AS LHV Varahaldus
Annual Report 2016
(Translation of the Estonian original)

Annual Report	**01.01.2016 - 31.12.2016**
Business Name	AS LHV Varahaldus
Commercial Registry No.	10572453
Legal address	Tartu mnt. 2, Tallinn 10145
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Main activities	Fund management
Management Board	Mihkel Oja
	Joel Kukemelk
Supervisory Board	Andres Viisemann
	Erki Kilu
	Erkki Raasuke (until 05.12.2016)
	Madis Toomsalu (from 05.12.2016)
Auditor	AS PricewaterhouseCoopers

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Management Report

AS LHV Varahaldus is a fund management company managing investment funds. LHV Varahaldus manages mandatory pension funds (II pillar) and voluntary pension funds (III pillar), in addition it offers investment advisory services to SEF-LHV Persian Gulf Fund.

Acquisition of and merger with Danske Capital AS

For LHV Varahaldus, the highlight for the year 2016 was the acquisition of and merger with AS Danske Capital. The sale and purchase agreement of shares with Danske Bank A/S and Danske Bank A/S Estonian Branch was concluded on January 29. Upon signing the agreement, LHV started applying for the permits required for the purchase of Danske Capital. The permits were issued in April. Immediately after conclusion of the share purchase and sale transaction on May 2, LHV Varahaldus launched the merger of the two fund management companies that took effect on July 28, with the balance sheet date on May 1. LHV Varahaldus served as the acquiring company in the merger. As a result of the merger, Danske Capital was dissolved, with LHV Varahaldus becoming its legal successor. Following the merger, the number of 2nd pillar customers of LHV Varahaldus increased by 30% and the volume of pension funds went up by 40%.

In order to finance the purchase of Danske Capital, the share capital of LHV Varahaldus was increased by EUR 8.2 million to EUR 12 million in February. In addition, AS LHV Group acquired subordinated bonds of LHV Varahaldus in the amount of EUR 0.6 million. The purchase price of a 100% share of Danske Capital AS was EUR 10.9 million which consisted of a fixed amount of EUR 6.6 million and the equity value as at the end of April. The acquisition of and merger with Danske Capital generated EUR 6.6 million in intangible assets, with the client agreements to be depreciated over a period of several years. Depreciation of client agreements added EUR 0.4 million to expenses in 2016.

Upon the merger of fund management companies, three funds with no customers were dissolved. In addition LHV World Equities Fund, as the acquiring fund, merged with Danske Invest New Europe Fund in August. The merger of pension funds with a similar strategy is part of LHV's business plan. Similar 2nd pillar funds will be merged on 3 May 2017.

Management fees of pension funds

As the volume goes up, the management fees for 2nd pillar funds will be lowered, approaching 0.5%. As a result, operating income of LHV Varahaldus is growing at a slower rate than the volumes of pension funds under management.

In addition, the state has changed the regulation of management fees of pension funds. From August 2015 the logic of reducing the management fees of 2nd pillar pension funds changed (whereas earlier, the reduction was linked to the growth of a specific fund, the new approach is based on the volumes all 2nd pillar pension funds of the same fund management company), as a result of which management fees decreased by 10% on average in August 2015 compared to July. As a result of regular recalculation of management fees, average rate of the management fee decreased by an additional 2.6% from February 2016.

The merger with Danske Capital significantly increased the volume of 2nd pillar funds of LHV Varahaldus which also means notable decrease in management fee rates. Rates are regularly recalculated at the start of a calendar year and new rates will take effect from February. For example, new rates that entered into force in February 2017 lowered management fees of LHV's actively managed pension funds by 19% on average. Management fees of former Danske Capital's 2nd pillar funds fell up to 28.5%. Through lower management fees, the transaction with Danske Capital will also benefit customers of 2nd pillar funds.

In Q4, the Estonian Parliament adopted the long-awaited Investment Funds Act, which regulates LHV Varahaldus and operation of the funds. With the Act entering into force on January 10, 2017, the capital requirements regarding LHV Varahaldus were lowered, but the regulation of fees on redemption of units of 2nd pillar funds, i.e. exit fees, was also changed. The rate of the fee fell from 1% to 0.05-0.1%, whereas in the future the exit fee, if applied, will be included in the revenue of the respective fund and not in the revenue of the fund management company (in 2016 the corresponding revenue of LHV Varahaldus was EUR 0.5 million).

Passively managed pension funds

The main focus of LHV Varahaldus is active management of pension funds' assets for creating greater value over a longer period. However, the pension funds also have customers who would like to see the fund management company to be less involved and take less positions with regard to investment opportunities, and would prefer to invest in a fund whose assets are invested according to a predetermined model.

Therefore, in 2016, LHV Varahaldus set up passively managed 2nd and 3rd pillar pension funds, which begun their operations on November 10. The main characteristic feature of passive funds is that their assets are not actively managed. This allows to offer funds also at lower management fee rates (0.39%). LHVs' passively managed pension funds are constantly invested in the markets - each time the share of cash exceeds 2%, it is invested within 5 workdays - and their yield follows the movements of global markets.

Funds' results

The objective of LHV Varahaldus is to provide customers of pension funds the best long-term return in Estonia. In terms of yields over the last ten calendar years LHV pension funds are holding top places by all investment strategies (only funds that have been operating for at least 10 years have been taken into account).

By the end of 2016, returns of LHV's 2nd pillar funds (managed by LHV already at the beginning of the year) lined up exactly according to the funds' risk level: the fund with the smallest risk - pension fund XS that invests only in government bonds - earned its customers an annual yield of 1.5%, while the yield of the highest risk pension fund XL was 4.2%. Yields of pension funds S, M and L were 2.1%, 3.2% and 3.6%, respectively. LHV pension funds started last year with great caution. When the markets fell sharply in January, the fund manager took advantage of the situation and increased the equity risk. Seeing that the markets are recovering, the fund manager started to reduce the risk level of funds once again. By June, before the UK decided to leave the European Union, the risk level of funds was again lowered to very low levels and the proportion of cash and deposits was significantly increased. The fund manager kept very low risk profiles in pension funds also in the second half of the year.

The return of LHV Supplementary Pension Fund was 5.6%, the return of LHV World Equities Fund was 2.7% and the return of SEF-LHV Persian Gulf Fund was -1%.

Financial results

LHV Varahaldus posted a net profit of EUR 6.1 million in 2016, which is EUR 1.5 million more than the year before. The fee and commission income increased by EUR 3.7 million to EUR 12.9 million. EUR 3.0 million of the increase in revenues can be attributed to business volumes added as a result of merger with Danske Capital. Operating expenses increased by EUR 1.7 million to EUR 6.5 million.

The number of LHV's mandatory pension fund customers grew by 46.0 thousand over the year, amounting to 173.1 thousand. At the end of the year, the pension funds acquired through the purchase of Danske Capital had a total of 33.3 thousand customers. The volume of funds managed by LHV grew by EUR 404 million to EUR 974 million, of which EUR 253 million can be attributed to the transaction-related pension funds as at the end of year. In 2016, LHV Varahaldus 2nd pillar market share grew from 21.0% to 30.5% in terms of volume and from 19.8% to 26.6% in terms of active customer numbers.

In view of the current profit and reduced capital requirements as a result of merger of fund management companies, LHV Varahaldus decreased its share capital by EUR 2.7 million before the end of the year.

Organizational development and remuneration principles

The merger of two fund management companies was a challenge for the development of the organization. Before the merger the technical organization and structure of Danske Capital AS was harmonized with that of LHV Varahaldus, the process included several staff members of LHV Varahaldus starting work in Danske Capital already before the merger. As a result, the activities and the technical and organizational structure of LHV Varahaldus did not change significantly after the merger.

No changes took place in the two-member Management Board of LHV Varahaldus. In the three-member Supervisory Board, one member was replaced on December 5, when Erkki Raasuke was called back and Madis Toomsalu was elected as the new member of the Supervisory Board. On January 9, 2017, the Supervisory Board elected Madis Toomsalu as the Chairman of the Supervisory Board.

The principal units of LHV Varahaldus are the investment unit, risk management unit, operations unit and sales and customer service unit.

Members of the Management Board and employees of LHV Varahaldus are paid a monthly basic salary. The chairman of the Management Board is employed under the board member contract, and all others are employed under an employment contract. In 2016, the contracts provided only for a fixed salary. No cash-based performance bonus was paid to employees in

2016. LHV Varahaldus has not implemented severance fees or significant non-cash compensations.

During the reporting year, LHV Varahaldus had 40 employees on average including members of the Management Board (2015: 39). In the reporting period, the total remuneration paid to employees (incl. taxes) was EUR 1,302,903 (2015: EUR 842,392) that was also affected by the merger with Danske Capital. The amount of remuneration accounted for the management is provided in Note 16. Members of the Supervisory Board did not receive a fee for participation in the work of the 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. Similarly to 2014, the share options were issued also in 2015 and in 2016.

The granting and number of share options was dependent upon the successful achievement of operational targets of the overall company and individual targets of management board members and employees. In the beginning of 2016 share options were granted to two members of the management board and to four employees in the amount of EUR 128 thousand. In 2015, share options were granted to two members of the management board and to four employees in the amount of EUR 90 thousand. 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 during the last year, compliance with investment restrictions and rules of procedures and other contributions 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 issued in 2014 can be exercised during the period of 01.07.2017-30.09.2017 and shares with nominal value of 1 euro can be acquired for 2 euros per share. Share options issued in 2015 can be exercised during the period of 01.05.2018-31.07.2018 and shares with nominal value of 1 euro can be acquired for 2.4 euros per share. Share options issued in 2016 can be exercised during the period of 01.05.2019-31.07.2019 and shares with nominal value of 1 euro can be acquired for 3 euros per share. Most likely similar share options will be issued also in 2017.

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 the 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.

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Kuupäev/date 29.03.2017
PricewaterhouseCoopers, Tallinn

FINANCIAL STATEMENTS

Statement of financial position

(in euros)

Assets	**Note**	**31.12.2016**	**31.12.2015**	**01.01.2015**
Due from credit institutions	5	4 450 902	2 917 966	1 639 885
Financial assets at fair value through profit or loss	6	328 390	748 128	1 374 683
Receivables from managed funds	16	1 252 849	724 851	735 267
Other financial assets		199 306	102 098	295 538
Other assets		210 342	181 541	158 111
Units of managed pension funds	6	10 866 323	6 348 818	5 587 997
Units of managed index pension funds		624 863	0	0
Units of managed mandatory pension funds		10 241 460	6 348 818	5 587 997
Tangible assets		35 224	14 652	838
Intangible assets	7, 8	3 629 900	0	1 125
Goodwill	7, 8	2 570 100	0	0
Total assets		**23 543 336**	**11 038 054**	**9 793 444**
Liabilities and equity				
Liabilities				
Supplier payables	9,16	286 578	226 697	229 193
Other liabilities	10, 11	199 569	164 408	161 808
Subordinated debt	11	2 100 000	1 500 000	550 000
Total liabilities		**2 586 147**	**1 891 105**	**941 001**
Equity				
Share capital		9 300 000	3 757 000	4 000 000
Statutory reserve capital		375 700	274 366	93 245
Share options		266 881	128 793	36 265
Retained earnings		11 014 608	4 986 790	4 722 933
Total equity	12	**20 957 189**	**9 146 949**	**8 852 443**
Total liabilities and equity		**23 543 336**	**11 038 054**	**9 793 444**

The Notes presented on pages 11 – 32 are an integral part of the Financial Statements.

Statement of comprehensive income

(in euros)

	Note	2016	2015
Fee income	**13,16**	**12 904 684**	**9 195 519**
Net gains from financial assets measured at fair value	6	328 455	353 464
Foreign exchange rate gains/losses		-3 298	-6 411
Other financial income/expenses	5, 11, 16	-160 737	-87 602
Net gains from financial assets		164 420	259 451
Other income/expenses		-6 311	-6 770
Staff costs	14	-1 579 811	-1 105 711
Administrative and other operating expenses	14,16	-4 944 553	-3 688 465
Depreciation and impairment of intangible and tangible fixed assets	7	-409 277	-2 046
Net profit for the year		**6 129 152**	**4 651 978**
Total profit and other comprehensive income for the year		**6 129 152**	**4 651 978**

The Notes presented on pages 11 – 32 are an integral part of the Financial Statements.

Statement of cash flows

(in euros)

	Note	2016	2015
Cash flows from operating activities			
Net profit		6 129 152	4 651 978
Adjustments:			
Depreciation and impairment of tangible and intangible assets	8	409 277	2 046
Share option reserve		138 088	92 528
Net gains from financial assets measured at fair value	6	-328 455	-353 464
Other financial income/expenses	5, 11, 16	160 737	87 602
Change in receivables and prepayments		-228 326	180 426
Change in payables	9,10	-336 914	1 137
Interests paid		-156 000	-101 422
Total change in working capital		**-341 593**	**-91 147**
Total cash from/-used in operating activities		**5 787 559**	**4 560 831**
Cash flow from investing activities			
Purchase of tangible and intangible assets		-29 849	-14 734
Acquisition of subsidiaries, net of cash acquired	7, 8	-9 898 248	0
Proceeds from disposal of financial assets measured at fair value	6	437 034	1 651 498
Purchase of units of managed pension funds	7	-1 719 506	-476 981
Proceeds from disposal of units of managed pension funds	6	785 589	0
Dividends and interest received		28 165	60 327
Total cash flow used in investing activities		**-10 396 815**	**1 220 110**
Cash flow from financing activities			
Repayment of borrowings		-808	0
Payments from the voluntary reserve	12	0	-2 350 000
Issue of shares	12	8 243 000	0
Cancellation of shares	12	-2 700 000	-2 100 000
Issue of subordinated debt	11	600 000	950 000
Total cash flow from financing		**6 142 192**	**-3 500 000**
Total cash flow		**1 532 936**	**2 280 941**
Cash and cash equivalents at the beginning of the period	5	2 917 966	637 025
Change in cash and cash equivalents		**1 532 936**	**2 280 941**
Cash and cash equivalents at the end of the period	5	**4 450 902**	**2 917 966**

The Notes presented on pages 11 – 32 are an integral part of the Financial Statements.

Statement of changes in equity

(in euros)

	Share capital	Voluntary reserve	Statutory reserve capital	Share option reserve	Retained earnings	Total equity
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
Transfer to statutory reserve capital	0	0	181 121	0	-181 121	0
Share options	0	0	0	92 528	0	92 528
Total transactions with owners	**-225 000**	**0**	**181 121**	**92 528**	**-4 406 121**	**-4 357 472**
Net profit for the year	*0*	*0*	*0*	*0*	*4 651 978*	*4 651 978*
Total profit and other comprehensive income for the year	**0**	**0**	**0**	**0**	**4 651 978**	**4 651 978**
Saldo seisuga 31.12.2015	**3 757 000**	**0**	**274 366**	**128 793**	**4 986 790**	**9 146 949**
Balance at 01.01.2016	**3 757 000**	**0**	**274 366**	**128 793**	**4 986 790**	**9 146 949**
Issue of shares	8 243 000	0	0	0	0	8 243 000
Cancellation of shares	-2 700 000	0	0	0	0	-2 700 000
Transfer to statutory reserve capital	0	0	101 334	0	-101 334	0
Share options	0	0	0	138 088	0	138 088
Total transactions with owners	**5 543 000**	**0**	**101 334**	**138 088**	**-101 334**	**5 681 088**
Net profit for the year	*0*	*0*	*0*	*0*	*6 129 152*	*6 129 152*
Total profit and other comprehensive income for the year	**0**	**0**	**0**	**0**	**6 129 152**	**6 129 152**
Balance at 31.12.2016	**9 300 000**	**0**	**375 700**	**266 881**	**11 014 608**	**20 957 189**

More detailed information on share capital is provided in Note 12.

The Notes presented on pages 11 – 32 are an integral part of the Financial Statements.

Notes to the Financial Statements

NOTE 1 General information

The financial statements of AS LHV Varahaldus (hereinafter the Company) compiled as at 31 December, 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by European Union (IFRS). A detailed overview of the transition to IFRS and the effect of changes of accounting principles is presented in Note 2.

AS LHV Varahaldus is a limited liability company incorporated in and domiciled in Estonia. The address of its registered office is Tartu mnt 2, Tallinn. AS LHV Varahaldus is the subsidiary of AS LHV Group, which is a holding company, sister company AS LHV Pank provides banking, financial advisory and securities brokerage services to customers in Estonia and Lithuania.

The current annual report (including financial statements) has been approved by the Management board on 23 February, 2017.

The annual report approved by the Management board shall be authorised for approval by the Supervisory board and shareholders. The shareholders have the right not to approve the annual report while the Supervisory board does not have that right.

NOTE 2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of AS LHV Varahaldus for the financial year 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Previously, financial statements were prepared in accordance with the generally accepted accounting principles of Estonia (Estonian GAAP). The transition from Estonian GAAP to IFRS, as adopted by the European Union, has not led to significant changes in classification of financial position and comprehensive income line items. Compared to previously compiled statements, the current statement of financial position is presented based on liquidity and repositioning of line items have been done in comprehensive income statement. In the cash flow statement no changes in presentation has been made compared to financial statements prepared in accordance with Estonian GAAP.

IFRS 1 requires, with certain exceptions, a retrospective application of the standards and interpretations valid on financial year ended on 31.12.2016. The Company has prepared the IFRS opening balance sheet as at 1.01.2015 and financial statements in subsequent periods until the date of first IFRS reporting according to such versions of standards.

In accordance with the requirements of the standards, additional information in the notes has been disclosed. The comparative information for year 2015 has been aligned with the new presentation.

The main accounting principles applied in the current financial statements are presented below.

The financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below, such as „Financial assets at fair value through profit and loss“ and „Units of managed pension funds“.

The preparation of financial statements in accordance with IFRS requires the use of certain critcal accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The financial year started at 1 January 2016 and ended at 31 December 2016.

New accounting pronouncements

Certain new or revised International standards and interpretations have been issued by the time of compiling these financial statements that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Company has not early adopted. Overview of these standards and interpretations to the annual report are outlined below.

IFRS 9, Financial instruments (effective for annual periods beginning on or after 1 January 2018). The standard is endorsed by the EU-commission. Earlier application is permitted but the Company does not intend to early adopt the standard. The Company intends to use relief of not restating comparative figures for 2017 in the annual report 2018 when first adopting IFRS 9. Key features of the new standard are as follows:

Financial assets are required to be classified into three measurement categories:

- assets to be measured subsequently at amortised cost
- assets to be measured subsequently at fair value through other comprehensive income (FVOCI)
- assets to be measured subsequently at fair value through profit or loss (FVPL).

The classification and measurement requirements in IFRS 9 state that financial assets should be classified as and measured at, amortized cost, fair value through profit and loss or fair value through other comprehensive income. The classification of a financial instrument is dependent on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments of principal and interest. In order to assess the business model, the Company has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

The analysis of the business model, described above is still ongoing, current results have not indicated significant changes compared to how the financial instruments are measured under IAS 39. No significant impact is thus expected on the Company's financial position, financial performance or equity in the period of initial application. These conclusions are tentative and may be affected by the actual financial positions at the transition.

The impairment requirements in IFRS 9 are based on an expected credit loss (ECL) model as opposed to the current incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than IAS 39, IFRS 9 requires all assets measured at amortized cost and fair value through other comprehensive income, as well as off-balance commitments including guarantees and loan commitments, to be included in the impairment test. The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. In stage 1, the provisions should equal the 12 month ECL. In stage 2 and 3, the provisions should equal the lifetime ECL. The Company does not have such financial assets that could have significant impact on Company's financial results due to IFRS 9 impairment changes.

The main change to the general hedge accounting requirements is that the standard aligns hedge accounting more closely with the risk management activities, these changes will not have direct effect on the Company, as the Company is currently not using hedge accounting. Same time we see that the regulation changes will generate some new possibilities to the Company to start using hedge accounting for reducing volatility in financial statements for positions which are hedged with ones treated differently in accounting.

The final outcome of the impact of the new standard on its financial statements is not clear yet and will be clear in second quarter 2017.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

Disclosure initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Company is currently assessing the impact of the amendment on its financial statements.

IFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. Standard would have a large and positive impact to the AS LHV Varahaldus, because we need to capitalize sales costs from previous years and amortize over the lifetime of the customer, which in pension fund case is above 20 years. This effect will significantly increase LHV Varahaldus intangible assets and retained earnings at the moment of adoption of this IFRS standard. The Company is currently assessing the exact impact of the new standard on its financial statements.

Revenue from Contracts with Customers - Amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU).

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The Company is currently assessing the impact of the new standard on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Company.

Annual Improvements to IFRSs 2014–2016 (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or 2018 (changes to IFRS 1 and IAS 28)). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The Company is currently assessing the exact impact of the new standard on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Company

2.2 Foreign currency translation

(a) Functional and presentation currency

The functional and presentation currency of the Company is euro.

(b) Foreign currency transactions and balances

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 assets and liabilities denominated in foreign currencies are translated into euros based on the foreign currency exchange rates of the European Central Bank prevailing at the balance sheet date. Non-monetary financial assets and liabilities measured at fair value denominated in foreign currencies are translated into euros based on the foreign currency exchange rates of the European Central Bank prevailing at the fair value measurement date. Gains and losses on translation from monetary assets and liabilities are recorded in the statement of profit or loss as income or expenses for that periood. Translation differences on non-monetary assets denominated in foreign currencies and liabilities which are not measured at fair value, (such as 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.

2.3 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits with banks and term deposits with original maturities of three months or less, that are available for use without any restrictions and which are subject to an insignificant risk of changes in value.

2.4 Financial assets

The Company classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss
- loans and receivables
- held-to-maturity financial investments
- available-for-sale financial assets

The classification depends on the purpose for which the financial assets were acquired. Management of the Company determines the classification of its financial assets at initial recognition. As at the end of the reporting period and the comparative period LHV Varahaldus did not have held-to-maturity financial investments and available-for-sale financial assets.

IAS 39 category		Class (applied by the Company)		31.12.2016	31.12.2015	1.01.2015
Financial assets	Loans and receivables	Due from credit institutions		4 450 902	2 917 966	1 639 885
		Receivables from managed funds		1 252 849	724 851	735 267
		Other financial assets		199 306	102 098	295 538
	Financial assets at fair value through profit or loss	Securities held for trading	Fund units	328 390	308 669	491 584
			Listed debt securities	0	439 459	883 099
		Designated as at fair value through profit or loss upon initial recognition	Units of managed pension funds	10 866 323	6 348 818	5 587 997

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include

- financial assets held for trading
- financial assets designated at fair value through profit or loss upon initial recognition

A financial asset is classified as **held for trading** if acquired or incurred principally for the purpose of selling or repurchasing it in the near term.

Regular way purchases and sales of financial investments are recognised at the trade date in the statement of financial position. Financial instruments included in this category are initially recognised at fair value; transaction costs are taken directly to the profit or loss. After initial recognition, financial assets in this category are measured at fair value. Interest income is calculated based on financial assets' amortised cost using the effective interest rate method and is recorded within interest income in the statement of profit or loss. Changes in fair values of these financial assets are recognised consistently, either as a profit or loss in the statement of profit or loss of the reporting period under "Net gains/losses from financial assets measured at fair value". Dividend income on financial assets measured at fair value through profit or loss are recognised in the line "Net gains/losses from financial assets measured at fair value" of the statement of profit or loss when the right to receive dividends by the Company is established.

In case of listed securities (i.e. the securities which have an active market), the current bid price is considered as the fair value of investments. To estimate the fair value of investments not actively traded in the market, alternative methods such as the price of recent transactions (under market conditions), the discounted cash flow method or option valuation models are used.

Financial assets designated at fair value through profit or loss at inception - securities are classified into this group, if the Company has upon initial recognition designated the securities to be recorded as at fair value through profit or loss and as a result the changes in the fair value of these securities are consistently recognised in the profit or loss of the reporting period in the statement of profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss when certain investments, such as debt or equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables to customers are recorded when the Company advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and receivables are initially recognised at fair value plus transaction costs, and are derecognised only when they are repaid or written-off. After initial recognition, the Company recognises loans and receivables at amortised cost (less principal repayments and any potential impairment losses, if necessary) and calculates interest income on the receivable in subsequent periods using the effective interest method.

Trade receivables arise from provision of services to the customers and are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method (less repayments and a provision for incurred impairment losses).

The impairment of loans and advances is assessed in accordance with the principles described in clause 2.5.

2.5 Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The Company assesses the risks taking into consideration all known information about the solvency of the debtor and whether there are any objective circumstances indicating impairment (the buyer's financial difficulties, bankruptcy or inability to meet its obligations to the Company).

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

2.6 Tangible fixed assets

Tangible fixed assets are non-current assets used in the operating activities of the Company with a useful life of over one year. An item of tangible fixed assets is initially recognised at its cost which consists of the purchase price (incl. 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. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to operating expenses during the reporting period in which they are incurred.

An item of tangible fixed assets is carried in the statement of financial position at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis. The annual depreciation rate for computers, furniture and fixtures is 33%, for improvements of rental space either 20% p.a. or amortization throughout the rental period, depending on which is shorter. Depreciation is calculated starting from the month of acquisition until the carrying amount reaches the residual value of the asset. In case the residual value is greater than the carrying amount of the asset, no further depreciation expense is calculated.

The appropriateness of the assets´ residual values, depreciation methods used and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The Company performs an impairment test when there are circumstances indicating impairment. Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's fair value less costs to sell or its value in use), it is written down immediately to its recoverable amount recognising an impairment loss in the statement of profit or loss for the reporting period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in operating expenses or other income in the statement of profit or loss for the reporting period.

2.7 Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance which Company uses to provide services or for administrative purposes and intends to use for a longer period than one year. An intangible asset is initially measured at cost, comprising of its purchase price and any directly attributable expenditure on preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis. The annual amortisation rate for intangible assets (except for positive goodwill and client contracts) is 33%.

Goodwill is not amortised, instead, an impairment test is performed annually.

The amortisation method for client agreements is dimishing balance method. The useful life of purchased client agreements has been set by historical determination of clients, which is 12% annually.

At each balance sheet date the appropriateness of amortization rates, methods and residual values is assessed. The Company reviews intangible assets for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use.

2.8 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 using the effective interest method. Transaction costs are included in the calculation of the effective interest rate. The difference between the proceeds (less transaction costs) and redemption value are recognised in the statement of profit or loss during the term of the instrument, using the effective interest rate. Interest costs are included in the statement of profit or loss line "Other financial income/expenses".

Loans received, debt securities issued and similar subordinated debts are initially recognised at fair value, less transaction costs (cash received less transaction costs). The subordinated debts are those liabilities, which in case of a liquidation or declaration of bankruptcy, are settled after the satisfaction of the justifiable claims of other creditors.

2.9 Payables to employees

Payables to employees include unpaid salary accruals and a vacation pay accrual calculated in accordance with employment contracts and the laws in force in employee residential country as at the balance sheet date. The liability related to the payment of a vacation pay accrual together with social security and unemployment insurance payments is included within current liabilities in the statement of financial position and as staff costs in the statement of profit or loss.

Social security tax includes payments to the state pension fund. Company has neither existing legal nor constructive obligations to make pension or similar payments supplementary to social security tax

2.10 Eraldised ja tingimuslikud kohustused

Liabilities arising from an obligating event before the balance sheet date that have either a legal basis or that have arisen from the Company's current operating practice (legal or constructive obligation) that require probable outflow of resources, the realisation of which is probable (it is more likely than not that an outflow of resources will be required to settle the obligation) and the amount of which can reliably be estimated but for which the timing or amount are not definitely known are recognised as provisions in the statement of financial position. 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 statement of financial position 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. The provision expense and an expense from the change in the carrying amount of provisions are included within expenses in the reporting period. Provisions are not set up to cover future operating losses.

When it is probable that a provision will be realised later than 12 months after the balance sheet date it is recorded at discounted value (present value of expected outflows), unless the discounting effect is immaterial.

Other contingent liabilities the realisation of which is less probable than non-realisation or related costs cannot be determined reliably, that in certain circumstances may become obligations, are disclosed in the notes to the financial statements as contingent liabilities. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable on a portfolio basis. If it becomes probable that an outflow of future economic benefits will be required for an item or portfolio of items previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

2.11 Share-based payments

Company's parent company AS LHV Group operates a share-based compensation plan, under which the company receives services from group 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 group's staff 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 Company 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 statement of profit or loss, 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 security tax charges when exercising the options after the 3-year period.

2.12 Distinction between short- and long-term assets and liabilities

Assets from which resources are expected to flow to the Company within 12 months are recognised as current assets. The portion of assets with expected inflows later than 12 months after the balance sheet date is recognised as non-current assets (see Note 3.4).

Liabilities are classified as current when they are due within twelve months after the balance sheet date or if the Company does not have an unconditional right to defer the payment for later than 12 months after the balance sheet date. Loans received with due date within 12 months after the balance sheet date which are refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue, are recognised as current. Loans received that the lender has the right to recall at the balance sheet date due to breaches of contractual terms are also classified as current.

For all long-term assets and liabilities the long-term portion is separately disclosed in respective disclosure to these financial statements (see Note 3.4).

2.13 Revenues and expenses

Revenues and expenses are recorded on an accrual basis. Revenue is recognised when it is probable that the economic benefits associated with the transaction will be received by the Company, the amount of the revenue can be measured reliably and services were rendered by the Company. Revenue earned in the ordinary course of business is recognised at fair value of the fee received or receivable. Expenses are recognised when the Company has obligation to pay for the expense and/or the Company has received goods or services, and the latter occurs at an earlier date.

Fee and commission income are recognised on an accrual basis when the service has been provided and the Company has a right of claim to the receivable. Other one-off service revenues and other revenues are recognised on an accrual basis at the moment of executing the respective transaction.

Fee and commission expenses are recognised after the service has been received and when the liability has incurred.

Interest income and expense is recognised in the statement of profit or loss for all financial instruments carried at amortised cost using the effective interest method or for debt securities measured at fair value through profit or loss. Transaction costs of debt securities measured at fair value through profit or loss is recognised as part of effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument, but does not consider future impairment losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Dividend income is recognised when the legal right to receive dividends is established and inflow of economic benefits are probable.

2.14 Leases - Company as the lessee

Leases of tangible fixed assets where the lessee acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the lease term. The Company primarily uses an operating lease for renting the premises. A rental expense is recognised in the statement of profit or loss as “Administrative and other operating expenses”.

2.15 Taxation and deferred income tax

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying amounts of assets and liabilities and no deferred tax assets or liabilities arise. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The tax rate from 01.01.2015 is 20/80 (21/79 until 31.12.2014) on net dividends paid. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

A deferred income tax liability in respect of the Company’s available equity which would accompany the payment of available equity as dividends, is not reported in the statement of financial position. The maximum amount of income tax payable, which would arise from paying out the retained earnings as dividends, is disclosed in the Note 12 to the financial statements.

2.16 Statutory reserve capital

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

2.17 Business combinations

According to IFRS 3, business combination means merging different (ecomonic) entities or businesses to one reporting (economic) entity. Specifically, IFRS defines that business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. According to the acquisition method, the identifiable assets, liabilities and contingent liabilites of the acquiree are recognized at their fair values at the acquisition date; also goodwill that is not amortised, but for which impariment tests are performed, is recognized.

The acquisition method addresses the business combination from the perspective of the acquiring (economic) entity. The acquirer purchases net assets and recognizes the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognized by the acquiree. This transaction does not affect the measurement of acquirer’s assets and liabilities, also no additional assets or liabilities of the acquirer are recognized as a result of the transaction, since these are not the subjects of the transaction.

On May 2 2016 AS LHV Varahaldus acquired 100% shares of Danske Capital AS and its managed funds. Information about acquisition is provided in Note 8.

NOTE 3 Risk management

Risk is defined as a potential negative deviation from expected financial results. The Company encounters several risks in its day-to-day operations. The objective of risk management at the Company is to recognise these risks, to measure them appropriately and to manage them. More broadly, the aim of risk management is to increase the value of the Company by minimising losses and reducing the volatility of results. Risk management at the Company is based on a strong risk culture and is built on the principle of three lines of defence where the first line of defence, the business units, are responsible for taking risk and for day-to-day management. The second line of defence, the risk management division, is responsible for the development of risk management methodologies and for the reporting of risks. The third line of defence, the internal audit, conducts independent supervision. Risk management principles, requirements and areas of responsibility are described in policies and procedures. In accordance with the capital management principles that the Company has adopted, it must have adequate capital to cover risks.

3.1 Capital management

The goal of the Company's capital management is to:

- ✓ ensure continuity of the Company's business;
- ✓ maintain a strong capital base supporting the development of business;
- ✓ comply with capital requirements as established by supervision authorities.

The amount of capital that the Company managed as of 31.12.2016 was EUR 16 590 308 (31.12.2015: EUR 10 518 156; 1.01.2015: EUR 9 231 650).

The goals of the Company's capital management are set based on both the regulative requirements and additional internal buffer.

The Company follows the general principles in its capital management:

- The Company must be adequately capitalized at all times, having necessary capital to ensure economic preservation;
- The main focus of the capital management is on tier 1 own funds, because only tier 1 own funds can absorb losses. All other capital layers in use are dependent of tier 1 own funds volume;
- Capital of the Company can be divided into: 1) regulated minimum capital and 2) capital buffer held by the Company;
- Regulated minimum capital depends primarily on the volume of managed funds and due to that additional capital requirement. Fund manager's operational risks are an important additional input to determine internal buffer.

Own funds	31.12.2016	31.12.2015	01.01.2015
Tier 1 own funds	**14 490 308**	**9 018 156**	**8 815 053**
Paid-in share capital	9 300 000	3 757 000	4 000 000
Statutory reserve capital	375 700	274 366	93 245
Accumulated profit	4 885 456	334 812	4 722 933
Net profit/loss for accounting period	6 129 152	4 651 978	0
Intangible assets (subtracted)	-6 200 000	0	-1 125
Tier 2 own funds	**2 100 000**	**1 500 000**	**550 000**
Subordinated debt	2 100 000	1 500 000	550 000
Total net own funds	**16 590 308**	**10 518 156**	**9 365 053**

The own funds of LHV Varahaldus as the fund manager need at any given time exceed the minimum amount of share capital laid down in the Investment Funds Act (EUR 3 million). The net own funds of a fund manager, who managed pension funds with the market value of over EUR 125 million, had to be till January 9th 2017 at least EUR 2.5 million and 1% of the market value of managed pension funds, which exceeds EUR 125 million. Starting from January 10th, the net own funds of a fund manager have to be 0,5% of the market value of managed pension funds with the market value less than EUR 1 000 million and 0,02% of the market value of managed pension funds with the market value more than EUR 1 000 million.

The Company has complied with all capital requirements during the financial year and in previous years.

Financial assets of LHV Varahaldus

Financial assets of LHV Varahaldus are:

a) Due from credit institutions
b) Financial assets at fair value through profit or loss
c) Receivables from managed funds
d) Other financial assets
e) Units of managed pension funds

Financial liabilities of LHV Varahaldus are:

a) Supplier payables
b) Other financial liabilities
c) Subordinated debt

Due to the nature of financial assets, credit risk and market risk and Company wide liquidity and operational risk are valued as follows.

3.2 Credit risk

Credit risk is the potential loss which would arise from the counterparty's inability to meet its obligations to the Company.

Maximum exposure to credit risk	**31.12.2016**	**31.12.2015**	**01.01.2015**
Due from credit institutions (Note 5)	4 450 902	2 917 966	1 639 885
Financial assets at fair value (debt securities) (Note 6)	0	439 459	883 099
Receivables from managed funds (Note 16)	1 252 849	724 851	735 267
Other financial assets	199 306	102 098	295 538
Total maximum exposure to credit risk	**5 903 057**	**4 184 104**	**3 553 789**

a) Due from credit institutions

Credit risk arises from receivables from credit institutions (cash in bank accounts). The Company's money is deposited in fund depositories (Swedbank AS - Moody's rating Aa3, Danske Bank A/S Estonia Branch - Moody's rating A2) and accounts opened at AS LHV Pank (no rating). Management estimates that the credit risk exposure from cash and cash equivalents held at credit institutions has inherently low credit risk.

Ratings distribution	**Total 31.12.2016**	**Total 31.12.2015**	**Total 1.01.2015**
AA- to AA+	154 387	814 740	190 657
A- to A+	790 055	0	0
BBB- to BBB+	0	0	0
Non-rated	3 506 460	2 103 226	1 449 228
Total (Note 5)	**4 450 902**	**2 917 966**	**1 639 885**

b) Debt securities

No principal and accrued interest receivables arising from debt securities are overdue.

The Company´s debt securities at fair value through profit or loss according to ratings given by Standard & Poor's or equivalent:

Ratings distribution	**Total 31.12.2016**	**Total 31.12.2015**	**Total 1.01.2015**
AA- to AA+	0	0	0
A- to A+	0	225 447	497 055
BBB- to BBB+	0	0	175 122
B- to BB+	0	214 012	210 921
Total (Note 6)	**0**	**439 459**	**883 098**

c) Receivables from managed funds and other financial assets

Receivables from managed funds and other financial assets have been received by the time of compiling these financial statements.

Management considers the credit quality low for other financial assets. There are no overdue receivables or financial assets as at the balance sheet date.

3.3 Market risk

Market risk is a potential loss which may arise from unfavourable changes in foreign exchange rates, prices of securities or interest rates.

Most of the available assets of the Company are his own managed pension funds. The management of the Company is responsible for monitoring of the market risk.

3.3.1 Foreign currency risk

Foreign currency risk may arise from acquisition of securities mostly nominated in foreign currencies or foreign currency receivables and liabilities.

The currency of Company's available assets is mainly euro, there are no financial instruments in foreign currency as of the date of financial position, because of that Company's management estimates foreign currency risk as minimal.

3.3.2 Price risk

Pursuant to the Investment Funds Act, the minimal shares of LHV Varahaldus as the management company is 0,5% (as of the Investment Funds Act valid until January 9th 2017 1%) of the number of units in each of the mandatory pension fund managed by it.

Based on historical performance and volatility of the pension fund unit NAV changes, the price changes should remain +/- 10% in the next 12 month period with the most likely change +/-5% and the impact to statement of profit or loss is presented in the next table. LHV Varahaldus invests the remaining available assets in euros, to ensure liquidity and to not bear investment risk.

Impact on statement of profit or loss *(in thousands)*	**2016**	**2015**
Equity securities +/-10%	+/- 33	+/- 31
Mandatory pension fund units +/- 5%	+/- 543	+/-317
Debt securities (FVTPL) +/-1,0%	+/- 0	+/- 4

3.3.3 Interest rate risk

Interest rate risk reflects the mismatch in the statement of financial position items and the off-balance sheet items when interest rate repricing periods, volumes or the underlying interest rate of assets, liabilities and derivatives do not correspond exactly. Company's interest rate risk management is based on risk policies, limits and internal procedures resulting in identification of all significant sources of interest rate risk and balanced risk taking. Interest rate risk is measured through various scenario analyses by calculating several net interest income scenarios and comparing the difference between these scenarios.

As at 31.12.2016 there are no interest-bearing instruments among Company's assets, the receivables from credit institutions bear immaterial interest rates. As at 31.12.2015 and 1.1.2015 the Company had interest-bearing bonds, but according to management estimate these were bearing no material interest rate risk. Just as at 31.12.2016, receivables from credit institutions were bearing immaterial interest rates also in previous periods.

Subordinated debts bear a fixed interest rate, more detailed information in Notes 3.4, 11 and 16.

3.4 Liquidity risk

Liquidity risk relates to the solvency of the Company to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. The Company's liquidity management and strategy is based on risk policies, resulting in various liquidity risk measures, limits and internal procedures. As per policy statements, the Company's liquidity management reflects a conservative approach towards liquidity risk.

31.12.2016	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Supplier payables (Note 9, 16)	0	286 578	0	0	0	**286 578**	**286 578**
Other financial liabilities (Note 10, 11)	0	8 978	0	0	0	**8 978**	**8 978**
Subordinated debt (Note 11)	0	42 000	126 000	1 222 000	2 664 000	**3 654 000**	**2 100 000**
Total liabilities	**0**	**337 556**	**126 000**	**1 222 000**	**2 664 000**	**3 949 556**	**2 395 556**
Assets held for managing liquidity risk by contractual maturity dates							
Due from credit institutions (Note 5)	4 450 902	0	0	0	0	**4 450 902**	**4 450 902**
Financial assets at fair value (Note 6)	0	0	0	0	0	**0**	**328 390**
Receivables from managed funds (Note 16)	0	1 252 849	0	0	0	**1 252 849**	**1 252 849**
Other financial assets	0	199 306	0	0	0	**199 306**	**199 306**
Total assets held for managing liquidity risk	**4 450 902**	**1 452 155**	**0**	**0**	**0**	**5 903 057**	**6 231 447**
Maturity gap from assets and liabilities	**4 450 902**	**1 114 599**	**-126 000**	**-1 222 000**	**-2 664 000**	**1 953 501**	**3 835 891**

31.12.2015	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Supplier payables (Note 9, 16)	0	226 697	0	0	0	**226 697**	**226 697**
Other financial liabilities (Note 10, 11)	0	3 245	0	0	0	**3 245**	**3 245**
Subordinated debt (Note 11)	0	30 000	90 000	1 150 000	1 460 000	**2 730 000**	**1 500 000**
Total liabilities	**0**	**259 942**	**90 000**	**1 150 000**	**1 460 000**	**2 959 942**	**1 729 942**
Assets held for managing liquidity risk by contractual maturity dates							
Due from credit institutions (Note 5)	2 917 966	0	0	0	0	**2 917 966**	**2 917 966**
Financial assets at fair value (Note 6)	0	0	0	439 459	0	**439 459**	**748 128**
Receivables from managed funds (Note 16)	0	724 851	0	0	0	**724 851**	**724 851**
Other financial assets	0	102 098	0	0	0	**102 098**	**102 098**
Total assets held for managing liquidity risk	**2 917 966**	**826 949**	**0**	**439 459**	**0**	**4 184 374**	**4 493 043**
Maturity gap from assets and liabilities	**2 917 966**	**567 007**	**-90 000**	**-710 541**	**-1 460 000**	**1 377 432**	**2 763 101**

01.01.2015	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Supplier payables (Note 9, 16)	0	199 071	0	0	0	**199 071**	**229 193**
Other financial liabilities (Note 10, 11)	0	3 885	0	0	0	**3 885**	**3 885**
Subordinated debt (Note 11)	0	11 000	33 000	176 000	561 000	**781 000**	**550 000**
Total liabilities	**0**	**213 956**	**33 000**	**176 000**	**748 000**	**983 956**	**783 078**
Assets held for managing liquidity risk by contractual maturity dates							
Due from credit institutions (Note 5)	1 639 885	0	0	0	0	**1 639 885**	**1 639 885**
Financial assets at fair value (Note 6)	0	0	0	883 098	0	**883 098**	**1 374 683**
Receivables from managed funds (Note 16)	0	735 267	0	0	0	**735 267**	**735 267**
Other financial assets	0	295 538	0	0	0	**295 538**	**295 538**
Total assets held for managing liquidity risk	**1 639 885**	**1 030 805**	**0**	**883 098**	**0**	**3 553 788**	**4 045 373**
Maturity gap from assets and liabilities	**1 639 885**	**816 849**	**-33 000**	**707 098**	**-561 000**	**2 569 832**	**3 262 295**

The following table presents the distribution of assets and liabilities by classification of current and non-current.

	31.12.2016	31.12.2015	1.01.2015
Current assets			
Due from credit institutions (Note 5)	4 450 902	2 917 966	1 639 885
Financial assets at fair value through profit or loss (Note 6)	328 390	748 128	1 374 683
Receivables from managed funds (Note 16)	1 252 849	724 851	735 267
Other financial assets	199 306	102 098	295 538
Other assets	210 342	181 541	158 111
Total current assets	**6 441 789**	**4 674 584**	**4 203 484**
Non-current assets			
Financial assets at fair value through profit or loss (Note 6)	10 866 323	6 348 818	5 587 997
Tangible assets	35 224	14 652	838
Intangible assets (Note 7,8)	3 629 900	0	1 125
Goodwill (Note 7,8)	2 570 100	0	0
Total non-current assets	**17 101 547**	**6 363 470**	**5 589 960**
Total assets	**23 543 336**	**11 038 054**	**9 793 444**
Liabilities			
Current liabilities			
Supplier payables (Note 9, 16)	286 578	226 697	229 193
Other liabilities (Note 10, 11)	199 569	164 408	161 808
Total current liabilities	**486 147**	**391 105**	**391 001**
Non-current liabilities			
Subordinated debt (Note 11)	2 100 000	1 500 000	550 000
Total non-current liabilities	**2 100 000**	**1 500 000**	**550 000**
Total liabilities	**2 586 147**	**1 891 105**	**941 001**

3.5 Operating risk

Operating risk is a potential loss caused by human, process or information system flaws. When completing transactions, transaction limits and competence systems are used to minimise potential losses and the segregation of duties principle is used in the Company's working procedures, according to which there should be an approval by at least two employees or units in order to carry out a transaction or procedure.

The information received from monitoring operating risk helps to gather initial information to secure capital adequacy of the Company and to evaluate capital requirements. The analysis of cases collected into the database enables the Company to identify the flaws in rules of procedure, avoid making mistakes in the future and mitigate possible risks or define the terms of their acceptance. The risk and compliance control manager of Company is responsible for collecting information.

Compliance control and internal audit department have an important role in evaluating, monitoring and mitigating the operating risk. Pursuant to the Investment Funds Act and Securities Market Act, the main task of Compliance Officer is to define the risks of non-compliance of the activities of the Company with legislation, recommended guidelines of the Financial Supervision Authority and procedure rules of the Company, considering the nature, range and complexity of business and services rendered, and arrangement of mitigating or avoiding those risks. Internal audit is an independent and objective function, assuring and consulting activity that is targeted at improving the Company's performance and adding value. Internal audit helps achieving the goals of the Company, using a systematic and disciplined approach to assess and increase the efficiency of the risk management, control and organisational management process.

3.6 Fair value of financial assets and financial liabilities

Financial assets at fair value through profit or loss	Level 1	Level 2	Level 3	31.12.2016
Fund units (Note 6)	328 390	0	0	**328 390**
Debt securities at fair value through profit or loss (Note 6)	0	0	0	**0**
Units of managed pension funds (Note 6)	0	10 866 323	0	**10 866 323**
Total financial assets	**328 390**	**10 866 323**	**0**	**11 194 713**

Financial assets at fair value through profit or loss	Level 1	Level 2	Level 3	31.12.2015
Fund units (Note 6)	308 669	0	0	**308 669**
Debt securities at fair value through profit or loss (Note 6)	439 459	0	0	**439 459**
Units of managed pension funds (Note 6)	0	6 348 818	0	**6 348 818**
Total financial assets	**748 128**	**6 348 818**	**0**	**7 096 946**

Financial assets at fair value through profit or loss	Level 1	Level 2	Level 3	1.01.2015
Fund units (Note 6)	491 584	0	0	**491 584**
Debt securities at fair value through profit or loss (Note 6)	883 098	0	0	**883 098**
Units of managed pension funds (Note 6)	0	5 587 997	0	**5 587 997**
Total financial assets	**1 374 683**	**5 587 997**	**0**	**6 962 680**

The management board of the Company has assessed the fair value of assets and liabilities carried at amortised cost in the statement of financial position. For estimating fair value, the future cash flows are discounted on the basis of the market interest yield curve.

Levels used in hierarchy:

1. Level 1 – quoted prices in active market
2. Level 2 – valuation technique based on observable market data as inputs (rates and interest curves from similar transactions)
3. Level 3 – other valuation techniques (e.g. discounted cash flow method) with judgemental inputsAS LHV AS

Company's investments into pension fund units have quoted prices from the market, however the market is inactive and therefore disclosed as level 2.

NOTE 4 Significant management estimates and assumptions

In accordance with IFRS, several financial figures presented in the financial statements are strictly based on critical accounting estimates and assumptions made by management, which affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities presented in the financial statements at the balance sheet date, and the reported amounts of income and expenses of subsequent reporting periods. Although these estimates have been made to the best of management's knowledge and their judgement of current events, the actual outcome may ultimately not coincide with them and may significantly differ from these estimates. Management's estimates have been applied to valuation of loans, receivables and investments (Notes 6 and 7).

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Changes in management's estimates are reported prospectively.

NOTE 5 Due from credit institutions

	31.12.2016	**31.12.2015**	**01.01.2015**
Term deposits, except related parties	4 296 525	2 103 236	446 378
Demand deposits in AS LHV Pank (Note 16)	154 377	814 730	190 647
Term deposits in AS LHV Pank with maturity over 3 monts (Note 16)	0	0	1 002 860
Total due from credit institutions	**4 450 902**	**2 917 966**	**1 639 885**

In 2016, the interests earned on bank accounts totalled EUR 996 (2015: EUR 12 787).

NOTE 6 Financial assets at fair value through profit or loss

	31.12.2016	**31.12.2015**	**01.01.2015**
Securities held for trading:			
Fund units	328 390	308 669	491 584
Debt securities	0	439 459	883 099
Total	**328 390**	**748 128**	**1 374 683**
Designated as at fair value through profit or loss upon initial recognition:			
Units of managed pension funds (Note 16)	**10 866 323**	**6 348 818**	**5 587 997**
Units of managed index pension funds	624 863	0	0
Units of managed mandatory pension funds	10 241 460	6 348 818	5 587 997
Total financial investments at fair value through profit or loss	**11 194 713**	**7 096 946**	**6 962 680**

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

In 2015 and 2016, no securities were acquired. In 2016, securities were sold in the amount of EUR 434 982 (2015: EUR 646 304).

In 2016, dividends from investments amounted to EUR 12 319 (2015: EUR 16 088) and interest income amounted to EUR 14 850 (2015: EUR 31 452).

In 2016, the units of pension funds under management were acquired in the total amount of EUR 1 719 516 (2015: EUR 476 981) and the units of pension funds under management were sold in the total amount of EUR 785 589 (2015: EUR 0). The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is EUR 9 504 508 (see also Note 16).

In 2016, the units of pension funds were added to the balance sheet in the amount of EUR 3 299 598 from merger with Danske Capital.

NOTE 7 Intangible assets

	Licences	Client contracts	Goodwill
Carrying amount 1.01.2015	**1 125**	**0**	**0**
Changes in 2015			
Depreciation/amortisation charge	-1 125	0	0
Balance as of 31.12.2015			
Total cost	56 044	0	0
Accumulated depreciation and amortisation	-56 044	0	0
Carrying amount 31.12.2015	**0**	**0**	**0**
Changes in 2016			
Assets acquired on business combination (Note 8)	0	4 029 900	2 570 100
Depreciation/amortisation charge	0	-400 000	0
Balance 31.12.2016			
Total cost	56 044	4 029 900	2 570 100
Accumulated depreciation and amortisation	-56 044	-400 000	0
Carrying amount 31.12.2016	**0**	**3 629 900**	**2 570 100**

NOTE 8 Business combinations

On May 2, 2016 AS LHV Varahaldus acquired 100% shares of Danske Capital AS and its managed funds. This purchase enabled LHV Varahaldus to significantly increase its market share and also profitability. Immediately after conclusion of the share purchase and sale transaction on May 2, LHV Varahaldus launched the merger of the two fund management companies. The merger took effect on July 28, with the balance sheet date on May 1.

AS LHV Varahaldus recognised the acquisition of Danske Capital AS in accordance with requirements of IFRS 3 by carrying out purchase price allocation. In the course of the purchase price allocation, the value of assets of Danske Capital AS was assessed and the assets were recognised in fair value on the transaction date (02.05.2016). Date of the financial information used for the purchase price allocation was 30.04.2016, which is the date closest to the transaction date with reliable financial information available. No significant transactions occurred between the financial information date and transaction date that had a significant impact on the value of net assets acquired. The total fair value of assets (cash, client agreements, pension fund units and other receivables) was 8 782 thousand euros. The total fair value of payables (payables to employees, tax payables and other payables) was 427 thousand euros.

Impairment test of goodwill was performed as at 31.12.2016. The cash generating unit of goodwill is AS LHV Varahaldus.

The calculation of the value in use is based on the following assumptions:

- Increase in the volume of assets under management 19% per annum;
- Increase of fund managament company income 6% per annum on average;
- due to the economic environment, growth of 4% in indirect costs is expected per annum;
- the discount rate used is 15%.

When using the main assumptions, the management used previous years' experience and its best estimate in respect of probable expectations. Expectations are more conservative due to the changes in the market situation and legislation. Based on the results of the impairment test performed as at 31.12.2016, the recoverable amount of the cash generating unit is higher than its carrying amount, as a result of which no impairment losses have been recognized.

(in thousands)	**Fair value of acquisitions**
Cash and cash equivalents	1 027
Pension fund units	3 300
Other financial assets	425
Client contracts	4 030
Other financial liabilities	-427
Total net assets identified	**8 355**
Amount paid by the Company	**10 925**
Goodwill acquired by the Company	**2 570**
Outflow of cash and cash equivalents on acquisition	**9 898**

NOTE 9 Supplier payables

	31.12.2016	**31.12.2015**	**01.01.2015**
Supplier payables, except related parties	278 526	216 881	197 199
Liabilities to related parties (Note 16)	8 052	9 886	1 872
Total supplier payables	**286 578**	**226 697**	**199 071**

NOTE 10 Other liabilities

	31.12.2016	**31.12.2015**	**01.01.2015**
Financial liabilities			
Accrued interest on subordinated debt (Note 11)	8 978	3 245	3 885
Subtotal	**8 978**	**3 245**	**3 885**
Non-financial liabilities			
Payables to employees	108 937	97 467	94 636
Tax liabilities	81 654	63 696	63 287
incl. social security tax	45 120	37 027	36 848
incl. personal income tax withheld	24 697	20 069	21 110
incl. unemployment insurance premium	2 681	2 284	2 655
incl. contributions to mandatory pension	3 487	2 851	2 480
incl. corporate income tax	411	383	184
incl. value-added tax	5 258	1 096	10
Subtotal	**190 591**	**161 163**	**157 923**
Total	**199 569**	**164 408**	**161 808**

NOTE 11 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 2015, bonds were issued to the parent company in the amount of EUR 950 thousand. In 2016, new bonds were issued to the parent company in the amount of EUR 600 thousand.

The underlying currency of the new 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, by informing investors of it 30 days in advance. Early redemption takes place only if Financial Supervision Authority has given a permission previously for that.

Previously AS LHV Varahaldus has issued subordinated bonds carrying a rate of interest 8% three times to the parent company, two of them have been prematurely redeemed.

Subordinated bonds	Interest rate	Amount
Balance as at 31.12.2014		**550 000**
Issue in 2015	8%	950 000
Balance as at 31.12.2015		**1 500 000**
Issue in 2016	8%	600 000
Balance as at 31.12 2016		**2 100 000**

As at 31.12.2016 there are no subordinated bonds with maturities below 1 year (31.12.2015: EUR 0) and the amount due for subordinated bonds with maturities above 5 years is EUR 2 100 000 (31.12.2015: EUR 1 500 000) eurot. Interest expenses on subordinated bonds in the amount of EUR 161 733 are included within interest expense in the income statement (2015: EUR 100 389). The current portion of non-current liabilities is disclosed in Note 10.

NOTE 12 Shareholders' equity in the public limited company

	31.12.2016	31.12.2015	01.01.2015
Share capital (in euros)	9 300 000	3 757 000	4 000 000
Issued shares (pcs)	9 300 000	3 757 000	4 000 000
Nominal value of shares	1	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 2016, issue of new shares took place in the amount of EUR 8 243 000 and retained earnings in the amount of 101 334 were transferred to a mandatory reserve.

In February 2015 retained earnings in the amount of EUR 2 350 000 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.

In September 2016, AS LHV Group cancelled the shares of AS LHV Varahaldus in the amount of EUR 2 700 000 eurot. The repayment to the parent company occured in December 2016.

As at 31.12.2016 the retained earnings of AS-i LHV Varahaldus totalled EUR 11 014 608 (31.12.2015: EUR 4 986 790). If total profits would be distributed as dividends, the dividends would amount to EUR 8 260 956 (31.12.2015: EUR 3 740 092) and the arising income tax expense would amount to EUR 2 753 652 (31.12.2015: EUR 1 246 698).

NOTE 13 Fee income

	2016	2015
Pension fund management (Note 16)	12 096 143	8 344 899
Investment fund management (Note 16)	269 822	374 465
Fund issue and redemption fees	538 719	476 155
Total	**12 904 684**	**9 195 519**

In the financial year and in 2015, the Company's services were rendered only in Estonia.

NOTE 14 Administrative and other operating expenses

	2016	2015
Marketing expenses	2 379 671	1 683 288
Depository fees	1 003 109	667 452
Other purchased services	666 524	459 186
IT expenses	288 118	231 336
Advertising expenses	154 590	226 569
Office expenses	116 923	105 596
Legal consultations and audit fees	102 241	33 936
Registry fees	96 999	64 891
Supervision and guarantee fees	73 010	66 606
Travel and training costs	24 513	22 463
Communication costs	21 332	20 653
Expenses related to funds	15 216	103 864
Other expenses	2 307	2 625
Total	**4 944 553**	**3 688 465**

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	**2016**	**2015**
Salaries	1 236 816	869 794
Social tax	336 698	236 900
Unemployment insurance premium	6 297	6 267
Total employee expenses	**1 579 811**	**1 105 711**

In the reporting period, the wages and salaries (incl. taxes) of employees totalled EUR 1 302 903 (2015: EUR 842 392). The amount of management remuneration is disclosed in Note 16. In the reporting year, the average number of employees (incl. members of the board) in the Company was 42 (2015: 39).

NOTE 15 Operating lease

The Company leases 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 78 575 (2015: EUR 74 958).

NOTE 16 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 31.12.2016, 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 7):

Management fees	**Revenues 2016**	**Receivable as at 31.12.2016**	**Revenues 2015**	**Receivables as at 31.12.2015**	**Receivables as at 01.01.2015**
Pension funds (Note 13)	12 096 143	1 232 031	8 344 899	707 975	681 367
Investment funds (Note 13)	53 720	6 328	149 976	2 604	53 893
Total	**12 149 863**	**1 238 359**	**8 494 875**	**710 579**	**735 260**

In 2016, LHV pension and investment funds were repaid the management fees and commissions in the total amount of EUR 6 166 (2016: EUR 7 735).

In 2016, units of managed pension funds were purchased in the amount of EUR 1 719 506 (2015: EUR 476 981). The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is EUR 9 504 508. In 2016, units of managed investment funds were sold in the amount of EUR 785 589 (2015: EUR 0), see also Note 6. See Note 6 for information about fair value of pension funds at balance sheet date.

AS at 31.12.2016, AS LHV Pank's (LHV's) accounts held demand deposits in the amount of EUR 154 377 (31.12.2015: EUR 814 730), see also Note 5.

In 2016, advertising and administrative services were purschased from LHV in the total amount of EUR 139 020 (2015: EUR 78 922). The expenses are included in the income statement under administrative and other operating expenses.

As at 31.12.2016, the balance sheet includes a payable to LHV in the amount of EUR 8 052 (31.12.2015: EUR 3 522), see also Note 9. In 2016, administrative services were sold to LHV in the total amount of EUR 75 (2015: EUR 3 221).

As registrar, LHV intermediated to AS LHV Varahaldus redemption fees of LHV World Equities Fund and LHV Persian Gulf Fund (until 31.03.2015). In 2016, redemption fees were paid in the amount of EUR 3 282 (2015: EUR 6 490).

In 2016, the sales fee of investment funds paid to LHV totalled EUR 31 427 (2015: EUR 31 723).

In March 2015, subordinated bonds in the amount of EUR 950 thousand were issued to the parent company AS LHV Group, 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.

In February 2016, subordinated bonds in the amount of EUR 600 thousand were issued, with maturity date 10 years and interest rate of 8%. The interest expenses in year 2016 amounted to EUR 161 733.

In September 2016, AS LHV Group cancelled the shares of AS LHV Varahaldus in the amount of EUR 2 700 000 eurot. The repayment for cancelled shares occured in December 2016.

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 276 908 (2015: EUR 263 319). 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 100 969 (2015: EUR 81 617), which is accounted in the overall payroll expense, for more information see also Note 14. As at 31.12.2016, the payables to members of the Management Board totalled EUR 25 508 (31.12.2015: EUR 22 734). As at 31.12.2016, payables to members of the Supervisory Board totalled EUR 0 (31.12.2016: EUR 5 620). 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 113 792 (2015: EUR 86 568).

In 2016 and 2015, no impairments were recorded with regard to receivables from the related parties.

NOTE 17 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 The Company's management estimates that there are no circumstances which may lead tax authorities to impose additional taxes on the Company.

Signatures of the Management Board to the 2016 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 2016. The financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company.

29.03.2017

Chairman of the Management Board:

Mihkel Oja /Signed/

Member of the Management Board:

Joel Kukemelk /Signed/

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of AS LHV Varahaldus

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AS LHV Varahaldus (the Company) as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We audited the Company's financial statements that comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

Other information

The Management Board is responsible for the other information contained in the annual report in addition to the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union 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.

In preparing the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AS PricewaterhouseCoopers

/signed/	/signed/
Ago Vilu Auditor's certificate no.325	Verner Uibo Auditor's certificate no.568

29 March 2017

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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.*

Proposal for profit distribution

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 2016 as follows:

- Transfer to statutory reserve capital EUR 307 300
- Pay dividends EUR 3 803 401
- Transfer to retained earnings EUR 2 018 451

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.

30.03.2017

Chairman of the Supervisory Board:

Madis Toomsalu /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	2016	2015
66301	Fund management	12 904 710	9 195 519
	Total	**12 904 710**	**9 195 519**

Report of mandatory pension funds' management

(in euros)	**2016**	**2015**
Fee income	**12 490 362**	**8 742 996**
Management fees	11 963 147	8 276 700
Redemption fees	527 215	466 297
Fee expenses	**-1 349 406**	**-908 380**
Depositary fees	-1 003 109	-667 452
Registrar fees	-207 346	-137 416
Other fee expenses	-138 952	-103 513
incl. other fee expenses to related parties	-45 230	-32 280
Personnel and operating expenses	**-4 804 047**	**-3 351 772**
Wages and salaries	-1 358 910	-924 047
Supervisory fees	-71 550	-63 276
Guarantee Fund fees	-282 606	-198 040
Marketing and advertising fees	-2 440 455	-1 689 109
Other operating expenses	-650 525	-477 300
incl. other operating expenses to related parties	0	0
Other income and expenses	**-401 067**	**-1 943**
Operating profit/loss	**5 935 842**	**4 480 901**
Financial income and expenses	**157 897**	**241 458**
Net profit/loss for the financial year	**6 093 739**	**4 722 359**

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.