization	-1 153	-26 253
Balance at 31.12.2014		
Acquisition cost	18 025	56 044
Accumulated depreciation	-17 186	-54 919
Carrying value 31.12.2014	**839**	**1 125**

Note 6 Accounts payable

	31.12.2014	31.12.2013
Accounts payable (except related parties)	227 321	171 356
Liabilities to related parties (Note 13)	1 872	3 412
Total accounts payable	**229 193**	**174 768**

Note 7 Accrued expenses and other liabilities

	31.12.2014	31.12.2013
Payables to employees	94 413	68 386
Tax liabilities	63 117	54 605
incl. social security tax	36 751	29 936
incl. personal income tax withheld	21 051	17 434
incl. unemployment insurance premium	2 646	2 387
incl. contributions to mandatory pension	2 472	1 839
incl. corporate income tax	184	203
incl. value-added tax	10	2 807
Total	**157 530**	**122 991**

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 EUR 1 million. The underlying currency of subordinated bonds was the euro and the maturity date of bonds was three years, with the right for extension for four more years. In 2013, bonds were issued to the parent

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company in the amount of EUR 550 thousand. The underlying currency of the bonds was the euro and the maturity date of bonds was seven years. The right for premature repayment applied to the new bonds issued. In February 2014, subordinated bonds that were issued in 2011 to an independent party in the amount of EUR 1 million were redeemed and in May the bonds that were issued to the parent company in the amount of EUR 550 thousand were redeemed before the maturity date.
In 2014, new bonds were issued to the parent company in the amount of EUR 550 thousand. The underlying currency of the bonds is the euro and the maturity date of bonds is ten years. The right for premature repayment to the new bonds issued applies before 5 years, when due to regulative modifications the bonds will not be classified as regulated capital for a fund manager.

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**
Issue in 2014	8%	550 000
Redemption in 2014		-1 550 000
Balance at 31.12 2014		**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%. The difference between the contractual interest rate of 8% and the original effective rate of 11.65% is included within year 2013 other finance income.

As at 31.12.2014 there are no subordinated liabilities with maturities below 1 year (31.12.2013: EUR 1 000 000) and the amount due for subordinated loans with maturities above 5 years is EUR 550 000 (31.12.2013: EUR 550 000).

Interest expenses on subordinated loans in the amount of EUR 52 063 are included within interest expenses in the income statement (2013: EUR 117 548). In the balance sheet, the current portion of non-current liabilities includes an interest payable in the amount of EUR 4 278 (31.12.2013: EUR 37 315).

Note 9 Own funds

	31.12.2014	31.12.2013
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:	31.12.2014	31.12.2013
Tier 1 own funds	**6 501 318**	**4 570 181**
Share capital	4 000 000	4 000 000
Statutory reserve capital	93 245	6 206
Accumulated profit/loss	1 136 786	-553 214
Net profit for the financial year	1 272 412	1 191 434
Intangible assets	-1 125	-74 245
Tier 2 own funds	**550 000**	**1 400 000**
Subordinated fixed-term liabilities	550 000	1 400 000
Total own funds	**7 051 318**	**5 970 181**

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Note 10 Fee income

	2014	2013
Pension fund management (Note 13)	7 188 627	5 368 219
Investment fund management (Note 13)	904 273	306 952
Fund issue and redemption fees	363 143	135 200
Total	**8 456 043**	**5 810 371**

In the financial year and in 2013, the Company's services were rendered only in Estonia.

Note 11 Operating expenses

	2014	2013
Salaries and bonuses	771 721	630 546
Social and other taxes	243 167	212 425
Employee expenses	**1 014 888**	**842 971**
Marketing expenses	2 401 609	2 205 056
Depository fees	569 920	418 236
Other purchased services	350 739	275 306
IT expenses	183 111	128 584
Office expenses	104 745	94 365
Registry fees	81 162	81 508
Advertising expenses	60 908	41 138
Legal consultations and audit fees	60 636	31 390
Supervision and guarantee fees	54 881	43 489
Travel and training costs	32 277	28 691
Transport costs	9 057	18 192
Communication costs	8 016	5 715
Bank services, management and transaction fees	2 297	2 510
Other operating expenses	**3 919 358**	**3 374 180**
Total operating expenses	**4 934 246**	**4 217 151**

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 660 821 (2013: EUR 528 042). The amount of management remuneration is disclosed in Note 13. In the reporting year, the average number of employees in the Company was 26 (2013: 32), of whom 17 worked part-time (2013: 18).

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 EUR 75 771 (2013: EUR 69 556) and rent for passenger cars in the total amount of EUR 7 101 (2013: EUR 13 217) were recognized under other operating expenses in the income statement. Interest expenses in the amount of EUR 485 (2013: EUR 963) arising from payment of operating lease instalments are recognized under interest expenses in the income statement.

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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 is owned 100% fully by AS LHV Group as at 31.12.2014.

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

Management fees	Revenues 2014	Receivable as at 31.12.2014	Revenues 2013	Receivables as at 31.12.2013
Pension funds (Note 10)	7 188 627	681 367	5 368 219	511 389
Investment funds (Note 10)	904 273	53 893	306 952	37 686
Total	**8 092 900**	**735 260**	**5 675 171**	**549 075**

In 2014, LHV pension and investment funds were repaid the management fees and commissions in the total amount of EUR 7 217 (2012: EUR 12 946).

In 2014, units of managed pension funds were bought in the amount of EUR 1 469 086 (2013: EUR 1 013 543). The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is EUR 4 777 055. In 2014, units of managed investment funds were redeemed for EUR 219 632 (2013: EUR 0), see also Note 4.

As at 31.12.2014, AS LHV Pank's (LHV's) account held demand deposits in the amount of EUR 190 647 (31.12.2013: EUR 483) and term deposits in the amount of EUR 1 002 861 (31.12.2013: EUR 0), see also Notes 2 and 3.

In 2014, advertising and administrative services were purchased from LHV in the total amount of EUR 62 967 (2013: EUR 87 430). The expenses are included in the income statement under other operating expenses. As at 31.12.2014, the balance sheet includes a payable to LHV in the amount of EUR 1 872 (31.12.2013: EUR 3 412), see also Note 6. In 2014, training and consultation services were sold to LHV in the total amount of EUR 1 143 (2013: EUR 877).

As registrar, LHV mediated to AS LHV Varahaldus subscription and redemption fees of LHV World Equities Fund and LHV Persian Gulf Fund. In 2014, redemption fees were paid in the amount of EUR 56 536 (2013: EUR 7 107), no subscription fees were paid in 2013 and 2014.

In 2014, the sales fee of investment funds paid to LHV Pank totalled EUR 5 381 (2013: EUR 6 067).

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 May of 2014, the subordinated bonds in the amount of EUR 550 000 were redeemed before the maturity date and new bonds were issued in the amount of EUR 550 000, with maturity date of 10 years and interest rate of 8%. The interest expenses in year 2014 amounted to EUR 44 611.

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 110 900 (2013: EUR 102 504). No remuneration was paid to the members of the Supervisory Board. Members of the Supervisory Board with an employment contract were paid the total remuneration of EUR 79 475 (2013: EUR 40 190), which is covered in the overall payroll expense, for more information see also Note 11. As at 31.12.2014, the payables to members of the Management Board totalled EUR 9 984 (31.12.2013: EUR 8 776). As at 31.12.2014, payables to members of the Supervisory Board totalled EUR 7 965 (31.12.2013: EUR 456).

In 2014 and 2013, 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 5 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 2014 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 2014. The financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company.

27.02.2015

Members of the Management Board:

Mihkel Oja /Signed/

Joel Kukemelk /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 2014 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 2014, 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/

Ago Vilu
Auditor's Certificate No. 325

/signed/

Verner Uibo
Auditor's Certificate No. 568

27 February 2015

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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 2014 as follows:

Transfer to statutory reserve capital	181 121 euros
Transfer to voluntary reserves	1 000 000 euros
Transfer to voluntary reserves	1 350 000 euros
Transfer to retained earnings	1 091 291 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.

27.02.2015

Chairman of the Supervisory Board:

Erkki Raasuke /Signed/

Members of the Supervisory Board:

Andres Viisemann /Signed/

Erki Kilu /Signed/

The revenue of AS LHV Varahaldus according to EMTA classificator

EMTAK	Field of activity	2014	2013
66301	Fund management	8 456 043	5 810 371
	Total	**8 456 043**	**5 810 371**

Report of compulsory pension funds' management

(in euros)	**2014**	**2013**
Fee income	**7 424 938**	**5 442 115**
Management fees	7 129 889	5 317 503
Redemption fees	295 049	124 613
Fee expenses	**-760 693**	**-597 947**
Depositary fees	-569 920	-418 236
Registrar fees	-124 039	-125 853
Other fee expenses	-66 734	-53 857
incl. other fee expenses to related parties	-18 924	-23 904
Personnel and operating expenses	**-3 316 378**	**-3 281 790**
Wages and salaries	-806 318	-700 021
Supervisory fees	-49 942	-40 445
Guarantee Fund fees	-156 826	-114 732
Marketing and advertising fees	-1 916 198	-2 084 164
Other operating expenses	-387 094	-342 428
incl. other operating expenses to related parties	-710	-1 262
Other income and expenses	**-67 944**	**-26 048**
Operating profit/loss	**3 279 924**	**1 536 331**
Financial income and expenses	**159 300**	**167 948**
Net profit/loss for the financial year	**3 439 224**	**1 704 279**

Report of compulsory pension funds' management is composed according to accounting policies and procedures of AS LHV Varahaldus. The 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.