AS LHV Varahaldus
Annual Report 2018
(Translation of the Estonian original)

Annual repot	**01.01.2018 - 31.12.2018**
Business name	AS LHV Varahaldus
Commercial Registry No.	10572453
Legal address	Tartu mnt. 2, Tallinn 10145
Phone	(372) 6800400
Fax	(372) 6800402
Main activities	Fund management
Management Board	Mihkel Oja
	Joel Kukemelk
Supervisory Board	Madis Toomsalu
	Andres Viisemann
	Erki Kilu
Auditor	AS PricewaterhouseCoopers

Table of contents

Management Report

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

LHV Varahaldus is the second largest fund management company in Estonia based on the volume of managed funds. LHV Varahaldus has 201 thousand clients.

Pension funds' results

For some time now, LHV's actively managed pension funds have invested in a manner in which the price risk associated with international securities markets is not too high. In 2018, when asset values fell sharply around the world, this conservative approach to risk-taking was justified. European and the emerging stock markets fell 10.6% and 10.3% on average, respectively. The local Tallinn Stock Exchange, with a 6.4% decline, endured relatively well in comparison.

Bond markets offered some protection against the negative markets, for example, Bloomberg Barclays Euro Aggregate Bond Index increased by +0.4% in euros. Investors, who measure returns in euros also had a positive effect from the appreciation of the dollar by 4.7% against the euro.

LHV's actively managed II pillar pension funds (except the new fund established in 2018 that has been operating for less than a year) ended the year with returns ranging from -0.1% to + 1.1%. These were the best results in Estonia among the II pillar actively managed funds. By comparison, the LHV's passively managed II pillar fund, which invests in international equity markets and real estate funds (REIT), fell by 5.4% in 2018.

Of course, the achievement of good returns over a longer period is more important than annual results. The objective of LHV Varahaldus is to provide the best long-term returns in Estonia to its pension funds' customers. According to the data of Pensionikeskus, LHV's pension funds hold the first places in all investment strategies in terms of yields over the last ten calendar years (taken into account only funds that have been operating for at least 10 years). The average annual return of LHV's largest fund - LHV Pension Fund L - was +6.45% for the past 10 years and for LHV pf XL +6.87%, LHV pf M +5.96%, LHV pf S +4.59% and LHV pf XS +4.64% on an annual basis for the past 10 years.

Pension funds' investments

In 2017, LHV's funds significantly increased investments in Estonia by making investment decisions related to Estonia (including commitments to invest in the future) in the amount of EUR 170 million and 2018 went similarly. The volume of investment decisions related to Estonia was EUR 153 million during the year, of which 2/3 were bond investments and the rest were shares or real estate.

LHV pension funds made new local investments in real estate sector (expanding portfolio of rental houses in Mustamäe district, new real estate fund of EfTEN Capital), in stock exchange (for example Port of Tallinn IPO) also in start-up companies' sector (through venture capital funds Tera Ventures, Superangel and Trind Ventures). Biggest investments according to volumes were investments to bonds, where we offered financing to already familiar emitents (COOP Pank, state owned company Transpordi Varahaldus that ownes planes, Luminor Bank), but also to the new (for example Alexela Group, that used capital for acquisition of gas stations of Euro Oil; Baltic Horizon real estate fund).

LHV Varahaldus believes that home market offers attractive long-term investment opportunities for pension funds. Because of that LHV started in the first quarter of 2018 with a new II pillar fund – LHV Pensionifond Eesti – which maximizes local investments taking into account the investment restrictions and small size of market. By the end of the year, approximately 70% of the fund's assets were invested into local economy.

Although LHV founded one new II pillar fund, the total number of funds managed by LHV remained the same, as in the beginning of the year we merged two III pillar funds, because the smaller fund's volume was too small to be managed effectively.

Pension fund fees are decreasing, investment opportunities are expanding

Pension fund fees have decreased in recent years along with volume growth, due to competition, as well as regulatory changes. While in 2015 LHV's actively managed pension fund fees ranged from 0.9% to 2.0%, by 2018 they were down to 0.59% to 1.26%. The average fee of the Estonian II pillar market was 1.01% in 2018.

In 2019, the biggest changes to pension fund investment restrictions and fees will come into force. In addition to a fixed management fee (the 'base fee'), you can apply a performance fee, while the base fee itself decreases extensively. According to the explanatory report of the Investment Funds Act adopted on December 14, 2018, the market average base management fee will fall to 0.62% from September after the entry into force of the change, while without any change it would have fallen to 0.96%. The base fee of the management fee will continue to decrease until 0.4% as the volumes grow (larger fund managers already do not charge more than 0.4% base fee on the new, additional contributions).

LHV Varahaldus plans to modify the documentation of actively managed II pillar pension funds (except for bond funds) that carry out more complex investments, so that a performance fee is applied alongside the base management fee. The amount of the performance fee is related to the result of the pension fund. The right to a performance fee arises when the return of the pension fund exceeds the benchmark, which is the growth of the 1st pillar (more specifically pension insurance part of social tax).

Simultaneously with the changes in fees, which reduce on the one hand the fixed costs for pension savers and on the other hand create additional incentive for fund managers to achieve very good investment results, regulatory investment restrictions are reduced, ie the possibility for fund managers to invest more freely pension funds assets. One of the major changes is reducing the restrictions of non-listed investments. As pension funds investments bound with Estonia are primarily non-listed, it should contribute to the growth of local investments in pension funds. Among other things, share risk limit for pension funds (except for conservative strategies) will also be abolished.

LHV Varahaldus intends to change terms and prospectus three times in 2019 (January, May and September) to adopt changes to pension funds documentation. In addition to regulatory reasons, since May 2019, LHV Varahaldus has decided to change the terms of LHV Pension Fund S so that the fund no longer meets the requirements of a conservative pension fund. The only conservative fund is LHV Pension Fund XS, which investment restrictions also become less restrictive.

Financial results

LHV Varahaldus posted a net profit of EUR 6.8 million in 2018. As IFRS 15 was applied from 2018, the previous year's profit of EUR 5.8 million is not directly comparable, as with the enactment of IFRS 15, the cost of sales was capitalized, including retrospectively, and the cost of sales was replaced by the cost of depreciation of customer contracts in the income statement.

Fee income increased to EUR 13.9 million in 2018 from EUR 13.3 million in 2017. The growth in income can be attributed to the growth in total fund volume, which compensated the decrease of average fees. Operating expenses, affected by the enactment of IFRS 15, were EUR 4.0 million (EUR 6.2 million in 2017). Costs related to fixed assets were added to the costs (incl. depreciation of customer contracts) in the amount EUR 1.8 million (EUR 0.4 million in 2017). Income tax related to paid dividends increased from EUR 1.0 million to EUR 1.1 million.

The total volume of funds grew by EUR 111 million during the year, amounting to EUR 1 214 million at the end of the year. The number of LHV's mandatory pension funds' clients increased by 1.1 thousand to 178 thousand over the year. In 2016, Danske Capital AS was acquired and merged with, which is the reason the number of customers increased exponentially. After this merger, the number of LHV Varahaldus' customers has been broadly the same, as the numbers of new and outgoing customers have been similar.

In 2018, LHV Varahaldus' II pillar market share, measured by the total volume of funds, increased from 29.5% to 30.2%, as the returns of LHV funds were better than that of competitors. According to the number of active customers, the market share decreased from 25.6% to 25.2%, as the number of customers throughout the market increased more than in LHV funds.

In 2018, LHV Varahaldus paid dividends in the amount of EUR 4.4 million (EUR 3.8 million in 2017) and decreased its share capital by EUR 1.2 million (EUR 6.6 million in 2017).

Organizational development and remuneration principles

LHV Varahaldus' main business units are the investment unit, the risk management unit, the operations unit and sales and client services unit. When in 2016 the organization's development was challenged by merging LHV Varahaldus and Danske Capital AS, then 2017 and 2018 were more stable and the activities, technical organization and structure of LHV Varahaldus did not change significantly. However, since February 2018, Romet Enok and Kristo Oidermaa have been fund managers in addition to Andres Viisemann. Romet Enok joined LHV in 2006 and he is specializing in credit risk analysis and bond investments in managing pension funds. Kristo Oidermaa joined LHV in 2009 and specializes in equity markets, as well as real estate and private equity investments when investing for actively managed pension funds (except LHV XS and LHV S). Andres Viisemann continues to be responsible for designing the investment strategy and diversifying between asset classes.

No changes took place in the two-member Management Board or in the three-member Supervisory Board of LHV Varahaldus. However, it was announced on February 6, 2019 that LHV Varahaldus Management Board is facing a change, as Chairman of the Management Board Mihkel Oja announced his intention to leave the post. Mihkel Oja is the Chairman of the Management Board of LHV Varahaldus until new Chairman takes up the position.

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 2018, the contracts provided only for a fixed salary. No cash-based performance bonus was paid to employees in 2018. LHV Varahaldus has not implemented significant severance fees or non-cash compensations.

During the reporting year, LHV Varahaldus had 36 employees on average (including members of the Management Board) (2017: 36). In the reporting period, the total remuneration paid to employees (incl. taxes) was EUR 1 175 026 (2017: EUR 1 112 799). 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 allign 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, share options were issued in 2015, 2016, 2017 and 2018 as well as in the beginning of 2019.

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 2019 share options were granted to two members of the management board of LHV Varhaldus and to 6 employees in the amount of 279 thousand euros. In the beginning of 2017 share options were granted to two members of the management board and to 6 employees in the amount of 289 thousand euros. In the beginning of 2016 share options were granted to two members of the management board and to 4 employees in the amount of 128 thousand euros. The individual performance of staff responsible for funds' investment decisions was assessed based on the following criteria: funds' returns for the past 3 and 10 years, finding issuers for new securities; making financing offers; structuring of investments; 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 person's fulfilment of the organization's objectives (e.g. growth of business volumes, representing the business interests of the company) and development (e.g. development of customer communication channels), also performing ordinary tasks (e.g. supporting another units, updating processes and systems). 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 were exercised during the period of 01.07.2017-30.09.2017 and shares with nominal value of 1 euro were acquired for 2 euros per share. Share options issued in 2015 can be exercised between the period of 01.05.2018-31.07.2018 and shares with nominal value of 1 euro were acquired for 2.4 euros per share. Share options issued in 2016 can be exercised between 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. Share options issued in 2017 can be exercised between the period of 01.05.2020-31.07.2020 and shares with nominal value of 1 euro can be acquired for 4.65 euros per share. Share options issued in 2018 can be exercised between the period of 01.05.2021-31.07.2021 and shares with nominal value of 1 euro can be acquired for 5.33 euros per share. Share options issued in 2019 can be exercised between the period of 01.05.2022-31.07.2022 and shares with nominal value of 1 euro can be acquired for 4.9 euros per share. 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.

FINANCIAL STATEMENTS

Statement of financial position

(in euros)

Assets	Note	31.12.2018	31.12.2017
Due from credit institutions	5	5 017 481	5 214 238
Financial assets at fair value through profit or loss	6	352 696	359 033
Receivables from managed funds	16	1 226 783	1 168 365
Other assets		238 805	223 459
Units of managed pension funds at fair value through profit or loss	6	7 589 957	6 261 317
Units of managed mandatory pension funds		7 589 957	5 920 207
Units of managed index pension funds, except mandatory index pension funds		0	341 110
Tangible assets		12 720	23 972
Intangible assets	7, 8	14 184 344	3 307 992
Goodwill	7, 8	2 570 100	2 570 100
Total assets		**31 192 886**	**19 128 476**
Liabilities and equity			
Liabilities			
Supplier payables	9,16	251 896	268 793
Other liabilities	10, 11	258 075	217 981
Subordinated debt	11	2 100 000	2 100 000
Total liabilities		**2 609 971**	**2 586 774**
Equity			
Share capital		1 500 000	2 700 000
Statutory reserve capital		683 000	683 000
Share options		337 615	230 484
Retained earnings		26 062 300	12 928 218
Total equity	12	**28 582 915**	**16 541 702**
Total liabilities and equity		**31 192 886**	**19 128 476**

The Notes presented on pages 11 – 36 are an integral part of the Financial Statements.

Statement of comprehensive income

(in euros)

	Note	2018	2017
Fee income	**13,16**	**13 942 364**	**13 293 398**
Net gains/losses from financial assets measured at fair value	6	-19 973	304 837
Foreign exchange rate gains/losses		-5 145	-10 868
Other financial income/expenses	5, 11, 16	-167 680	-166 032
Net gains from financial assets		**-192 798**	**127 937**
Other income/expenses		-7 909	-6 968
Staff costs	14	-1 548 271	-1 475 662
Administrative and other operating expenses	14,16	-2 459 625	-4 757 479
Depreciation and impairment of intangible and tangible fixed assets	7	-1 807 458	-423 665
Profit before tax		**7 926 303**	**6 757 561**
Income tax expense		-1 100 000	-950 850
Net profit for the year		6 826 303	5 806 711
Total profit and other comprehensive income for the year		**6 826 303**	**5 806 711**

The Notes presented on pages 11 – 36 are an integral part of the Financial Statements.

Statement of cash flows

(in euros)

	Note	2018	2017
Cash flows from operating activities			
Net profit		7 926 303	6 757 561
Adjustments:			
Depreciation and impairment of tangible and intangible assets	7	1 807 458	423 665
Share option reserve		197 131	181 203
Net gains from financial assets measured at fair value	6	19 973	-304 837
Other financial income/expenses	5, 11, 16	167 680	166 032
Change in receivables and prepayments		-73 764	270 673
Change in payables	9,10	23 197	627
Interests paid	11	-168 000	-168 000
Income Tax	12	-1 100 000	-950 850
Total change in working capital		**873 675**	**-381 487**
Total cash from/-used in operating activities		**8 799 978**	**6 376 074**
Cash flow from investing activities			
Purchase of tangible and intangible assets	7	-2 054 778	-90 505
Proceeds from disposal of financial assets measured at fair value	6	3 124	2 053
Purchase of units of managed pension funds	7	-1 720 000	-37 739
Proceeds from disposal of units of managed pension funds	6	344 765	4 900 689
Dividends and interest received		30 154	16 164
Total cash flow used in investing activities		**-3 396 735**	**4 790 663**
Cash flow from financing activities			
Dividends paid	12	-4 400 000	-3 803 401
Cancellation of shares	12	-1 200 000	-6 600 000
Total cash flow from financing		**-5 600 000**	**-10 403 401**
Total cash flow		**-196 757**	**763 336**
Cash and cash equivalents at the beginning of the period	5	5 214 238	4 450 902
Change in cash and cash equivalents		**-196 757**	**763 336**
Cash and cash equivalents at the end of the period	5	**5 017 481**	**5 214 238**

The Notes presented on pages 11 – 36 are an integral part of the Financial Statements.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

Statement of changes in equity

(in euros)

	Share capital	Statutory reserve capital	Share option reserve	Retained earnings	Total equity
Balance as at 01.01.2017	**9 300 000**	**375 700**	**266 881**	**11 014 608**	**20 957 189**
Dividends paid	0	0	0	-3 803 401	-3 803 401
Cancellation of shares	-6 600 000	0	0	0	-6 600 000
Transfer to statutory reserve capital	0	307 300	0	-307 300	0
Share options	0	0	-36 397	217 600	181 203
Total transactions with owners	**-6 600 000**	**307 300**	**-36 397**	**-3 893 101**	**-10 222 198**
Net profit for the year	*0*	*0*	*0*	*5 806 711*	*5 806 711*
Total profit and other comprehensive income for the year	**0**	**0**	**0**	**5 806 711**	**5 806 711**
Balance as at 31.12.2017	**2 700 000**	**683 000**	**230 484**	**12 928 218**	**16 541 702**
Changes in initial application of IFRS 15	0	0	0	10 617 779	10 617 779
Restated balance as at 01.01.2018	**2 700 000**	**683 000**	**230 484**	**23 545 997**	**27 159 481**
Dividends paid	0	0	0	-4 400 000	-4 400 000
Cancellation of shares	-1 200 000	0	0	0	-1 200 000
Share options	0	0	107 131	90 000	197 131
Total transactions with owners	**-1 200 000**	**0**	**107 131**	**-4 310 000**	**-5 402 869**
Net profit for the year	*0*	*0*	*0*	*6 826 303*	*6 826 303*
Total profit and other comprehensive income for the year	**0**	**0**	**0**	**6 826 303**	**6 826 303**
Balance as at 31.12.2018	**1 500 000**	**683 000**	**337 615**	**26 062 300**	**28 582 915**

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

The Notes presented on pages 11 – 36 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) have been prepared in accordance with International Financial Reporting Standards as adopted by European Union (IFRS).

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.

The current annual report (including financial statement) has been approved by the Management board on 27 March, 2019.

The annual report approved by the Management board shall be authorised for approval by the Supervisory board and shareholder. The shareholder 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 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out 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 critical 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 2018 and ended at 31 December 2018.

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 2018 or later. Overview of these standards and interpretations to the annual report are outlined below.

(a) Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for AS LHV Varahaldus from 1 January 2018.

IFRS 9 Financial Instruments (effective for annual period beginning on 1 January 2018). LHV Varahaldus has not restated the comparative figures for 2017 in the 2018 annual report as simplified application of IFRS 9 was implemented by management. 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 (AC)
- 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 debt instruments is dependent on the business model for the portfolio where the instrument is included and on whether the asset cash flows are solely payments of principal and interest (SPPI). In order to assess the business model, LHV 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. 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.

There were no significant changes in the measurement of financial instruments compared to IAS 39. There were no significant impacts on Company's financial position, financial performance or equity in the period of initial application.

The impairment requirements in IFRS 9 are based on an expected loss 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 expected loss. In stage 2 and 3, the provisions should equal the lifetime espected losses. LHV Varahaldus does not have such financial assets that would have had a significant impact on AS LHV Varahaldus'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 di not have a direct effect on LHV Varahaldus, as LHV Varahaldus is currently not using hedge accounting. At the same time, we see that the regulation changes will generate some new possibilities to LHV Varahaldus to start using hedge accounting for reducing volatility in financial statements for positions which are hedged with ones treated differently in accounting.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

in euros	Note	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017) (a)	Impairment allowance per IAS39 (closing balance at 31 December 2017) (b)	Effect Remeasurement (c)	Carrying value per IFRS 9 (opening balance at 1 January 2018) (a+c)	Impairment allowance per IFRS 9 (opening balance at 1 January 2018) (b+c)
		IAS 39	**IFRS 9**			**ECL**		
Due from credit institutions	5	L&R	AC	5 214 238	0	0	5 214 238	0
Total cash and cash equivalents				**5 214 238**	**0**	**0**	**5 214 238**	**0**
Debt instruments	6	FVTPL	FVTPL (mandatory)	359 033	0	0	359 033	0
Total debt instruments				**359 033**	**0**	**0**	**359 033**	**0**
Units of managed pension funds	6	FVTPL	FVTPL(mandatory)	6 261 317	0	0	6 261 317	0
Total equity instruments				**6 261 317**	**0**	**0**	**6 261 317**	**0**
Receivables from managed funds	16	L&R	AC	1 168 365	0	0	1 168 365	0
Total receivables from managed funds				**1 168 365**	**0**	**0**	**1 168 365**	**0**
Total financial assets				**12 682 953**	**0**		**12 682 953**	**0**

IFRS 15, Revenue from contracts with customers (effective for annual period beginning on 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 had a large and positive impact to the AS LHV Varahaldus, because from 1 January 2018 the sales costs from previous years needs to be capitalized and depreciated over the lifetime of the customer, which for pension funds is above 20 years. Previously under IAS 18, these costs were not capitalised as the expenses were allowed to be capitalised only until the customer had first opportunity to change pension fund, ie the time perion was shorter than 1 year. This effect significantly increased LHV Varahaldus' intangible assets and retained earnings at the moment of adoption of this IFRS standard.

As at 1 January 2018, the retained earnings of LHV Varahaldus increased by the sales costs incurred and capitalized until the end of 2017 in the amount of EUR 10 617 779 and the assets increased in the same amount. Starting from 1 January 2018, the sales expenses will be recognized as intangible assets and in the income statement, the sales expenses will be replaced with depreciation costs from client contracts, see notes 7 and 14.

Revenue from Contracts with Customers - Amendments to IFRS 15 (effective for annual period beginning on 1 January 2018). 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 new standard did not have material impact on the Company's financial statements.

There are no other new or revised standards or interpretations that were effective from 1 January 2018 that would be expected to have a material impact on the Company.

(b) New Standards, Interpretations and Amendments

Certain new or revised standards and interpretations have been issued that are mandatory for LHV Varahaldus' annual periods beginning on or after 1 January 2019, and which the Company has not early adopted.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). 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 that is, the lessor continues to divide its leases into operating and capital leases and reflect these types of leases differently.

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in ohter comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The company is currently assessing the impact of the new amendments

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The company is currently assessing the impact of the new amendment.

Definition of a business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The company is currently assessing the impact of the new amendment.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The company is currently assessing the impact of the new amendment.

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 LHV Varahaldus.

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

Accounting policies from 1 January 2018

Initial recognition and derecognition

Financial assets are recognised on the statement of financial position when LHV Varahaldus becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition. Transaction costs are included in the fair value on initial recognition except for financial assets at fair value through profit or loss where transaction costs are expensed in profit or loss. Financial assets at fair value are recognised on the statement of financial position on trade date. Financial assets measured at amortised cost are recognised on trade date.

Financial assets are derecognised when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) LHV Varahaldus has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Subsequent measurement

The Group classifies and subsequently measures its financial assets in the following categories: financial instruments at fair value through profit or loss; fair value through ohter comprehensive income and amortised cost. The classification will depend on if the financial asset is a debt instrument, an equity instrument or a derivative.

Debt instruments (Loans and debt securities)

The classification is based on a combination of assessing the business model for managing the financial assets and whether the contractual cash flows consist of solely payments of principal and interest ('SPPI'). The business model assessment is performed for homogenous portfolios/ products identified based on how the business is managed in the divisions of the Group. The assessment is based on reasonable scenarios taking into consideration how the portfolio is evaluated and reported to

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

management; the risks affecting the performance of the portfolio and how these risks are managed; how managers are compensated; and the frequency, value and timing of sales including the reasons for the sales. In determining if the cash flows consist solely of principal and interest, the principal is defined as the fair value of the debt instrument at initial recognition, which can change over the life if there are repayments or capitalisation of interest. Interest cash flows are consistent with components per a basic lending arrangement including consideration for time value of money, credit risk, liquidity risk as well as administrative costs and profit margin. If there are contractual features introducing an exposure to other risks or volatility, it is not considered to consist of solely payments of principal and interest. Debt instruments are presented in the statement of financial position line items: Due from credit institutions and receivables from managed funds and include instruments in the following measurement categories.

Amortised cost: Debt instruments are classified in this category if both of the following criteria are met (a) the business model objective is to hold assets to collect contractual cash flows and (b) the contractual cash flow characteristics consist of solely payments of principal and interest. The gross carrying amount of these assets is measured using the effective interest method and adjusted for expected credit losses.

Equity instruments

Equity instruments are per default classified as financial assets at fair value through profit or loss. An irrevocable election can be made on initial recognition to classify equity instruments (not held for trading) at fair value through ohter comprehensive income.

IFRS 9 category		Class (applied by LHV Varahaldus)		31.12.2018
Financial assets	Amortised cost	Due from credit institutions		5 017 481
		Receivables from managed funds		1 226 783
	Financial assets at fair value through profit and loss	Mandatory measurement at fair value through profit or loss	Funds units	352 696
		Mandatory measurement at fair value through profit or loss	Units of managed pension funds	7 589 957

Accounting policies until 31 December 2017

AS LHV Varahaldus classifies its financial assests 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 AS LHV Varahaldus 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 AS LHV Varahaldus)		31.12.2017
Financial assets	Loans and receivables	Due from credit institutions		5 214 238
		Receivables from managed funds		1 168 365
	Financial assets at fair value through profit or loss	Securities held for trading	Fund units	359 033
		Designated as at fair value through profit or loss upon initial recognition	Units of managed pension funds	6 261 317

(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 AS LHV Varahaldus 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 AS LHV Varahaldus 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

Accounting policies applied from 1 Janaury 2018

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. Company expert based individual assesments for calculating ECLs.

The ECL model has a three-stage approach based on changes in the credit risk. A 12-month ECL (Stage 1) applies to all items, unless there is a significant increase in credit risk since initial recognition. For items where there is a significant increase in credit risk (Stage 2) or in default (Stage 3), lifetime ECL applies.

At the end of each reporting period the company performs an assessment of whether credit risk has increased significantly since initial recognition. The assessment of whether there has been a significant change in credit risk is based on quantitative and qualitative indicators. Indicators include payments that are past due >30 days and <90 days and financial assets whose contractual terms have been revised due to the customer's financial difficulties). In case there has been a significant increase in credit risk since initial recognition, an allowance for lifetime ECL shall be recognised and the financial instrument is transferred to Stage 2. The approach is symmetrical, meaning that in subsequent reporting periods, if the credit quality of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the financial asset moves back to Stage 1.

For trade receivables without a significant financing component the Company applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Company uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

Accounting policies until 31 December 2017

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 AS LHV Varahaldus 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. AS LHV Varahaldus 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.

With the initial implementation of IFRS 15, starting from 01.01.2018, the expenses which AS LHV Varahaldus makes in order to have new clients are capitalized. Based on the simplified application method of the new standard chosen by management, comparative figures are not amended and full impact of previous periods is recognised on 1 January 2018 as increase in assets and retained earnings in amount EUR 10 617 779. In addition, there are client agreements from business combination recorded as intangible assets, see also Note 7. The amortisation method for client contracts is the diminishing balance method. The annual amortisation rate for purchased client contracts is 12% of the residual value of those assets.

At each balance sheet date the appropriateness of amortization rates, methods and residual values is assessed. AS LHV Varahaldus 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 Impairment of assets

Assets that have indefinite useful lives (including goodwill) are not subject to amortization but they are tested annually for impairment, by comparing their carrying amounts with their recoverable amounts.

Assets with an unlimited useful life and depreciable assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In the event of such circumstances, the recoverable amount of the asset is assessed and is compared with the carrying amount.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of the asset is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

Impairment losses are recognized in profit or loss

At each following balance sheet date, assets that have been written down are assessed to determine whether their recoverable amount has increased (except for impairment losses of goodwill that are not reversed). If the impairment test indicates that the recoverable amount of an asset or asset group (cash-generating unit) has increased above its carrying amount, the previous impairment loss is reversed up to the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior years. Reversals of impairment losses are recognized in the income statement as a reduction of the impairment loss

2.9 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

2.10 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. LHV Varahaldus has neither existing legal nor constructive obligations to make pension or similar payments supplementary to social security tax.

2.11 Provisions and contingent liabilities

Liabilities arising from an obligating event before the balance sheet date that have either a legal basis or that have arisen from AS LHV Varahaldus' 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.

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).

2.12 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.

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

Assets from which resources are expected to flow to AS LHV Varahaldus 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 AS LHV Varahaldus 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).

2.14 Revenues and expenses

Accounting policy from 1 January 2018

The effective interest method is applied to recognise interest income and interest expenses in profit or loss for financial assets and financial liabilities measured at amortised cost or debt investments at fair value through ohter comprehensive income.

The effective interest method is a method of calculating the gross carrying amount of a financial asset or the amortised cost of a financial liability and of allocating interest income and interest expenses. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. When calculating future payments, all payments included in the terms and conditions of the contracts, such as advance payments, are taken into consideration. The calculation of the effective interest rate includes fees that are an integraal part of the effective interest rate. However, expected credit losses are not taken into account.

If a financial asset subsequently has become credit impaired the interest income is recognised applying the effective interest rate to the amortised cost, i.e. gross carrying amount adjusted for the loss allowance. In case a financial asset is credit-impaired at initial recognition, the expected credit losses are included in the estimated cash flows to calculate a credit adjusted effective interest rate which then is applied to recognise the interest income.

Fee and commission income

The recognition of revenue from contracts with customers is reported as fee and commission income. This does not apply for revenue from leasing contracts or financial instruments and other contractual obligations within the scope of IFRS 9 Financial Instruments.

Fee and commission income is recognised to depict the transfer of promised services to the customers in an amount that reflects the consideration to which LHV Varahaldus expects to be entitled in exchange for the service. The major types of fees are described below.

Fee and commission income for asset custody and asset management to customers is recognised as revenue over the period in which the services are provided. Performance based fees are recognised when it is highly probable that a significant reversal of recognised revenue will not occur, which is most often when the performance criteria are fulfilled.Expenses that are directly related to the generation of fee and commission income are recognised as fee and commission expense.

Net financial income

Gains and losses arising from changes in fair value of financial assets and liabilities measured at fair value through profit or loss are reported under the item Net gains from financial assets.

Dividend income

Dividend income is recognised when the legal right to receive dividends is established

Accounting policy until 31 December 2017

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 LHV Varahaldus, the amount of the revenue can be measured reliably and services were rendered by the LHV Varahaldus. Revenue earned in the ordinary course of business is recognised at fair value of the fee received or receivable. Expenses are recognised when the LHV Varahaldus has obligation to pay for the expense and/or the LHV Varahaldus 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 LHV Varahaldus 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 LHV Varahaldus 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 LHV Varahaldus 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.

2.15 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. LHV Varahaldus pays monthly operating lease for the rent of office premises, but the lease contract is on behalf of the sister company AS LHV Pank. Due to this, long-term non-cancellable lease period according to IFRS 16 “Leases” does not apply to LHV Varahaldus and office leases are recognized as short-term leases. A rental expense is recognised in the statement of profit or loss as “Administrative and other operating expenses”.

2.16 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 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.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

A deferred income tax liability in respect of AS LHV Varahaldus'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.

2.17 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.

2.18 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.

NOTE 3 Risk management

Risk is defined as a potential negative deviation from expected financial results. AS LHV Varahaldus encounters several risks in its day-to-day operations. The objective of risk management at AS LHV Varahaldus 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 AS LHV Varahaldus by minimising losses and reducing the volatility of results. Risk management at AS LHV Varahaldus 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 AS LHV Varahaldus has adopted, it must have adequate capital to cover risks.

3.1 Capital management

The goal of AS LHV Varahaldus's capital management is to:

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

The Company considers net own funds as capital. The amount of capital that LHV Varahaldus managed as of 31.12.2018 was 13 590 856 EUR (31.12.2017: 12 533 126 EUR).

The goals are set based on both the regulative requirements and additional internal buffer. AS LHV Varahaldus follows the general principles in its capital management:

- AS LHV Varahaldus 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 AS LHV Varahaldus can be divided into: 1) regulated minimum capital and 2) capital buffer held by AS LHV Varahaldus;
- LHV Varahaldus' 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	**31.12.2018**	**31.12.2017**
Tier 1 own funds	**11 490 856**	**10 433 126**
Paid-in share capital	1 500 000	2 700 000
Statutory reserve capital	683 000	683 000
Accumulated profit	19 235 997	7 121 507
Net profit for accounting period	6 826 303	5 806 711
Intangible assets (subtracted)	-16 754 444	-5 878 092
Tier 2 own funds	**2 100 000**	**2 100 000**
Subordinated debt	2 100 000	2 100 000
Total net own funds	**13 590 856**	**12 533 126**

The amount of the own funds of LHV Varahaldus as the fund manager must be at least equal to each of the following indicators 1) the minimum amount of the initial capital of the pension fund manager (i.e. EUR 1 million), 2) 25 per cent of the fixed overheads of the pension fund manager, 3) the required amount of additional own funds of the pension fund manager. In consideration of the volume of funds managed by LHV Varahaldus, the requirement for additional own funds of the pension fund manager determines the minimum amount of own funds, which is 0.5 per cent of the market value of the assets of the pension funds managed by the fund manager in the part which does not exceed EUR 1 000 000 000 and 0.02 per cent of the market value of the assets of the pension funds managed by the fund manager in the part which exceeds EUR 1 000 000 000. Until January 9th 2017, the amount of the own funds of LHV Varahaldus had to be at least EUR 2.5 million and 1% of the market value of managed pension funds, which exceeds EUR 125 million.

AS LHV Varahaldus 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) Units of managed pension funds at fair value through profit or loss

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 assessed below.

3.2 Credit risk

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

Maximum exposure to credit risk	**31.12.2018**	**31.12.2017**
Due from credit institutions (Note 5)	5 017 481	5 214 238
Receivables from managed funds (Note 16)	1 226 783	1 168 365
Total maximum exposure to credit risk	**6 244 264**	**6 382 603**

a) Due from credit institutions

Credit risk arises from receivables from credit institutions (cash in bank accounts). AS LHV Varahaldus's money is deposited in fund depositories (AS SEB Pank – Standard & Poor's rating A+), Swedbank AS (Moody'se rating Aa3) and accounts opened at AS LHV Pank (Moody's rating Baa1). Management estimates that the credit risk exposure from cash and cash equivalents held at credit institutions has inherently low credit risk.

Ratings distribution	**Total 31.12.2018**	**Total 31.12.2017**
AA- to AA+	13 783	748 771
A- to A+	798 266	1 997 869
BAA- to BAA+	4 205 432	0
Non-rated	0	2 467 598
Total (lisa 5)	**5 017 481**	**5 214 238**

Management have estimated the expected credit loss for credit institutions and according to the strong rating, financial condition and positive outlook for macro environment the LHV Varahaldus does not need to make a discount its receivables from credit institutions.

b) 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.

Due to the short-term payment term of these receivables, historical payment behavior (no debts), strong liquidity position of the funds at the balance sheet date and positive macro environment outlook, the management estimates that the expected credit loss is zero and no discounts were made at balance sheet date. 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 AS LHV Varahaldus are his own managed pension funds. The management of AS LHV Varahaldus 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.

To the extent in which the market value of the mandatory pension funds managed by the pension fund manager exceeds the amount of one billion euros, the pension fund manager must hold at least 0.02 per cent of the units. As an exception, the pension fund manager must hold at least two per cent of the units of pension fund if it is established over past three years.

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)*	**2018**	**2017**
Equity securities +/-10%	+/+ 35	+/- 36
Mandatory pension fund units +/- 5%	+/- 379	+/- 313

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 31.12.2018 and 31.12.2017 there were no interest-bearing instruments among Company's assets, as according to management estimate, the receivables from credit institutions bear immaterial interest rates. Also, as at 31.12.2018 and 31.12.2017 LHV Varahaldus had no interest-bearing bonds.

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

31.12.2018	On Demand	Up to 0-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Supplier payables (Note 9, 16)	0	251 896	0	0	0	**251 896**	**251 896**
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	672 000	2 315 733	**3 155 733**	**2 100 000**
Total liabilities	**0**	**302 874**	**126 000**	**672 000**	**2 315 733**	**3 416 607**	**2 360 874**

Assets held for managing liquidity risk by contractual maturity dates							
Due from credit institutions (Note 5)	5 017 481	0	0	0	0	**5 017 481**	**5 017 481**
Financial assets at fair value (Note 6)	0	0	0	0	0	**0**	**352 696**
Receivables from managed funds (Note 16)	0	1 226 783	0	0	0	**1 226 783**	**1 226 783**
Total assets held for managing liquidity risk	**5 017 481**	**1 226 783**	**0**	**0**	**0**	**6 244 264**	**6 596 960**

Maturity gap from assets and liabilities	**5 017 481**	**1 529 657**	**126 000**	**672 000**	**2 315 733**	**9 660 871**	**8 957 834**

31.12.2017	On demand	Up to 0-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Supplier payables (Note 9, 16)	0	268 793	0	0	0	**268 793**	**268 793**
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	672 000	2 483 733	**3 323 733**	**2 100 000**
Total liabilities	**0**	**319 771**	**126 000**	**672 000**	**2 483 733**	**3 601 504**	**2 377 771**

Assets held for managing liquidity risk by contractual maturity dates							
Due from credit institutions (Note 5)	5 214 238	0	0	0	0	**5 214 238**	**5 214 238**
Financial assets at fair value (Note 6)	0	0	0	0	0	**0**	**359 033**
Receivables from managed funds (Note 16)	0	1 168 365	0	0	0	**1 168 365**	**1 168 365**
Total assets held for managing liquidity risk	**5 214 238**	**1 168 365**	**0**	**0**	**0**	**6 382 603**	**6 741 636**

Maturity gap from assets and liabilities	**5 214 238**	**848 594**	**-126 000**	**-672 000**	**-2 483 733**	**2 781 099**	**4 363 865**

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

	31.12.2018	31.12.2017
Current assets		
Due from credit institutions (Note 5)	5 017 481	5 214 238
Financial assets at fair value through profit or loss (Note 6)	352 696	359 033
Receivables from managed funds (Note 16)	1 226 783	1 168 365
Other assets	238 805	223 459
Total current assets	**6 835 765**	**6 965 095**
Non-current assets		
Financial assets at fair value through profit or loss (Note 6)	7 589 957	6 261 317
Tangible assets	12 720	23 972
Intangible assets (Note 7,8)	14 184 344	3 307 992
Goodwill (Note 7,8)	2 570 100	2 570 100
Total non-current assets	**24 357 121**	**12 163 381**
Total assets	**31 192 886**	**19 128 476**
Liabilities		
Current liabilities		
Supplier payables (Note 9, 16)	251 896	268 793
Other liabilities (Note 10, 11)	258 075	217 981
Total current liabilities	**509 971**	**486 774**
Non-current liabilities		
Subordinated debt (Note 11)	2 100 000	2 100 000
Total non-current liabilities	**2 100 000**	**2 100 000**
Total liabilities	**2 609 971**	**2 586 774**

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 LHV Varahaldus' 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 LHV Varahaldus and to evaluate capital requirements. The analysis of cases collected into the database enables 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 LHV Varahaldus 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 LHV Varahaldus with legislation, recommended guidelines of the Financial Supervision Authority and procedure rules of LHV Varahaldus, 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 LHV Varahaldus' performance and adding value. Internal audit helps achieving the goals of LHV Varahaldus, 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	31.12.2018
Fund units (Note 6)	352 696	0	0	**352 696**
Units of managed pension funds (Note 6)	0	7 589 957	0	**7 589 957**
Total financial assets	**352 696**	**7 589 957**	**0**	**7 942 653**

Financial assets at fair value through profit or loss	Level 1	Level 2	Level 3	31.12.2017
Fund units (Note 6)	359 033	0	0	**359 033**
Units of managed pension funds (Note 6)	0	6 261 317	0	**6 261 317**
Total financial assets	**359 033**	**6 261 317**	**0**	**6 620 350**

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

The management board of LHV Varahaldus 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 inputs

Receivables from pension funds are short-term, so their fair value is approximate to their carrying amount. Due from credit institutions are demand deposits, so these fair value is close to the carrying amount.

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, including choosing the useful life of client contracts and amortization method (see 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

	31.12.2018	31.12.2017
Term deposits, except related parties	812 049	2 746 650
Demand deposits in AS LHV Pank (Note 16)	4 205 432	2 467 588
Total due from credit institutions	**5 017 481**	**5 214 238**

In 2018, the interests earned on bank accounts totalled EUR 320 eurot (2017: 385 EUR).

NOTE 6 Financial assets at fair value through profit or loss

	31.12.2018
Mandatory measurement at fair value through profit or loss:	
Fund units	352 696
Units of managed pension funds (Note 16)	**7 589 957**
Units of managed mandatory pension funds	7 589 957
Units of managed index pension funds, except mandatory index pension funds	0
Total financial investments at fair value through profit or loss	**7 942 653**

	31.12.2017
Securities held for trading:	
Fund units	359 033
Total	**359 033**
Units of managed pension funds (Note 16)	**6 261 317**
Units of managed mandatory pension funds	5 920 207
Units of managed index pension funds, except mandatory index pension funds	341 110
Total financial investments at fair value through profit or loss	**6 620 350**

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

In 2018 and 2017 no fund units were acquired or sold.

In 2018 dividends from investments amounted to EUR 29 834 (2017: 14 196 EUR).

In 2018, the units of pension funds under management were acquired in the total amount of EUR 1 720 000 (2017: 37 739 EUR) and were sold in the total amount of EUR 344 765 (2017: 4 900 689 EUR). The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is EUR 7 936 371 (see also Note 16).

On 28th of February 2018, the fund manager merged voluntary pension funds LHV Pensionifond Intress Pluss (merging) with LHV Täiendav Pensionifond (receiving).

In March 2018, the fund manager AS LHV Varahaldus created new mandatory pension fund called LHV Pensionfond Eesti.

In May 2017, the fund manager merged LHV Pension Fund Intress with LHV Pension Fund S, LHV Pension Fund 50 with LHV Pension Fund L and LHV Pension Fund 25 with LHV Pension Fund M. In July 2017, the fund manager merged LHV Pension Fund 100 Pluss with LHV Täiendav Pension Fund.

NOTE 7 Intangible assets

	Licences, developments	Client contracts acquired through business combination	Costs for acquisition of client contracts	Intangible assets in total	Goodwill
Carrying amount 1.01.2017	**0**	**3 629 900**	**0**	**3 629 900**	**2 570 100**
Changes in 2017					
Assets acquired	90 505	0	0	90 505	0
Depreciation/amortisation charge	0	-412 413	0	-412 413	0
Balance as at 31.12.2017					
Total cost	146 549	4 029 900	0	4 176 449	2 570 100
Accumulated depreciation and amortisation	-56 044	-812 413	0	-868 457	0
Carrying amount 31.12.2017	**90 505**	**3 217 487**	**0**	**3 307 992**	**2 570 100**
Changes in initial application of IFRS 15	0	0	10 617 779	10 617 779	0
Restated balance as at 01.01.2018	**90 505**	**3 217 487**	**10 617 779**	**13 925 771**	**2 570 100**
Changes during 2018					
Assets acquired	236 543	0	0	236 543	0
Capitalized cost of sales	0	0	1 818 236	1 818 236	0
Accumulated depreciation and amortisation	0	-365 554	-1 430 652	-1 796 206	0
Total 31.12.2018					
Total cost	383 092	4 029 900	12 436 015	16 849 007	2 570 100
Accumulated depreciation and amortisation	-56 044	- 1 177 967	-1 430 652	-2 664 663	0
Carrying amount 31.12.2018	**327 048**	**2 851 933**	**11 005 363**	**14 184 344**	**2 570 100**

NOTE 8 Business combinations

On May 2, 2016 AS LHV Varahaldus acquired 100% shares of Danske Capital AS. 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 started the merger of the two fund management companies. The merger took effect on July 28, 2016, 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 31.12.2018. 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 16% per annum (2018: 10%)
- Increase of fund managament company income 2% per annum on average (2018: 8%);
- Increase in indirect costs by 5% per annum (2017: 6%);
- the discount rate used is 15% (2017: 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 31.12.2018, the recoverable amount of the cash generating unit is higher than its

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H.A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

carrying amount, as a result of which no impairment losses have been recognized.

The acquisition and subsequent merger of Danske Capital AS resulted in goodwill in the balance sheet in the amount of EUR 2 570 100, see also Note 7.

NOTE 9 Supplier payables

	31.12.2018	31.12.2017
Supplier payables, except related parties	238 073	238 316
Liabilities to related parties (Note 16)	13 823	30 477
Total supplier payables	**251 896**	**268 793**

NOTE 10 Other liabilities

	31.12.2018	31.12.2017
Financial liabilities		
Accrued interest on subordinated debt (Note 11)	8 978	8 978
Subtotal	**8 978**	**8 978**
Non-financial liabilities		
Payables to employees	155 626	126 984
Tax liabilities	93 471	82 019
incl. social security tax	52 075	48 179
incl. personal income tax withheld	29 198	26 933
incl. unemployment insurance premium	3 211	3 001
incl. contributions to mandatory pension	3 288	3 422
incl. corporate income tax	853	354
incl. value-added tax	4 846	130
Subtotal	**249 097**	**209 003**
Total	**258 075**	**217 981**

NOTE 11 Subordinated debt

According to the Company's business activity, only subordinate loans are recognized as a financing activity in the cash flow statement, as other loans received are part of the ordinary business activities. This appendix presents changes in subordinated liabilities, including monetary or non-monetary movements, and exchange rate effects, if they occurred during the reporting period or comparable period.

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 31.12.2016		**2 100 000**
Balance as at 31.12.2017		**2 100 000**
Balance as at 31.12.2018		**2 100 000**

As at 31.12.2018 the subordinated liabilities with maturities below 1 year amounted to EUR 168 000 (31.12.2017: 168 000) and the amount due for subordinated bonds with maturities above 5 years is EUR 2 315 733 (31.12.2017: 2 483 733).

Interest expenses on subordinated bonds in the amount of EUR 168 000 are included within interest expense in the income statement (2017: 168 000 EUR). The current portion of non-current liabilities is disclosed in Note 10.

Interest expenses on subordinated bonds for each reporting period and accrued interest liabilities as at the end of each reporting period is disclosed in the table below. Interest liabilities are accounted in the statement of financial position using the effective interest rate.

Interest liability from subordinated debt	
Accrued interest on subordinated debts as at 31.12.2016	**8 978**
Interest calculated for 2017	168 000
Paid out during 2017	-168 000
Accrued interest on subordinated debts as at 31.12.2017	**8 978**
Interest calculated for 2018	168 000
Paid out during 2018	-168 000
Accrued interest on subordinated debts as at 31.12.2018	**8 978**

NOTE 12 Shareholders' equity in the public limited company

	31.12.2018	**31.12.2017**
Share capital (in euros)	1 500 000	2 700 000
Issued shares (pcs)	1 500 000	2 700 000
Nominal value of shares	1	1

According to AS LHV Varahaldus's articles of association, the minimum share capital is EUR 750 000 and maximum share capital is EUR 3 million. The share capital has been fully paid in cash.

As at 1 January 2018, according to the first adoption of IFRS 15, commission fees of pension sales (client contracts) for the period 2002 – 2017, that were previously recorded in marketing expenses, were capitalized in the amount of EUR 17 019 317 with accumulated amortsation in the amount of EUR 6 401 538, therefore as at 1 January 2018 carrying amount of client contracts was recorded in retained earnings in the amount of EUR 10 617 779, see also Notes 2.1 (a), 2.7, 7 and 14.

In March 2018, the amount EUR 4 400 000 was paid for dividend to AS LHV Group (income tax in the amount 1 100 000).

In April 2018, AS LHV Group cancelled the shares of AS LHV Varahaldus in the amount of EUR 1 200 000. The repayment to the parent company occured in July 2018.

In July 2018, the options issued in 2015 were fully exercised in the amount of EUR 90 000.

In March 2017, retained earnings in the amount of EUR 307 300 were transferred to a mandatory reserve and in the amount EUR

3 803 401 was paid for dividend to LHV Group (income tax in the amount EUR 950 850).

In June 2017, AS LHV Group cancelled the shares of AS LHV Varahaldus in the amount of EUR 6 600 000. The repayment to the parent company occured in September 2017.

In July 2017, the options issued in 2014 were fully exercised in the amount of EUR 217 600.

As at 31.12.2018 the retained earnings of AS LHV Varahaldus totalled EUR 26 062 300 (31.12.2017: profit EUR 12 928 218). If total profits would be distributed as dividends, the dividends would amount to EUR 20 849 840 (31.12.2017: 10 342 573).. Part of the potential dividends (1/3 from dividends paid out in 2018) would be taxed at a preferential rate of 14/86 and the remaining part 20/80. The arising income tax expense would amount to EUR 5 212 460 (31.12.2017: 2 585 645).

NOTE 13 Fee income

	2018	2017
Pension fund management (Note 16)	13 671 609	12 995 195
Investment fund management (Note 16)	231 345	279 348
Fund issue and redemption fees	39 410	18 855
Total	**13 942 364**	**13 293 398**

In the financial year and in 2017, AS LHV Varahaldus's services were rendered only in Estonia .

NOTE 14 Administrative and other operating expenses

	2018	2017
Depository fees	678 065	830 247
Other purchased services	662 913	727 339
Marketing fees	305 361	1 996 883
IT expenses	291 431	267 391
Office expenses	116 885	114 440
Supervision and guarantee fees	99 376	82 443
Advertising expenses	88 646	281 672
Registry fees	79 812	98 214
Legal consultations and audit fees	74 483	195 438
Travel and training costs	27 489	19 487
Expenses related to funds	16 708	106 567
Communication costs	15 169	32 876
Other expenses	2 996	4 482
Total	**2 459 625**	**4 757 479**

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.

From 2018, the sales costs of pension fund client agreements have been capitalised as intangible assets based on their expected lifetime of customer relationship, ie 20 years. Previously, the sales costs were recorded in “Marketing expenses” line item between 2002 to 2017, see also notes 2.1 (a), 2.7, 7 and 12. Under IAS 18, these costs were not capitalised as the expenses were allowed to be capitalised only until the customer had first

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

opportunity to change pension fund, ie the time period was shorter than 1 year. If the cost of sales would have recorded continuously in 2018 according to IAS 18 in costs not capitalized, the cost of sales would have totalled to EUR 1 818 236.

Employee expenses	**2018**	**2017**
Salaries	1 236 415	1 179 186
Social tax	305 463	336 698
Unemployment insurance premium	6 393	6 297
Total employee expenses	**1 548 271**	**1 475 662**

In the reporting period, the wages and salaries (incl. taxes) of employees totalled EUR 1 175 026 (2017: 1 122 779). 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 AS LHV Varahaldus was 36 (2017: 35).

NOTE 15 Operating lease

The company pays monthly operating lease for the rent of office premises, but the lease contract is on behalf of the sister company AS LHV Pank. Due to this, long-term non-cancellable lease period according to IFRS 16 "Leases" does not apply to LHV Varahaldus and office leases are recognized as short-term leases. In the reporting period, the rent for office space has been recognized under operating expenses in the total amount of EUR 79 750 (2017: EUR 77 349).

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 31.12.2018, the owner of AS LHV Varahaldus was AS LHV Group with ownership interest 100%.

AS LHV Varahaldus conducted transactions with managed funds in the following amounts (see also Note 7):

Management fees	**Revenues 2018**	**Receivable as at 31.12.2018**	**Revenues 2017**	**Receivables as at 31.12.2017**
Pension funds (Note 13)	13 690 565	1 209 061	12 995 195	1 149 575
Investment funds (Note 13)	64 275	4 713	77 139	6 420
Total	**13 754 840**	**1 213 774**	**13 072 334**	**1 155 995**

In 2018, LHV pension and investment funds were repaid the management fees and commissions in the total amount of EUR 6 239 (2017: EUR 6 149).

In 2018, units of managed pension funds were purchased in the amount of EUR 1 720 000 (2017: EUR 37 739). The acquisition cost of the units of pension funds recognised at fair value in the

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials H. A.
Kuupäev/date 27.03.2019
PricewaterhouseCoopers, Tallinn

balance sheet is EUR 7 936 371. In 2018, units of managed pension funds were sold in the amount of EUR 344 766 (2017: EUR 4 900 689), see also Note 6. See Note 6 for information about fair value of pension funds at balance sheet date.

In Feburary 2018, the fund managent company merged pension funds LHV Pensionifond Intress Pluss (merging) with LHV Täiendav Pensionifond (receiving).

In March 2018, the fund managent company AS LHV Varahaldus created new mandatory pension fund called LHV Pensionfond Eesti.

In May 2017, the fund management company merged mandatory pension funds with similar investment strategies: LHV Pension Fund Interest (merging) merged with LHV Pension Fund S (receiving), LHV Pension Fund 50 (merging) merged with LHV Pension Fund L (receiving) and LHV Pension Fund 25 (merging) merged with LHV pension Fund M (receiving). In July 2017, the fund management company merged LHV Pension Fund 100 Pluss (merging) and LHV Supplementary Pension Fund (receiving).

As at 31.12.2018, AS LHV Pank's (LHV's) accounts held demand deposits in the amount of EUR 4 205 432 (31.12.2017: EUR 2 467 588), see also Note 5.

In 2018, advertising and administrative services were purchased from LHV in the total amount of EUR 145 509 (2017: EUR 106 759). The expenses are included in the income statement under administrative and other operating expenses. As at 31.12.2018 the balance sheet includes a payable to LHV in the amount of EUR 13 823 (31.12.2017: EUR 30 477), see also Note 9. In 2018, administrative services were sold to LHV in the total amount of EUR 858 (2017: EUR 708).

As registrar, LHV intermediated to AS LHV Varahaldus redemption fees of LHV World Equities Fund. In 2018, redemption fees were paid in the amount of EUR 14 552 (2017: EUR 6 695).

In 2018, the sales fee of investment funds paid to LHV totalled to EUR 54 886 (2017: EUR 50 017).

The interest expenses of subordinated bonds in year 2018 amounted to EUR 168 000 (2017: 168 000) (see also Note 11).

In April 2018, AS LHV Group cancelled the shares of AS LHV Varahaldus in the amount of EUR 1 200 000. The repayment to the parent company occured in July 2018.

In March 2018, dividends were paid to the parent company AS LHV Group in the amount of EUR 4 400 000 (income tax expense amounted to EUR 1 100 000).

In July 2018, the options issued for the results of 2014 were fully exercised in the amount of EUR 90 000.

In March 2017, dividends were paid to the parent company AS LHV Group in the amount of 3 803 401 EUR (income tax expense amounted to EUR 950 850).

In June 2017, AS LHV Group cancelled the shares of AS LHV Varahaldus in the amount of EUR 6 600 000. The repayment to the parent company occured in September 2017.

In July 2017 the options issued for the results of 2013 were fully exercised in the amount of EUR 217 600.

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 373 246 (2017: EUR 352 882). 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 104 400 (2017: EUR 103 500), which is accounted in the overall payroll expense, for more information see also Note 14. As at 31.12.2018, the payables to the members of the Management Board totalled EUR 13 163 (31.12.2017: EUR 32 076). As at 31.12.2018, payables to members of the Supervisory Board totalled EUR 8 700 (31.12.2017: EUR 0). 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 146 861 (2017: EUR 139 441).

In 2018 and 2017, no impairments were recorded with regard to receivables from the related parties.

LISA 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 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 2018 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 2018. The financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company.

27.03.2019

Signed	Signed
Mihkel Oja ____________________	**Joel Kukemelk** ____________________
Chairman of the Management Board	Member of the Management Board

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 2018, 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 2018;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows 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

27 March 2019

---

* *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 2018 as follows:

- Pay dividends EUR 4 400 000
- Transfer to retained earnings EUR 2 426 303

Signatures of the Supervisory Board to the Annual Report

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

27.03.2019

Signed

Madis Toomsalu
Chairman of the Supervisory Board

Signed

Andres Viisemann
Member of the Supervisory Board

Signed

Erki Kilu
Member of the Supervisory Board

The revenue of AS LHV Varahaldus according to EMTA classificator

EMTAK	Field of activity	2018	2017
66301	Fund management	13 942 364	13 293 398
	Total	**13 942 364**	**13 293 398**

Report of management company’s fixed overheads

(in euros)	**2018**	**2017**
Total costs	5 966 575	6 828 446
Bonuses, profit shares and other variable fees appointed to employees and management which do not result from contractual obligations	203 071	199 603
Shared commission fees and other fees for the period, which are directly related to commissions and other fees included in total revenue	100 587	178 021
Total fixed overheads	5 662 917	6 450 822

The calculation method of fixed overheads was changed regarding to the new Investment Funds Act that came into force on 10th January 2017 and the amount of the respective costs is determined by deducting certain cost items from the total costs.

Report of mandatory pension funds’ management

(in euros)	2018	2017
Fee income	**13 516 588**	**12 834 444**
Management fees	13 516 588	12 833 852
Redemption fees	0	592
Fee expenses	**-1 006 948**	**-999 267**
Depositary fees	-678 065	-830 247
Registrar fees	-226 325	-39 537
Other fee expenses	-102 557	-129 483
incl. other fee expenses to related parties	-54 885	-63 833
Personnel and operating expenses	**-2 721 512**	**-4 614 411**
Wages and salaries	-1 393 444	-1 230 987
Supervisory fees	-97 388	-80 794
Guarantee Fund fees	-314 943	-366 347
Marketing and advertising fees	-292 787	-2 126 446
Other operating expenses	-622 950	-809 837
Other income and expenses	**-1 771 309**	**-415 191**
Operating profit/loss	**8 016 820**	**6 805 574**
Financial income and expenses	**-192 303**	**122 018**
Net profit/loss for the financial year	**7 824 517**	**6 927 592**
Income tax	**-1 078 000**	**-931 833**
Gross profit/loss for the financial year	**6 746 517**	**5 995 759**

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.