

AS LHV Varahaldus

Annual Report 2015

(Translation of the Estonian original)

Annual Report	01.01.2015 - 31.12.2015
Business Name	AS LHV Varahaldus
Commercial Registry No.	10572453
Legal address	Tartu mnt. 2, Tallinn 10145
Phone	(372) 6800400
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Main activities	Fund management
Management Board	Mihkel Oja Joel Kukemelk Kerli Lõhmus (until 2.02.2015)
Supervisory Board	Andres Viisemann Erki Kilu Erkki Raasuke
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

AS LHV Varahaldus is a fund management company managing investment funds. LHV Varahaldus manages seven investment funds – five mandatory pension funds (LHV Pension Fund XS, LHV Pension Fund S, LHV Pension Fund M, LHV Pension Fund L, LHV Pension Fund XL), one voluntary pension fund (LHV Supplementary Pension Fund) and one UCITS investing in equities (LHV World Equities Fund). In addition it offers investment advisory services to SEF-LHV Persian Gulf Fund, which in April 2015 merged with LHV Persian Gulf Fund, that was under the management of LHV Varahaldus.

Funds' results

The objective of LHV Varahaldus is to offer pension fund clients the best long-term return in Estonia. In terms of returns for the last ten calendar years LHV pension funds are holding the first places in all investment strategies. In year 2015 LHV pension funds also had the best returns in all categories. LHV prioritizes capital preservation in difficult market conditions. In 2015 the fund manager kept the market risk of pension funds at a relatively low level, which was a justified strategy in terms of the whole year. The returns of LHV mandatory pension funds varied between +0.99% (LHV Pension Fund S) and +6.59% (LHV Pension Fund XL). The return of LHV Supplementary Pension Fund was +8.77% (all returns are based on data from Pensionikeskus.ee).

The return of LHV World Equities Fund was +11.21%. The return of SEF-LHV Persian Gulf Fund was -16.50%.

Clients

The investment strategy that kept the market risk low meant that LHV pension funds investing in stock markets fell behind compared to its competitors in terms of returns in the first half of 2015. This also affected the number of customers in a negative manner. In the first half of the year the number of active clients fell from 129.6 thousand to 124.4 thousand. In the second half of the year, when LHV pension funds' returns were relatively better, the number of customers rose by 2.6 thousand to 127 thousand (according to data from Pensionikeskus.ee). LHV Varahaldus continues to be the second largest in the mandatory pension fund market in terms of volume of funds' assets (21.0% market share vs 21.1% market share in the end of 2014) and the third largest in terms of number of clients (19.8% market share vs 20.5% in the end of 2014).

Financial results

During the year the Company's revenues grew by 9% (2014: 46%). The funds' assets under management grew by 13% to EUR 570 million. Starting from August the logic of reduction of management fees of mandatory pension funds changed, as a result, for example, the management fees in August fell by 10% on average compared to July. As the management fees of mandatory pension funds decrease in percentage terms as the volumes grow, the Company's revenues are growing slower than the volume of funds.

Operating expenses fell by 3% (2014: increased by 17%) mostly due to lower sales expenses. As a result the Company's net profit increased by EUR 1.03 million to EUR 4.65 million (2014: increased by EUR 1.88 million to EUR 3.63 million).

Redomiciliation of a fund

LHV Varahaldus has redomiciled LHV Persian Gulf Fund, a fund under its management, to Luxembourg. The redomiciliation occurred through a cross border merger on 13th of April 2015, the merging fund was SEF-LHV Persian Gulf Fund (SICAV, the fund management company is Swedbank Management Company S.A.) whose assets are managed by LHV Varahaldus under a service agreement. The redomiciliation occurred in order to increase the marketing opportunities of the fund among institutional investors in the long term.

The purchase of Danske Capital AS

On 29th of January 2016 LHV Varahaldus and Danske Bank A/S Estonia Branch signed a sale and purchase agreement of shares which constitutes that LHV Varahaldus will purchase from Danske Bank A/S an asset management company Danske Capital AS located in Estonia. The completion of the transaction prerequisites the authorization of the Estonian Financial Supervision Authority and the authorization for concentration by the Competition Authority. The transaction will be completed in 2016, presumably in the first half of the year, provided that all preconditions have been met by that time. The final purchase price is determined at the completion of the transaction. In order to finance the acquisition AS LHV Group will increase the share capital of LHV Varahaldus and will purchase the subordinated bonds issued by LHV Varahaldus. The purpose of the transaction is to expand the business of LHV Varahaldus and thus offer the best long-term investment services to mandatory pension fund clients. After the completion of the transaction the market share of LHV Varahaldus in the mandatory pension fund market in terms of volume of fund's assets will be close to 30%.

After the completion of the transaction Danske Capital AS will be merged with LHV Varahaldus. The further plan will be to merge the pension funds with similar strategies. The receiving funds will be LHV pension funds and the merging funds will be funds managed by Danske Capital AS.

Organizational development

When in December 2014 a third member was added to the Management Board (Joel Kukemelk was appointed), then since 2nd of February 2015 the Management Board consists of two members again (Kerli Lõhmus left the board).

In the middle of the year the organizational structure was changed when compliance and risk management units were merged. Instead of the previous five units LHV Varahaldus is now divided into four units – investment, risk management, operations and sales.

The average number of employees in the reporting year (including members of the Management Board) was 39 (2014: 26). The wages and salaries of employees in the reporting period totalled EUR 842 392 (2014: EUR 893 320). By the end of the year the employment contracts signed with employees only provided for payment of fixed wages. No cash bonuses were paid to the employees. 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.

Share options

In 2014 the shareholders meeting of AS LHV Group approved the terms and conditions of share options of the members of the Management Board and employees treated as such and heads of departments and employees treated as such in the AS LHV Group consolidation group companies. The goal for share options is to merge employee interests with those of the management and clients. Furthermore, it is important to offer a comprehensive remuneration package that is equal to employee benefits offered by competitors.

In February 2016, the Supervisory Board of parent company AS LHV Group decided to issue two members of the Management Board, the department heads and employees treated as such (four employees in total) share options for the results of year 2015 in the amount of EUR 128 000. The individual performance of staff responsible for funds' investment decisions was assessed based on the following criteria: funds' returns for the past three years, the growth of funds' assets in the last year, compliance with investment restrictions and rules of

procedures and other contribution to the development of the business. The heads of departments were assessed based on the work intensity, employee's knowledge, experience and the employee's contribution to the development of the business.

The share option contracts with the members of the Management Board and employees are concluded for a three-year period. Share options can be exercised after a three-year period. The members of the Management Board and employees do not have the possibility to take the specified amount in cash in lieu of the share options. Share options cannot be exchanged, sold, pledged or encumbered. Share options can be inherited. The contract for share options will expire upon premature termination of the employment contract on the employee's initiative, for which exceptions can be made by the Supervisory Board of AS LHV Group, and upon extraordinary termination of the employment contract by the employer due to reasons resulting from employee. According to the Credit Institutions Act the Supervisory Board of AS LHV Group can reduce the number of share options issued or cancel the share options if the overall financial results of the Company have significantly deteriorated compared to the previous period, the member of the Management Board or employee no longer meets the performance criteria, the Company no longer meets the prudential regulations or the Company's business risks are not adequately covered by Company's own funds or the performance fee has been determined based on information, which proved to be substantially misstated or incorrect.

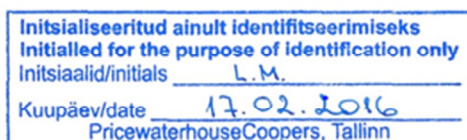
FINANCIAL STATEMENTS

Balance Sheet

(in euros)

Assets	Note	31.12.2015	31.12.2014
Current assets			
Cash and cash equivalents	2	2 917 966	637 025
Short-term financial investments	3	748 128	2 377 543
Other receivables	13	724 851	735 267
Accrued income		102 098	295 538
Other prepaid expenses		181 541	158 111
Total current assets		4 674 584	4 203 484
Non-current assets			
Units of managed pension funds	4	6 348 818	5 587 996
Tangible assets	5	14 652	839
Intangible assets	5	0	1 125
Total non-current assets		6 363 470	5 589 960
Total assets		11 038 054	9 793 444
Liabilities and equity			
Current liabilities			
Supplier payables	6,13	226 697	229 193
Accrued expenses and other liabilities	7	161 163	157 530
Current portion of long-term borrowings	8	3 245	4 278
Total current liabilities		391 105	391 001
Non-currents liabilities			
Subordinated debt	8	1 500 000	550 000
Total non-current liabilities		1 500 000	550 000
Equity			
Share capital		3 757 000	4 000 000
Statutory reserve capital		274 366	93 245
Share options		128 793	36 265
Accumulated profit/loss		334 812	1 100 521
Net profit for financial year		4 651 978	3 622 412
Total equity	9	9 146 949	8 852 443
Total liabilities and equity		11 038 054	9 793 444

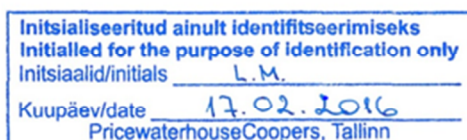
The Notes presented on pages 10 – 19 are an integral part of the Financial Statements.



Income statement*(in euros)*

	Note	2015	2014
Fee income	10,13	9 195 519	8 456 043
Total operating income		9 195 519	8 456 043
Operating expenses	11,13	-3 688 465	-3 919 358
Personnel expenses	11	-1 105 711	-1 014 888
Depreciation and amortization	5	-2 046	-74 663
Other operating expenses		-6 770	-4 441
Total operating expenses		-4 802 992	-5 013 350
Operating profit		4 392 527	3 442 693
Financial income and expenses			
Profit from revaluation of short-term securities	3	69 623	109 712
Profit from revaluation of units of managed funds	4	283 841	122 979
Interest income	2	12 787	3 161
Interest expense	8,13	-100 389	-52 549
Foreign exchange losses		-6 411	-3 584
Total financial income and expense		259 451	179 719
Net profit for the financial year		4 651 978	3 622 412

The Notes presented on pages 10 – 19 are an integral part of the Financial Statements.

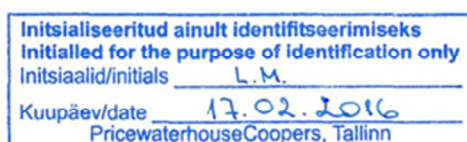


Statement of cash flows

(in euros)

	Note	2015	2014
Cash flow from operating activities			
Operating income		4 392 527	3 442 693
Adjustments:			
Depreciation and amortization	5	2 046	74 663
Share option reserve		92 528	36 265
Change in receivables and prepayments		180 426	-454 998
Change in supplier payables	6,7	1 137	88 964
Interests paid		-101 422	-85 586
Total change in working capital		174 715	-340 692
Total cash from/-used in operating activities		4 567 242	3 102 001
Cash flow from investing activities			
Purchase of non-current assets	5	-14 734	-390
Purchase of short-term financial investments	3	0	-1 437 386
Sale of short-term financial investments	3	1 651 498	784 534
Purchase of long-term financial investments	4	-476 981	-1 469 086
Sale of long-term financial investments	4	0	219 632
Dividends and interest received		60 327	57 874
Total cash flow used in investing activities		1 220 110	-1 844 822
Cash flow from financing activities			
Payments from the voluntary reserve	9	-2 350 000	0
Cancellation of shares	9	-2 100 000	0
Repayment of subordinated bonds issued	8	0	550 000
Issue of subordinated bonds	8	950 000	-1 550 000
Total cash flow from financing		-3 500 000	-1 000 000
Total cash flow		2 287 352	257 179
Cash and cash equivalents at the beginning of the period	2	637 025	383 430
Change in cash and cash equivalents		2 287 352	257 179
Effect of exchange rate changes		-6 411	-3 584
Cash and cash equivalents at the end of the period	2	2 917 966	637 025

The Notes presented on pages 10 – 19 are an integral part of the Financial Statements.



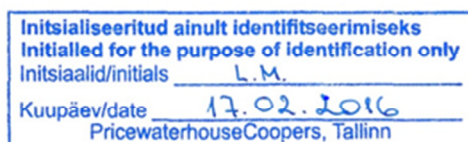
Statement of changes in equity

(in euros)

	Share capital	Voluntary reserve	Statutory reserve capital	Share options	Retained earnings	Total equity
Balance at 01.01.2014	4 000 000	0	6 206	0	1 187 560	5 193 766
Statutory reserve capital	0	0	87 039	0	-87 039	0
Share options	0	0	0	36 265	0	36 265
Net profit for financial year	0	0	0	0	3 622 412	3 622 412
Balance at 31.12.2014	4 000 000	0	93 245	36 265	4 722 933	8 852 443
Balance at 01.01.2015	4 000 000	0	93 245	36 265	4 722 933	8 852 443
Transferring of profit to voluntary reserve	0	2 350 000	0	0	-2 350 000	0
Payments from voluntary reserve	0	-2 350 000	0	0	0	-2 350 000
Bonus issue from retained earnings	1 875 000	0	0	0	-1 875 000	0
Cancellation of shares	-2 100 000	0	0	0	0	-2 100 000
Statutory reserve capital	0	0	181 121	0	-181 121	0
Share options	0	0	0	92 528	0	92 528
Net profit for financial year	0	0	0	0	4 651 978	4 651 978
Balance at 31.12.2015	3 757 000	0	274 366	128 793	4 986 790	9 146 949

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

The Notes presented on pages 10 – 19 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 financial investments (shares and other securities). Other long-term shares and securities include securities not expected to be sold within the next 12 months. Purchases and sales 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 (bid price) of a financial instrument.

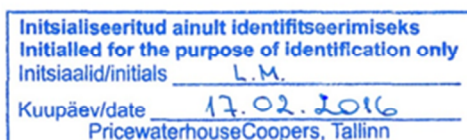
The changes in the fair value of shares and other securities held for trading as well as those in the fair value of long-term financial investments are taken to profit or loss of the reporting period. To account for the purchases and sales of financial assets at fair value through profit or loss, the 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, 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%.

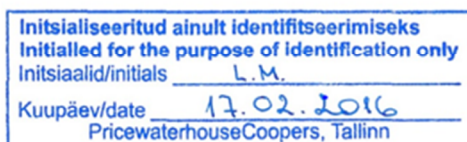
1.7 Operating leases

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 debts) 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 share-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.

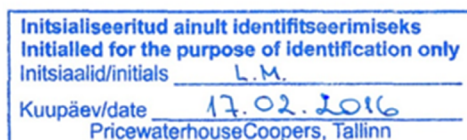
When the options are exercised, LHV Group issues new shares. According to the contractual conditions of the share options there are no social tax charges when exercising the options after the 3-year period.

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

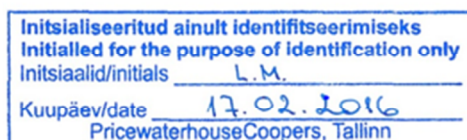
	31.12.2015	31.12.2014
Bank accounts, except related parties	2 103 236	446 378
Account at AS LHV Pank (Note 13)	814 730	190 647
Total cash and cash equivalents	2 917 966	637 025

In 2015, the interests earned on bank accounts totalled EUR 12 787 (2014: EUR 3 161).

Note 3 Short term financial investments

	31.12.2015	31.12.2014
Term deposits at AS LHV Pank (Note 13)	0	1 002 861
Total short term financial investments measured at amortised cost	0	1 002 861
Fund shares	308 669	491 583
Bonds	439 459	883 099
Total short term financial investments measured at fair value through profit or loss	748 128	1 374 682
Total short term financial investments	748 128	2 377 543

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



In 2015, securities were acquired in the amount of EUR 0 (2014: EUR 438 112) and sold in the amount of EUR 646 304 (2014: EUR 784 534).

In 2015, dividends from investments amounted to EUR 16 088 (2014: EUR 13 297) and interest income amounted to EUR 31 452 (2014: EUR 41 416).

Note 4 Long-term financial investments

	31.12.2015	31.12.2014
Units of pension funds (Note 13)	6 348 818	5 587 996
Units of investment funds	0	0
Total at fair value through profit or loss	6 348 818	5 587 996

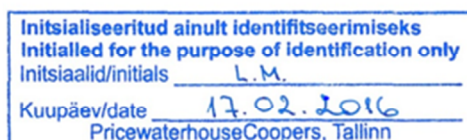
In 2015, the units of pension funds under management were acquired in the total amount of EUR 476 981 (2014: EUR 1 469 086). The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is EUR 5 254 036 (Note 13). In 2015 there were no transactions with the units of investment funds under management, in 2014 the units of investment funds under management were redeemed in the total value of EUR 219 632 (Note 13).

Note 5 Tangible and intangible assets

	Tangible assets	Intangible assets
	Computer technology, office	Licences
Carrying value at 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
Changes occurred in 2015		
Purchased non-currents assets	14 734	0
Liquidated assets	0	0
Depreciation/amortization	- 921	-1 125
Balance at 31.12.2015		
Acquisition cost	32 759	56 044
Accumulated depreciation	-18 107	-56 044
Carrying value 31.12.2015	14 652	0

Note 6 Accounts payable

	31.12.2015	31.12.2014
Accounts payable (except related parties)	216 881	227 321
Liabilities to related parties (Note 13)	9 886	1 872
Total accounts payable	226 697	229 193



Note 7 Accrued expenses and other liabilities

	31.12.2015	31.12.2014
Payables to employees	97 467	94 413
Tax liabilities	63 696	63 117
incl. social security tax	37 027	36 751
incl. personal income tax withheld	20 069	21 051
incl. unemployment insurance premium	2 284	2 646
incl. contributions to mandatory pension	2 851	2 472
incl. corporate income tax	383	184
incl. value-added tax	1 096	10
Total	161 163	157 530

Note 8 Subordinated debt

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 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.

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.

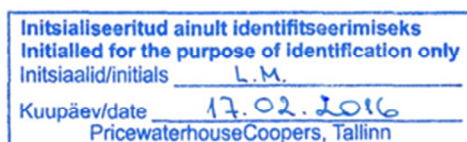
In 2014, new bonds were issued to the parent company in the amount of EUR 550 thousand. The underlying currency of the bonds is the euro and the maturity date of bonds is ten years. The right to prematurely redeem the new bonds issued applies before 5 years, when due to regulative modifications the bonds will not be classified as regulated capital for a fund manager.

In 2015, new bonds were issued to the parent company in the amount of EUR 950 thousand. The underlying currency of the bonds is the euro and the maturity date of bonds is ten years. The right to prematurely redeem 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
Issue in 2015	8%	950 000
Balance at 31.12.2015		1 500 000

As at 31.12.2015 there are no subordinated bonds with maturities below 1 year (31.12.2014: EUR 0) and the amount due for subordinated bonds with maturities above 5 years is EUR 1 500 000 (31.12.2014: EUR 550 000).

Interest expenses on subordinated bonds in the amount of EUR 100 389 are included within interest expenses in the income statement (2014: EUR 52 063). In the balance sheet, the current portion of non-current liabilities includes an interest payable in the amount of EUR 3 245 (31.12.2014: EUR 4 278).



Note 9 Own funds

	31.12.2015	31.12.2014
Share capital (in euros)	3 757 000	4 000 000
Issued shares (pcs)	3 757 000	4 000 000
Nominal value of shares	1	1

According to the Company's articles of association, the minimum share capital is EUR 3 million and maximum share capital is EUR 12 million. The share capital has been fully paid in cash.

In February 2015 retained earnings in the amount of EUR 2 350 were transferred to a voluntary reserve, which was paid out in March.

In March 2015 there was a bonus issue from retained earnings in the amount of EUR 1 857 000.

In September 2015 the parent company AS LHV Group cancelled the shares of AS LHV Varahaldus in the amount of EUR 2 100 000. The repayment to the parent company occurred in December 2015.

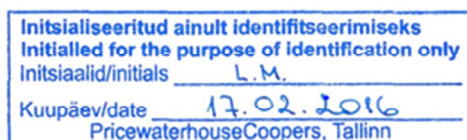
As at 31.12.2015 the retained earnings of AS LHV Varahaldus totalled EUR 4 986 790 (31.12.2014: EUR 4 722 933). If total profits would be distributed as dividends, the dividends would amount to EUR 3 740 092 (31.12.2014: EUR 3 467 470) and the arising income tax expense would amount to EUR 1 246 698 (31.12.2014: EUR 1 255 463).

The Company's own funds consist of:	31.12.2015	31.12.2014
Tier 1 own funds	9 018 156	6 465 053
Share capital	3 757 000	4 000 000
Statutory reserve capital	274 366	93 245
Accumulated profit/loss	334 812	1 100 521
Net profit for the financial year	4 651 978	1 272 412
Intangible assets	0	-1 125
Tier 2 own funds	1 500 000	550 000
Subordinated term debt	1 500 000	550 000
Total own funds	10 518 156	7 015 053

Note 10 Fee income

	2015	2014
Pension fund management (Note 13)	8 344 899	7 188 627
Investment fund management (Note 13)	374 465	904 273
Fund issue and redemption fees	476 155	363 143
Total	9 195 519	8 456 043

In the financial year and in 2014, the Company's services were rendered only in Estonia.



Note 11 Operating expenses

	2015	2014
Marketing expenses	1 683 288	2 401 609
Depository fees	667 452	569 920
Other purchased services	459 186	350 739
IT expenses	231 336	183 111
Office expenses	105 596	104 745
Expenses related to funds	103 864	0
Registry fees	64 891	81 162
Advertising expenses	226 569	60 908
Legal consultations and audit fees	33 936	60 636
Supervision and guarantee fees	66 606	54 881
Travel and training costs	22 463	32 277
Transport costs	406	9 057
Communication costs	20 653	8 016
Bank services, management and transaction fees	2 219	2 297
Other operating expenses	3 688 465	3 919 358

In the calculation of minimum requirements of the pension fund manager's own funds for covering the employee expenses, 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.

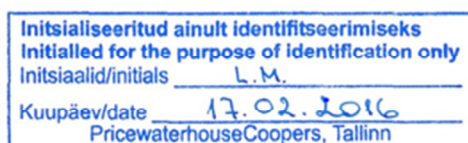
Employee expenses	2015	2014
Salaries	869 794	771 721
Social tax	231 002	236 900
Unemployment insurance premium	4 915	6 267
Employee expenses	1 105 711	1 014 888

In the reporting period, the wages and salaries (incl. taxes) of employees totalled EUR 842 392 (2014: EUR 893 320). The amount of management remuneration is disclosed in Note 13. In the reporting year, the average number of employees (incl. members of the board) in the Company was 39 (2014: 26).

Note 12 Operating lease

The Company leases passenger cars and office space under operating lease terms. In the reporting period, the rent for office space has been recognized under operating expenses in the total amount of EUR 74 958 (2014: EUR 75 771). Rent for passenger cars in 2014 was in the

amount of EUR 7 101. In 2014 interest expenses in the amount of EUR 485 arising from payment of passenger car operating lease instalments are recognized under interest expenses in the income statement.



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 31.12.2015, 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 2015	Receivable as at 31.12.2015	Revenues 2014	Receivables as at 31.12.2014
Pension funds (Note 10)	8 344 899	707 975	7 188 627	681 367
Investment funds (Note 10)	149 976	2 604	904 273	53 893
Total	8 494 875	710 579	8 092 900	735 260

In 2015, LHV pension and investment funds were repaid the management fees and commissions in the total amount of EUR 7 735 (2014: EUR 7 217).

In 2015, units of managed pension funds were purchased in the amount of EUR 476 981 (2014: EUR 1 469 086). The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is EUR 5 254 036. There were no units of investment funds sold in 2015 (2014: EUR 219 632), see also Note 4. See Note 4 for information about fair value of pension funds at balance sheet date.

As at 31.12.2015, AS LHV Pank's (LHV's) account held demand deposits in the amount of EUR 814 730 (31.12.2014: EUR 190 647) and term deposits in the amount of EUR 0 (31.12.2014: EUR 1 002 861), see also Notes 2 and 3.

In 2015, advertising and administrative services were purchased from LHV in the total amount of EUR 78 922 (2014: EUR 62 967). The expenses are included in the income statement under other operating expenses. As at 31.12.2015, the balance sheet includes a payable to LHV in the amount of EUR 3 522 (31.12.2013: EUR 1 872), see also Note 6. In 2015, advertising and administrative

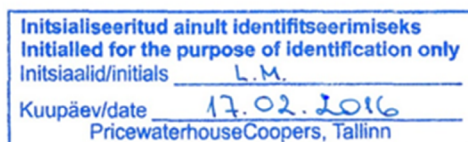
services were sold to LHV in the total amount of EUR 3 221 (2014: EUR 1 143).

As registrar, LHV intermediated to AS LHV Varahaldus subscription and redemption fees of LHV World Equities Fund and LHV Persian Gulf Fund. In 2015, redemption fees were paid in the amount of EUR 6 490 (2014: EUR 56 536), no subscription fees were paid in 2015 and 2014.

In 2015, the sales fee of investment funds paid to LHV totalled EUR 31 723 (2014: EUR 5 381).

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

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



In March 2015, subordinated bonds in the amount of EUR 950 thousand were issued, with maturity date of 10 years and interest rate of 8%. The interest expenses in year 2015 amounted to EUR 100 389.

In September 2015, AS LHV Group cancelled the shares of AS LHV Varahaldus in the amount of EUR 2 100 000. The repayment for cancelled shares occurred in December 2015.

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 (incl. taxes) of EUR

263 319 (2014: EUR 121 568). 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 (incl. taxes) of EUR 81 617 (2014: EUR 79 475), which is accounted in the overall payroll expense, for more information see also Note 11. As at 31.12.2015, the payables to members of the Management Board totalled EUR 22 734 (31.12.2014: EUR 9 984). As at 31.12.2015, payables to members of the Supervisory Board totalled EUR 5 620 (31.12.2014: EUR 7 965). As part of the share option program the members of the Management Board and Supervisory Board have been issued share options in the amount of EUR 86 568 in 2015 (2014: EUR 29 868).

In 2015 and 2014, no impairments were recorded with regard to receivables from the related parties.

Note 14 Contingent liabilities

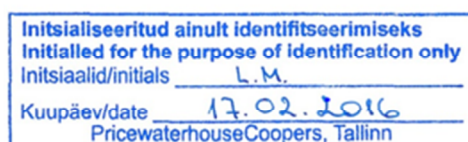
Tax authorities have the right to review to the Company's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The Company's management

estimates that there are no circumstances which may lead tax authorities to impose additional taxes on the Company.

Note 15 Subsequent events

On 29th of January 2016, LHV Varahaldus entered into a sale and purchase agreement of shares with Danske Bank A/S Estonia Branch, under which LHV Varahaldus is about to purchase 100% of the shares of asset management company Danske Capital AS located in Estonia. Completion of the transaction prerequisites the authorization of the Financial Supervision Authority and the authorization for concentration by the Competition

Authority. The transaction will be presumably completed during the first half of 2016, provided that all preconditions have been met by that time. The final purchase price will be determined at the completion of the transaction. In order to finance the acquisition AS LHV Group will increase the share capital of AS LHV Varahaldus to EUR 12 million and will purchase subordinated bonds issued by LHV Varahaldus in the amount of EUR 600 thousand.



Signatures of the Management Board to the 2015 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 2015. The financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company.

17.02.2015

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 2015 and the income statement, statement of changes in equity and statement of cash flows 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 2015, 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

17 February 2016

** 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 2015 as follows:

Transfer to statutory reserve capital	EUR 101 334
Transfer to retained earnings	EUR 4 550 644

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.

17.02.2015

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 classifier

EMTAK	Field of activity	2015	2014
66301	Fund management	9 195 519	8 456 043
	Total	9 195 519	8 456 043

Report of mandatory pension funds' management

<i>(in euros)</i>	2015	2014
Fee income	8 742 996	7 424 938
Management fees	8 276 700	7 129 889
Redemption fees	466 297	295 049
Fee expenses	-908 380	-760 693
Depository fees	-667 452	-569 920
Registrar fees	-137 416	-124 039
Other fee expenses	-103 513	-66 734
incl. other fee expenses to related parties	-32 280	-18 924
Personnel and operating expenses	-3 351 772	-3 316 378
Wages and salaries	-924 047	-806 318
Supervisory fees	-63 276	-49 942
Guarantee Fund fees	-198 040	-156 826
Marketing and advertising fees	-1 689 109	-1 916 198
Other operating expenses	-477 300	-387 094
incl. other operating expenses to related parties	0	-710
Other income and expenses	-1 943	-67 944
Operating profit/loss	4 480 901	3 279 924
Financial income and expenses	241 458	159 300
Net profit/loss for the financial year	4 722 359	3 439 224

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