# AS LHV Group

2005 Annual Report of the Group

(Translation of the Estonian original)

AS LHV Group

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Reg.no 10 53 95 49

**Annual Report for 01.01.2005.-31.12.2005**

| | |
|---|---|
| **Business name** | AS LHV Group |
| **Commercial Registry no.** | 11 09 82 61 |
| **Legal address** | Tartu mnt 2, Tallinn 10145 |
| **Phone** | (372) 6 800 401 |
| **Fax** | (372) 6 800 410 |
| **Main activity** | Investment banking (incl. acquisition and holding of investments) |
| **Management Board** | Rain Tamm |
| | Karolis Pocius |
| | Tõnno Vähk |
| **Supervisory Board** | Tõnis Haavel |
| | Andres Viisemann |
| | Tarmo Jüristo |
| **Auditor** | AS PricewaterhouseCoopers |

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**2005 MANAGEMENT REPORT**

## STRUCTURE AND ACTIVITIES

The year 2005 presented various challenges and experiences for Lõhmus Haavel & Viisemann Group (LHV) - both significant successes as well as painful setbacks. The growth of core activities and development of new areas led to the Group's restructuring in the summer of 2004. A new holding company AS LHV Group was set up, the departments of corporate finance (CF) and investment products (i.e structured financial services) were separated from the previous parent company AS Lõhmus, Haavel& Viisemann and were transferred to the newly established company AS LHV Financial Advisory Services. Other long-term investments were transferred to the new parent company AS LHV Group. In 2004, a 51% holding was acquired in UAB Hermis Finansai which provides CF services in Lithuania.

LHV Group includes the following companies:

| | Relationship | Participation | Country | Areas of operation |
|---|---|---|---|---|
| AS LHV Group | Parent company | | Estonia | Holding |
| AS Lõhmus, Haavel & Viisemann | Subsidiary | 100% | Estonia | Investment services |
| AS LHV Financial Advisory Services | Subsidiary | 100% | Estonia | Corporate finance and investment products (incl. management of hedge funds) |
| AS LHV Latvia (former AS LHV Securities) | Subsidiary | 100% | Latvia | Corporate finance |
| UAB Hermis Finansai | Subsidiary | 51% | Lithuania | Corporate finance |
| AS New Economy Ventures Media | Subsidiary | 100% | Estonia | Dormant company |
| LHV Ilmarise Kinnisvaraportfelli OÜ | Subsidiary | 100% | Estonia | Set up for securitization of leasing portfolio |
| AS LHV- Seesam Varahaldus | Associate | 22% | Estonia | Management of pension funds |
| OÜ LHV and UUS MAA Property Asset Management | Associate | 50% | Estonia | Management of real estate fund |

LHV Group manages following funds and special purpose vehicles (SPV):

| | Country | Area of operation |
|---|---|---|
| AS LHV Arbitrage | Estonia | Hedge fund and SPV |
| AS LHV Global Opportunity | Estonia | Hedge fund and SPV |
| AS Eastern Europe Real Estate Investment Trust (in cooperation with AS UUS MAA) | Estonia | Real estate fund (SPV) |
| Pension fund LHV Global Shares | Estonia | Mandatory pension fund |
| Pension fund LHV Dynamic Bonds | Estonia | Mandatory pension fund |
| Pension fund LHV Emerging Markets | Estonia | Mandatory pension fund |
| Pension fund LHV Balanced Strategy | Estonia | Mandatory pension fund |
| Pension fund LHV Quality Bonds | Estonia | Mandatory pension fund |
| LHV Supplementary Pension Fund | Estonia | Voluntary pension fund |

LHV Group has four main areas of acitivity:

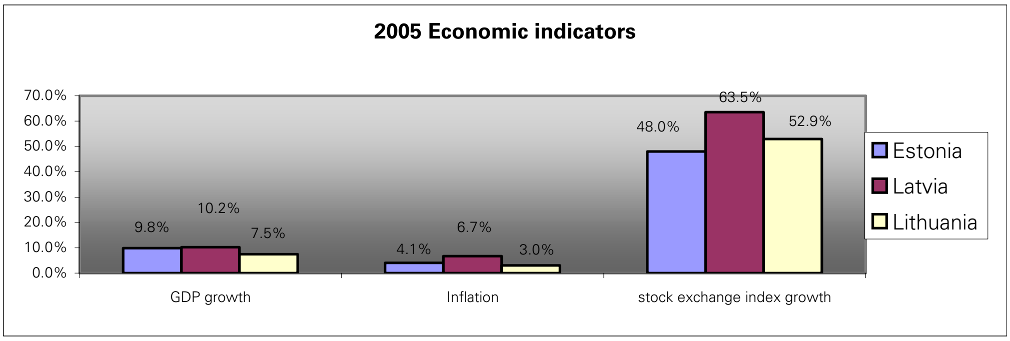
- investment services
- financial advisory services (or corporate finance)
- Investment products
- pension fund management

At the end of 2005, the Group employed 58 people, 44 in Estonia, 7 in Latvia and 7 also in Lithuania.

## OVERALL ECONOMIC CLIMATE

The year 2005 is characterised by the following keywords: fast economic development in all Baltic countries and continuing inflow of foreign investments which were also reflected in the fast growth of the indices of Baltic stock exchanges. The stock index of Tallinn Stock Exchange increased by 48% in a year, Riga and Vilnius stock indices increased even more. The most important event of the securities markets in Estonia and in the whole Baltic region was the departure of Hansapank from the stock exchange. However, for the first time in several years, three new companies were listed in Tallinn Stock Exchange – Tallinna Vesi, Starman and Tallink Grupp.

The gross domestic product of Estonia increased by 9.8%, exceeding that of Lithuania by 2.3 percentage points and being slightly lower than the respective figure for Latvia. The annual inflation rate of Estonia was 4.1%.




Globally, shares offered higher return in almost all markets as compared to bonds in 2005. The stock exchanges of the Arab countries, Eastern Europe and Latin America had the highest growth. The main equity indices increased by more than 20% in Europe. The European small cap companies had even higher returns.

## RESULTS OF OPERATIONS

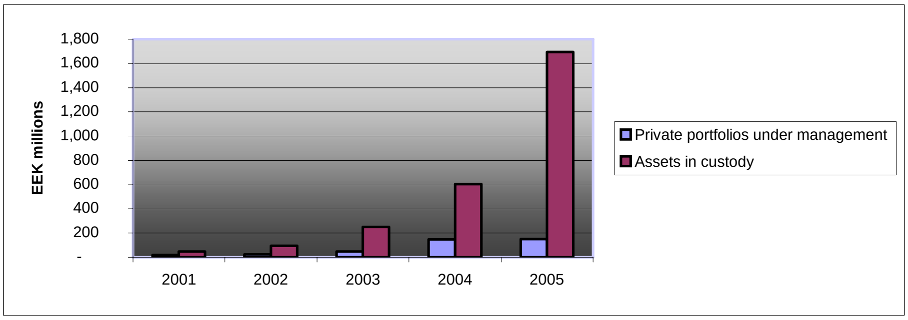
In overall the results of the Group in 2005 were satisfactory. Both fee and commission and interest income showed significant growth in 2005. Also, the number of clients and employees increased during the year.

| | 2005 | 2004 | Growth | Basis for calculation |
|---|---|---|---|---|
| Net fee and commission income | 71 940 | 42 455 | 69% | |
| Net interest income | 3 490 | 1 958 | 78% | |
| Profit before tax | 41 651 | 17 998 | 131% | |
| Net profit for 2005 | 35 547 | 17 415 | 104% | Share attributable to shareholders of the parent company |
| Volume of assets | 130 022 | 72 855 | 78% | |
| Equity | 76 612 | 53 513 | 43% | Share attributable to shareholders of the parent company |
| Return on equity | 56% | 41% | | Net profit /Average equity |
| Cost - income ratio | 56% | 63% | | Operating expenses and allowances for loans/ net fee and commission and interest income, securities and other revenue |
| Average number of employees | 54 | 46 | 17% | |
| Number of clients | 5 000 | 4 000 | 25% | |

The Group's personnel expenses with social security and other taxes amounted to 19.9 million kroons (2004: 12.3 million kroons).

**INVESTMENT SERVICES**

The first 10 months of the year were the most successful months ever for securities brokerage and portfolios management. In the last months of 2004, these areas of activity had achieved a major breakthrough and a level was reached at which revenue consistently exceeded operating expenses. In 2005, the number of clients, turnover and operating profit increased from month to month. This success is attributable to the favourable climate prevailing in the world's stock exchanges as well as the Company's more dynamic marketing activities. The assets under custody reached almost 1.7 billion kroons at the end of the year, increasing by 1.8 times during the year. The growth of private portfolios managed by the Company remained modest, increasing by 2% in a year. Total assets of private portfolios under management reached 151 million kroons in 2005. The number of retail clients increased by 25% in a year to almost five thousand by the end of the year. The margin loan product which enables clients to take loans collaterized with securities was very well received by the clients.




LHV started to offer services to international financial institutions and expanded its securities brokerage activities to Lithuania. Also, preparatory work was started for the Latvian operations. One of the most important steps in this process was the establishment of the fundamental research department for the equities of the Baltic countries. The goal was to create a team offering overviews and fresh ideas both to international financial institutions as well as to local investors.

On 1 November 2005, AS Lõhmus, Haavel & Viisemann learned that on the basis of its charges, the Securities Exchange Commission of the United States of America (SEC) had frozen all client accounts of AS Lõhmus, Haavel & Viisemann in the US. AS Lõhmus, Haavel & Viisemann and two of its employees were accused of using insider information in the market. LHV started to decisively solve the case and cooperated with regulatory bodies both in the US and Estonia in order to protect the interests of its clients. At the end of the year, the majority of the client accounts were unfrozen and normal operations were restored. By the time of authorising the financial statements for issue, we are very close to reaching an out-of-court settlement with the SEC, which would enable us to close the matter in the near term.

In 2006, the team of investment services unit strives to offer interesting investment ideas to its clients both from from domestic and international markets.

## CORPORATE FINANCE

Fast-growing economy and the income growth of private individuals created a favourable environment for companies to expand their operations. As a result, capital raising became the main activity of CF. Of the almost 20 projects advised by CF, over half were related to capital raising.

The activity growth in capital markets was another sign of the favourable environment. Three new companies were listed in Tallinn Stock Exchange. The Group participated in arranging two initial public offerings (IPOs): those of AS Tallinna Vesi and AS Starman, whereby the IPO of AS Tallinna Vesi was the first one in Tallinn Stock Exchange in 6 years. The final acquisition of Hansapank by Swedbank in April 2005 created additional liquidity for Estonian private investors.

The Group participated as Joint Global Co-ordinator in the IPO of AS Tallinna Vesi. AS Tallinna Vesi is an attractive investment for investors, combining both strong and stable cash flows characteristic of an infrastructure company as well as realistic profitable expansion opportunities in rural municipalities around Tallinn. In light of the overall positive macroeconomic environment, the IPO of the company was very successful: the shares of the company were oversubscribed by almost six times (total size of offering EUR 55 million) and the company's share closed the year ca 46% up compared to the offering price.

AS Starman is a company engaged in cable TV and telecommunications in Estonia. The Group participated as Joint Global Co-ordinator in the IPO of the company. Starman was positioned as a fast-growing company which uses its existing cable infrastructure to offer additional services based on new technological solutions (telephony service, DigiTV). Starman's IPO was oversubscribed by 7 times (total size of offering: EUR 12 million), the share traded up by 14% by the end of the year.

In addition to the aforementioned transactions, the Group also participated in the SEPO of the Lithuanian pharmacy company Sanitas (listed on the Vilnius Stock Exchange) raising an additional EUR 6 million for the company.

In 2005, three listed bond issues were also introduced to the market: AS Sportland, AS Balti Investeeringute Grupp (BIG) and LHV Ilmarise Kinnisvaraportfelli OÜ. The latter involves securitization of the loan portfolio of the Ilmarise residential neighbourhood developed by Pro Kapital which is the first transaction of its kind in the Estonian market.

The most important unlisted capital raising projects were the bonds issued by Lithuanian banks Ukio Bankas, Šiauliu Bankas and Bankas Snoras, the bond issue of the Lithuanian utilities services company E-Energija, bond issues of the Lithuanian wind energy park Veju Spektras, and the Bulgarian real estate development company Delta Imoti Capital. The total amount of unlisted equity and debt raised amounted to approximately EUR 70 million.

Of the M&A transactions, the most important ones were the representation of the minority shareholders of Hansapank (owning 3.6% of the capital) in the negotiations with Swedbank which helped to improve the offer made by the acquiring company. Other significant M&A projects included the acquisition of one the leading gaming companies in Latvia – Baltic Gaming by Olympic Entertainment Group. In Latvia, the Group advised on the sale of the controlling share of the local software company IT Alise to the leading Scandinavian IT company TietoEnator and the sale of the timber terminal Wilhelmsen Terminal at the port of Riga to the company's management. In Estonia, the Company advised on two M&A transactions in the fast-growing spa sector (AS Viimsi Tervis and AS Haapsalu Kuurort), whereby the Company acted as a representative of the owners in the sale to financial investors.

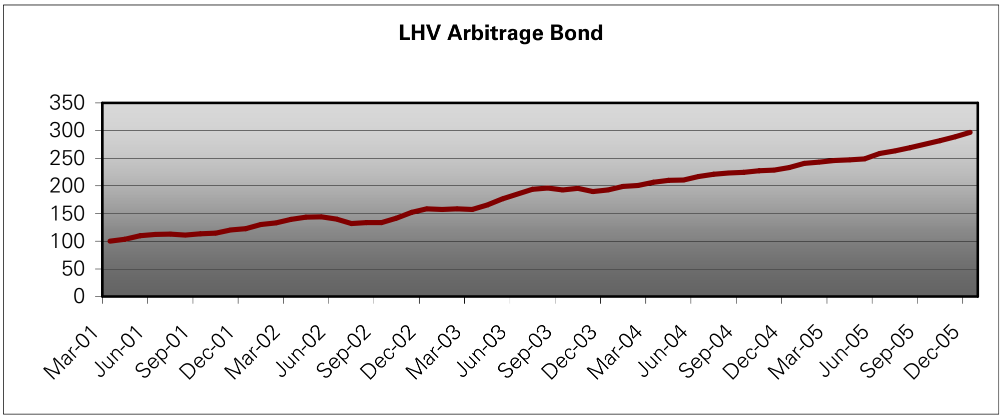
## INVESTMENT PRODUCTS

The department of investment products offers alternative investment opportunities to investors, using the companies specifically set up for this purpose: AS LHV Arbitrage, AS LHV Global Opportunity and AS Eastern Europe Real Estate Investment Trust. AS LHV Arbitrage was set up in 2001 and AS LHV Global Opportunity in June 2004. AS Eastern Europe Real Estate Investment Trust (EE REIT) and the latter's management company OÜ LHV & UUS MAA Property Asset Management were set up in April 2005. 50% of OÜ LHV and UUS MAA Property Asset Management belong to the LHV Group and 50% to OÜ Uus Maa Kinnisvaragrupp.

The goal of AS LHV Arbitrage and AS LHV Global Opportunity is to offer its investors long-term market neutral return at the predetermined maximum risk level. The goal of AS Eastern Europe Real Estate Investment Trust is to achieve maximum long-term return on investment properties.

In 2001, **AS LHV Arbitrage** issued bonds twice and in July 2005, the third bond issue of the company took place in the volume of approximately 35 million kroons. At the beginning of 2005, the value of issued bonds reached 80.7 million kroons. The price of the Bond of LHV Arbitrage increased from the date of the first issue at 06.04.2001 to 233.42 kroons by the end of 2004.

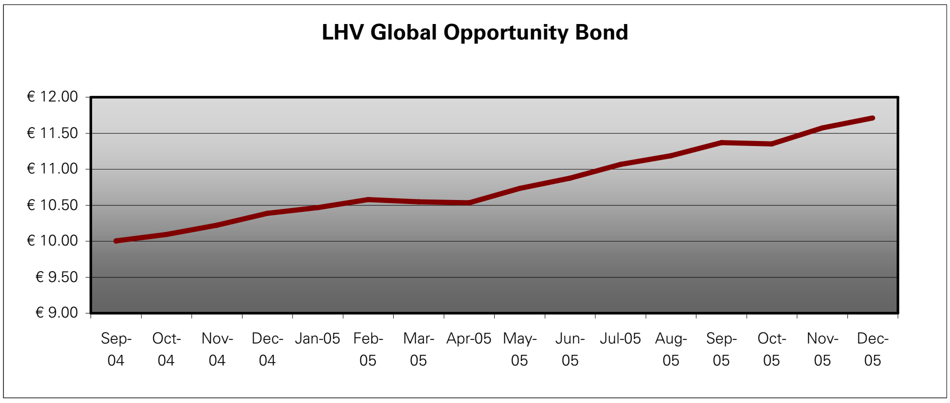
By the end of 2005, the book value of the bond increased to 274.67 kroons, thus the rate of return of bonds was ca. 18% in 2005. This is somewhat lower than the target rate of return of 30% on an annualized basis, but still a very good result. At the end of the year, the book value of the bonds was 131.6 million kroons. The following chart presents the change in the value of the bond of AS LHV Arbitrage from the initial issue.




During the year, the number of bonds in issue increased up to 479 209. The number of investors increased from 13 to 62.

The first bond issue of **AS LHV Global Opportunity** took place at 17.09.2004 and subsequent issues in October and November 2004. In 2005, the Company had 5 bond issues - in March, May, July, September and November.

The value of the bond increased from 10.3861 euros to 11.7412 euros at the end of the year or ca. 13%. At the end of 2005, the value of the bonds in issue by AS LHV Global Opportunity was ca 13.4 million euros (ca 210 million kroons) and the number of investors totalled 101. The following table presents the value of the bond of AS LHV Global Opportunity from the initial issue.




The first bond issue of **AS Eastern Europe Real Estate Investment Trust** took place in May 2005 and subsequent issues followed in June, September and December.

The book value of the bonds increased from the initial 10 euros to 10.56 euros or 5.6%. Interest payments were made to the bond holders at the end of the second, third and fourth quarter totalling 6% on an annualised basis. Thus, the rate of return for investors was ca 16% on an annualised basis. At the end of 2005, the total volume of bonds of Eastern Europe Real Estate Investment Trust was ca 12 million euros (ca 183 million kroons) and the number of investors was 158.

During 2005, the internet-based **trading system for Estonian share options** created by the department of investment products was developed further. The daily activities of the department were the arrangement of trades and intermediation of transactions.

The main development trend for the department in 2006 is to increase the total assets of the above three investment vehicles through decent rates of return as well as new bond issues.

## MANAGEMENT OF PENSION FUNDS

The associated company AS LHV-Seesam Varahaldus is engaged in managing pension funds. The year 2005 was a very busy year for LHV-Seesam Varahaldus. The main objective was to gain as many new clients in the fifth round of the funded pension system as possible. Also, the sales of the third pillar fund, LHV Supplementary Pension Fund continued. Investment results were excellent both with regard to the pension funds as well as the own funds of LHV-Seesam Varahaldus.

At 9 March 2005, a permit was granted for the merger of AS LHV Varahaldus and its subsidiary AS Seesam Varahaldus. A merger was registered in the Commercial Registry at 29.04.2005, when AS LHV-Seesam Varahaldus as a fund manager, which manages 5 mandatory and 1 voluntary pension funds, was entered in the Commercial Registry. The merger of LHV Varahalduse and Seesam Varahalduse created the largest fund manager in Estonia in terms of number of pension funds under management. The merged entity is the fourth largest company, behind three large banks, with regard to total assets of the funds and number of clients.

The year 2005 was the third full year for mandatory pension funds in Estonia. All LHV pension funds had very good results and exceeded their target rates of return. In the fifth subscription period which ended in October, approximately 3 000 new clients joined LHV's funds (including mandatory new entrants assigned to the funds by lottery less the people leaving the funds).

The number of clients joining the funds was significantly higher than expected due to the extremely successful advertising campaign. LHV –Seesam Varahaldus gave away a 500-kroon gift certificate of Sportland or Euronics to each person joining the second pillar and it turned out to be very popular among people. Despite the large expense related to gaining new clients, the Company managed to reach the annul profit of 1 million kroons due to its excellent investment results. With regard to the future, the successful subscription period was an important step for the Company and reinforced LHV's positions in the funded pension market.

All six funds managed by AS LHV-Seesam Varahaldus exceeded their target rates of return. In 2005, the rate of return of LHV Share Pension Fund (from 01.01.2006 Pension Fund LHV Global Shares) was 22.6%, the rate of return of LHV Interest Pension Fund (from 01.01.2006 Pension Fund LHV Dynamic Bonds) was 4.64%, the rate of return of Seesam Growth Pension Fund (from 01.01.2006 Pension Fund LHV Emerging Markets) was 17.1%, the rate of return of Seesam Optimum Pension Fund (from 01.01.2006 Pension Fund LHV Balanced Strategy) was 9.78%, the rate of return of Seesam Bond Pension Fund (from 01.01.2006 Pension Fund LHV Quality Bonds) was 3.94% and the rate of return of LHV Supplementary Pension Fund was 35.7%.

## DEVELOPMENT TRENDS FOR NEXT YEAR

The Management Board believes that fast economic development will also continue in the Baltic countries in 2006. However, there are some danger signs: investors have become more cautious with regard to forecasts which have resulted in a slight correction in the Baltic stock exchanges. Due to extremely fast price increase in the real estate market, investors are more selective as to new development products. The pressure caused by fast economic growth on prices has increased the inflation of the Baltic countries to the level which impedes expected speedy accession with the euro zone. Despite that we are convinced that the investment banking sector will be as active in 2006 as it was in 2005. Unless the investors' stance towards the Baltic region changes dramatically, it can be expected that several companies will be listed in the Baltic stock exchanges.

## FINANCIAL STATEMENTS

### Management Board's declaration

The Management Board confirms the correctness and completeness of the 2005 consolidated financial statements of AS LHV Group as presented on pages 11-49.

The Management Board confirms that:

- the financial statements have been compiled in accordance with International Financial Reporting Standards as adopted in the European Union;
- the financial statements present a true and fair view of the Group's financial position, the results of operations and its cash flows;
- AS LHV Group and its group companies are going concerns.

| | | Date | Signature |
|---|---|---|---|
| **Management Board:** | | | |
| Member of the Management Board | Rain Tamm | 26.06.2006 | |
| Member of the Management Board | Karolis Pocius | 26.06.2006 | |
| Member of the Management Board | Tõnno Vähk | 26.06.2006 | |

**Balance sheet**

| *(In thousand Estonian kroons)* | Note | 31.12.2005 | 31.12.2004 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank | 4 | 56 162 | 15 426 |
| Trading portfolio | 5 | 884 | 394 |
| Derivatives | 6 | 0 | 215 |
| Loans to clients | 7 | 15 484 | 8 758 |
| Finance lease receivables | 8 | 10 875 | 0 |
| Trade receivables | | 6 878 | 6 691 |
| Investment portfolio | 9 | 20 229 | 18 377 |
| Other receivables and assets | 10 | 4 713 | 9 619 |
| Investments in subsidiaries | 11 | 800 | 842 |
| Investments in associates | 12 | 10 085 | 8 510 |
| Property, plant and equipment and intangible assets | 13 | 3 912 | 4 023 |
| **Total assets** | | **130 022** | **72 855** |
| **Liabilities** | | | |
| Derivatives | 6 | 117 | 0 |
| Loans received | 14 | 8 580 | 0 |
| Bonds issued | 15 | 11 793 | 0 |
| Other liabilities | 16 | 15 503 | 12 674 |
| Accrued expenses | 17 | 5 749 | 3 535 |
| Corporate income tax liabilities | 18 | 779 | 0 |
| Other tax liabilities | 18 | 1 700 | 1 555 |
| Provisions | 19 | 5 430 | 0 |
| Finance lease liabilities | 22 | 960 | 593 |
| Deferred tax liabilities | 29 | 41 | 33 |
| **Total liabilities** | | **50 652** | **18 390** |
| **Equity** | | | |
| Minority interest | | 2 758 | 952 |
| **Equity attributable to shareholders of the parent company** | | | |
| Share capital | 20 | 28 300 | 28 300 |
| Reserves | 20 | 871 | 0 |
| Currency translation differences | | -128 | -142 |
| Retained earnings | | 50 375 | 25 355 |
| Treasury shares | 20 | -2 806 | 0 |
| **Total equity attributable to shareholders of the parent company** | | **76 612** | **53 513** |
| **Total equity** | | **79 370** | **54 465** |
| **Total liabilities and equity** | | **130 022** | **72 855** |

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Initsiaalid/initials K.H.
Kuupäev/date 28.06.06
PricewaterhouseCoopers, Tallinn



Lõhmus Haavel & Viisemann

## Income statement

| *(In thousand Estonian kroons)* | Note | 2005 | 2004 |
|---|---|---|---|
| Fee and commission income | 24 | 85 616 | 49 883 |
| Fee and commission expenses | 24 | -13 676 | -7 428 |
| **Net fee and commission income** | 24 | **71 940** | **42 455** |
| Interest income | 25 | 4 572 | 2 118 |
| Interest expenses | 25 | -1 082 | -160 |
| **Net interest income** | 25 | **3 490** | **1 958** |
| Net profit/loss from trading | 26 | 1 330 | 267 |
| Net profit/ loss from investments | 26 | 13 104 | 1 386 |
| Dividend income | 26 | 428 | 600 |
| **Net profit/loss from securities** | | **14 862** | **2 253** |
| Operating expenses | 27 | -51 418 | -31 836 |
| Impairment of loans and other receivables | 27 | -1 321 | -65 |
| Other income | 28 | 3 120 | 3 705 |
| **Operating profit** | | **40 673** | **18 469** |
| Profit/ loss from shares of associates | 12 | 978 | -472 |
| **Profit before tax** | | **41 651** | **17 998** |
| Income tax expense | 29 | -3 854 | -559 |
| **Net profit for financial year** | | **37 797** | **17 439** |
| **Profit attributable to shareholders of the parent company** | | **35 547** | **17 415** |
| **Minority interest** | | **2 250** | **24** |

**Cash flow statement**

| *(In thousand Estonian kroons)* | **Note** | **2005** | **2004** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Fees and other income received | | 84 133 | 55 943 |
| Fees, operating and other expenses paid | | -55 554 | -41 482 |
| Interest received | | 4 506 | 1 680 |
| Interest paid | | -1 104 | 0 |
| Settlement of foreign currency forward contracts | | -81 | 389 |
| Net acquisition/disposal of trading portfolio | | 931 | -371 |
| Change in loans granted | 7 | -6 726 | -1 409 |
| Change in finance lease receivables | 8 | -10 875 | 0 |
| Change in other payables | | 6 841 | 36 |
| Increasing of the stock exchange security deposit | | -1 109 | -71 |
| Income tax paid | 29 | -3 067 | -526 |
| Freezing of cash and bank accounts | 4 | -4 591 | 0 |
| **Total cash flows from operating activities** | | **13 304** | **14 189** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of fixed assets | 13,22 | -1 073 | -2 344 |
| Proceeds from sale of fixed assets | | 6 | 90 |
| Purchase of securities in investment portfolio | | -1 797 | -2 832 |
| Sale of securities in investment portfolio | | 12 678 | 559 |
| Paid for acquisition of associates | 12 | -8 826 | 0 |
| Proceeds from sale of associates | 12 | 7 480 | 0 |
| Purchase of subsidiaries (net of cash acquired) | 11 | 0 | -528 |
| Disposal of subsidiaries and prepayments received | 11,28 | 3 542 | 0 |
| Dividends received from investment securities | 26 | 418 | 564 |
| **Total cash flows from investing activities** | | **12 428** | **-4 491** |
| | | | |
| **Cash flows from financing activities** | | | |
| Treasury shares purchased | 20 | -2 145 | -430 |
| Treasury shares sold | 20 | 721 | 1 925 |
| Finance lease payments made | | -279 | -118 |
| Borrowings received | 7 | 8 580 | 0 |
| Repayments of borrowings | | 0 | -1 293 |
| Security deposit received | | 1 400 | 0 |
| Refunding of security deposit | | 0 | -7 450 |
| Dividends paid | 20 | -9 657 | -1 353 |
| Issue of bonds | 15 | 18 529 | 0 |
| Redemption of bonds | 15 | -6 736 | 0 |
| **Total cash flows from financing activities** | | **10 413** | **-8 718** |
| | | | |
| **Total cash flows** | | **36 145** | **980** |
| Cash and cash equivalents at beginning of the period | 4 | 15 426 | 14 446 |
| Cash and cash equivalents at end of the period | 4 | 51 571 | 15 426 |
| **Net increase/decrease in cash and cash equivalents** | | **36 145** | **980** |

**Statement of changes in equity**

| *(In thousand Estonian kroons)* | **Equity attributable to shareholders of the parent company** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Treasury shares | Statutory reserve capital | Currency translation differ-rences | Retained earnings | **Total** | **Minority interest** | **Total** |
| **Balance as at 31.12.2003** | **30 000** | **206** | **-3 127** | **675** | **-269** | **8 343** | **35 828** | **0** | **35 828** |
| Currency translation differences arising from foreign subsidiaries | 0 | 0 | 0 | 0 | 127 | 0 | 127 | 0 | **127** |
| Share of minority interest acquired | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 928 | **928** |
| Change in equity due to restructuring | -1 700 | -206 | 3 127 | -675 | 0 | -403 | 143 | 0 | **143** |
| Net profit for 2004 | 0 | 0 | 0 | 0 | 0 | 17 415 | 17 415 | 24 | **17 439** |
| **Balance as at 31.12.2004** | **28 300** | **0** | **0** | **0** | **-142** | **25 355** | **53 513** | **952** | **54 465** |
| Transfer to statutory reserve capital | 0 | 0 | 0 | 871 | 0 | -871 | 0 | 0 | **0** |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | -9 657 | -9 657 | 0 | **-9 657** |
| Currency translation differences arising from foreign subsidiaries | 0 | 0 | 0 | 0 | 14 | 0 | 14 | 0 | **14** |
| Decrease of share capital of subsidiary | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -444 | **-444** |
| Treasury shares repurchased | 0 | 0 | -3 527 | 0 | 0 | 0 | -3 527 | 0 | **-3 527** |
| Treasury shares sold | 0 | 0 | 721 | 0 | 0 | 0 | 721 | 0 | **721** |
| Net profit for 2005 | **0** | **0** | 0 | 0 | 0 | 35 547 | 35 547 | 2 250 | **37 797** |
| **Balance as at 31.12.2005** | **28 300** | **0** | **-2 806** | **871** | **-128** | **50 375** | **76 612** | **2 758** | **79 370** |

More detailed information is provided in Note 20.

## Notes to the financial statements

### Note 1. Accounting policies and measurement basis adopted in the preparation of the financial statements

**Basis for preparation**

The 2005 consolidated financial statements of the Group have been compiled in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. These financial statements are the first financial statements prepared in accordance with IFRS as adopted in the European Union. A detailed overview of the transfer to IFRS, amendments to accounting policies and their effect is presented in Note 3.

Until the end of 2004, the Group prepared its financial statements in accordance with the generally accepted accounting principles of Estonia. The generally accepted accounting principles in Estonia do not differ substantially from IFRS. In accordance with the requirements of standards, additional disclosures are presented in the notes to the financial statements. In conjunction with the transfer to IFRS, the presentation of the balance sheet and the income statement has been amended, providing a better overview of the income received and its assets and liabilities. The comparatives for 2004 has been amended to correspond to new the new format.

The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below. The accounting policies below have been consistently used for all periods presented in the financial statements, except for certain cases that have been referred to differently.

The financial year started at 1 January 2005 and ended at 31 December 2005. The financial figures have been presented in thousands of Estonian kroons unless referred otherwise.

In 2004, the operations of the Group were restructured. At 26.08.2004, a new holding company AS LHV Group was set up. The departments of corporate finance (CF) and investment products (so-called structured financial services) of the former parent company AS Lõhmus, Haavel& Viisemann were spun off and transferred to the newly established company AS LHV Financial Advisory Services. The holding of other long-term investments was transferred from AS Lõhmus, Haavel & Viisemann to the new parent company AS LHV Group. Also, a 51% holding was acquired in UAB Hermis Finansai which offers CF services in Lithuania.

**Consolidation**

In the consolidated financial statements, the financial information of all subsidiaries under the control of the parent company (except for subsidiaries acquired for the purpose of selling and subsidiaries specifically set up for investing the funds of investors where all risks and rewards are borne by investors) is combined on a line-by-line basis. All intragroup receivables and liabilities and the Group's intra-company transactions and the resulting income and losses have been eliminated. Minority interests in the net income and equity is included within equity in the consolidated balance sheet separately from the equity attributable to the shareholders of the parent company and as a separate item in the consolidated income statement.

Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group. The weighted average exchange rate is used to translate the income, expenses and cash flows of foreign entities from foreign currencies (functional currency) into Estonian kroons. Assets and liabilities denominated in foreign currencies are translated into Estonian kroons using the exchange rates of the Bank of Estonia prevailing at 31 December. The differences arising from translation are reported in equity as currency translation differences.

The 2005 consolidated financial statements include the financial statements of AS LHV Group (parent company) and its subsidiaries AS LHV Financial Advisory Services (Estonia–100% owned), AS Lõhmus Haavel & Viisemann (Estonia–100% owned), LHV Ilmarise Kinnisvaraportfelli OÜ (Estonia–100% owned), AS New Economy Ventures Media (Estonia–100% owned), AS LHV Latvia (Latvia–100% owned) and UAB Hermis Finansai (Lithuania–51% owned). The consolidated financial statements do not include the subsidiaries AS LHV Arbitrage and AS LHV Global Opportunity as well as the associate AS Eastern Europe Real Estate Investment Trust, because these are subsidiaries and associates which have been set up specifically for investing the funds of investors, whereby all risks and rewards are borne by investors.

**Subsidiaries**

A subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent company owns, directly or indirectly through its subsidiaries, more than 50% of the voting power of the subsidiary or otherwise has power to govern the financial and operating policies of the subsidiary. The purchase method of accounting is used to account for the acquisition of subsidiaries (except for acquisitions among enterprises under common control). According to the purchase method, the assets and liabilities of the acquired subsidiary are recognised at their fair values and the difference between the cost of acquisition and the fair value of the net assets of the acquired subsidiary is recorded as goodwill. Goodwill is not amortised, but an annual impairment test is performed for goodwill.

**Associates**

An associate is an enterprise over which the Group has significant influence, but which it does not control. Significant influence is generally presumed to exist when the Group holds between 20% and 50% of the voting power of the associate.

Investments into associates are recognised in the consolidated financial statements under the equity method. Under this method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of the equity of the investee. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the loss was caused by impairment of the asset. Investment into associates includes goodwill which arose in the acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the investment is reported at nil value and further losses are recognised as off-balance-sheet items, except if the Group has incurred obligations or made payments on behalf of the associates – in which case the Group recognises the liability and its share of losses in an associate in the balance sheet. If the Company has financed the operations of the associate with debt in addition to equity, if necessary, loan receivables from the associate are written down.

**Functional and presentation currency**

Foreign subsidiaries use the currency of their local economic environment for accounting purposes. The consolidated financial statements have been prepared in Estonian kroons, which is the functional and presentation currency of the parent company and the subisidiaries and associates located in Estonia.

**Foreign currency transactions and assets and liabilities denominated in foreign currencies**

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia prevailing at the dates of the transactions. Monetary financial assets and liabilities and non-monetary financial assets and liabilities measured at fair value denominated in foreign currencies as at the balance sheet date are translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Profits and losses from foreign currency transactions are recognised in the income statement as income or expenses of the period.

In consolidating the financial information of foreign subsidiaries, their assets and liabilities are translated into Estonian kroons using the official exchange rates of the Bank of Estonia prevailing at balance sheet date. The annual average foreign exchange rate is used to convert income and expenses. Exchange rate differences arising on the translation of the financial statements of the subisidiaries are recognised directly in the equity.

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, term deposits with original maturities of three months or less, and money-market fund shares.

**Investments**

Depending on the purpose of acquisition, the Group classifies its financial assets into the following categories:

- Financial assets at fair value through profit or loss which include
    - Trading portfolio
    - Investment portfolio designated upon acquisition as at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments of the investment portfolio;
- Available-for-sale assets, which include the investments in the investment portfolio, whose fair value cannot be determined reliably and which are reported at cost (less any impairments).

The purchases and sales of financial investments are recognised on the settlement date. In the accounting period, the Company has not classified any financial assets as "held-to-maturity investments".

*Financial assets at fair value through profit or loss;*

Financial assets at fair value through profit or loss include financial assets held for trading purposes (i.e. a financial asset acquired or incurred principally for the purpose of reselling or repurchasing in the near term or a derivative financial instrument which is not designated as a hedging instrument) and other financial assets which have been designated as at fair value through profit or loss at initial recognition. Financial assets at fair value through profit or loss are initially recognised at cost at the settlement date, which is the fair value of the consideration received from or paid for the financial investment (does not include transaction costs). After initial recognition, financial assets in this category are measured at fair value. Changes in fair values of these assets are recognised consistently, either as a profit or loss in the income statement of the accounting period.

In case of listed securities, the bid price is considered as the fair value of investments. To find the fair value of investments not actively traded in the market, alternative methods such as the price of recent transactions (under market conditions), specific purchase offers made, the discounted cash flow method or option valuation models are used.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, the Group recognises loans and receivables at amortised cost (less principal payments and any potential impairments, if necessary), calculating interest income on the receivable in subsequent periods using the effective interest rate method.

When it is probable that the Group is unable to collect all amounts due according to the terms of receivables, a provision is set up for the impairment of these receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the market rate of interest for similar borrowers. The collection of each specific receivable is assessed on an individual basis, taking into consideration all known information on the solvency of the debtor. Any impairment losses are charged to the income statement. Doubtful receivables are written down in the balance sheet to the collectible amount. Irrecoverable receivables are derecognised from the balance sheet.

**Finance lease receivables**

Finance lease transactions are lease transactions whereby all significant risks and rights arising from the use of assets are transferred from the Company to the lessee. The legal ownership right is transferred to the client at the end of the lease term. Receivables arising from finance lease transactions are recognised at the present value of collectible lease payments. Each lease payment received is allocated between the receivable and financial income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The basis for assessing receivables is the timeliness of obligations fixed in a contract, the estimated market price of the leased assets and additional security, the client's financial position and reliability. The allowance for impairment of receivables is reducing the respective assets in the balance sheet.

**Trade receivables**

Trade receivables are initially recognised at fair value and they are subsequently measured at amortised cost using the effective interest rate method. The assets are written down due to impairment if there is objective evidence that the Group is unable to collect all amounts due according to the terms of receivables. Such situations may be the buyers' financial difficulties, bankruptcy or inability to fulfil their obligations to the Company. The amount of the impairment is the difference between the carrying amount and the recoverable amount, which is expected future cash flows discounted at the market rate of interest.

**Impairment of assets**

At each balance sheet date, the Group asesses possible signs of impairment of financial assets. Financial assets have become impaired and the resulting loss is recognised only if there exists objective evidence of impairment which became evident after the initial recognition of the asset ("adverse event") and this adverse event (adverse events) affects the future cash flows derived from the financial asset which can be determined reliably. Objective evidence indicating the a financial asset has become impaired is information readily available to the Group, such as:

- significant financial difficulties of the debtor;
- violation of contractual terms, including untimely collection of payments;
- probability of an impending bankruptcy of the debtor;
- loss of an active market for the financial assets due to financial difficulties; or
- known information indicating a major decline of future expected cash flows derived from a financial asset or a group of financial assets, although this decline cannot be measured reliably.

If there is objective evidence that the loans and receivables recognised at amortised cost or held-to-maturity securities have become impaired, then the loss incurred is calculated as the difference between the carrying amount and the present value of future expected cash flows (except for impairment losses than have already been accounted for) which has been discounted using the effective interest rate for financial assets. The resulting losses are reported in the income statement and the carrying amount of assets in the balance sheet is reduced. If impairment of assets decreases in the following accounting periods and this event can reliably be related to the event which occurred after the recognition of the impairment loss (e.g. improvement of credit rating), then the impairment loss initially recognised is reversed. The reversed impairment loss is reported in the income statement.

**Derivative financial instruments**

Derivative financial instruments (futures, forward, swap and option contracts) are recognised and valued in the balance sheet at fair value. Profits and losses from derivatives are recognised as income and expenses of the period in the income statement. The Group does not use hedge accounting rules to account for its derivative financial instruments.

**Property, plant and equipment**

Property, plant and equipment are non-current assets used in the operating activities with a useful life of over one year. An item of property, plant and equipment 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. Property, plant and equipment is carried in the balance sheet at its cost less any accumulated depreciation and accumulated impairment losses. Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount. Depreciation is calculated on a straight-line basis. The annual depreciation rate for computers is 33%, for office furniture and for fixtures it is 20-33%, cars 15% and for improvements of rental space it is the higher of 15% or the lease term.

**Intangible assets**

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. Amortisation on purchased licenses is 33% p.a.

**Financial liabilities**

All financial liabilities (supplier payables, borrowings, accrued expenses and other borrowings) are initially recognised at the fair value of the consideration receivable for financial liabilities which also includes all transaction costs incurred. After initial recognition, financial liabilities are measured at amortised cost.

The amortised cost of the short-term liabilities normally equals their nominal value; therefore short-term liabilities are stated in the balance sheet in their redemption value. The amortised cost of long-term liabilities is calculated using the effective interest rate method. Financial liabilities are classified as current when they are due within twelve months after the balance sheet or if the Company does not have an unconditional right to defer the payment for later than 12 months after the balance sheet date. Borrowings whose due date is within 12 months after the balance sheet date but which are refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue are recognised as current. Borrowings that the lender has the right recall at the balance sheet date due to violation of contractual terms are also classified as current. Borrowing costs are expensed in the period in which they are incurred.

**Issued bonds**

Issued bonds are initially recognised at acquisition cost which is the fair value of the consideration receivable for the financial liability. The initial cost includes all costs directly related to the acquisition. After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

**Payables to employees**

Payables to employees include the obligation arising from bonus policy which is approved with the order of the Management Board. Payables to employees include accrued holiday pay calculated in accordance with employment contracts and the local laws in force as at the balance sheet date. The liability related to the payment of holiday pay together with social security and unemployment insurance payments is included within current liabilities in the balance sheet and as personnel costs in the income statement.

**Provisions**

Commitments arising from an obligating event before the balance sheet date that have either a legal or contractual basis or that have arisen from current operating practice that require the giving up of assets, whose realisation is probable and whose cost can reliably be estimated but whose timing or amount are not definitely known are recognised as provisions in the balance sheet. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for settling the obligation or transfer it to the third party. The provision expense is included in the income statement of the period. Provisions are not recognised for future operating losses.

The Group has recognised a provision for all legal disputes and potential legal disputes yet to come, for which the binding liability has arisen from the occasion occurred before the balance sheet date and the dispute is likely to result in certain expenses and such potential expenses can be determined reliably.

**Contingent liabilities**

Promises, guarantees and other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

**Revenue and expenses**

Revenue and expenses are accounted for under the accrual basis of accounting. Fees and commissions (incl. custody fees and portfolio management fees) are recognised after the service has been provided and the Company has a right of claim to the receivable. Revenue arising from interest and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Interest income is recognised on an accruals basis using the effective interest rate of the asset, except if the receipt of interest is uncertain. In such cases interest income is accounted for on a cash basis. Dividend income is recognised when the legal right to receive dividends is established.

Revenue from rendering nonrecurring services over a longer period of time is recognised by using the stage of completion method assuming that the outcome of a service contract (contract revenue and costs) can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise, Revenue and profit are recognised in the same accounting periods in proportion to the costs incurred in relation to the service contract.

**Asset management**

The Group offers asset management services. Such assets that have been given to the Group to manage by third parties and that the Group does not own are not recognised in the balance sheet. Fees for services are derived from management of such portfolios and no associated credit and market risks arise for the Group.

**Operating lease payments**

All lease agreements which are not classified as finance leases are accounted for as operating leases. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

**Deferred income tax**

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax Income tax on dividends is reported in the income statement as an income tax expense in the same period when dividends are declared irregardless of the period for which they have been declared or when they are actually paid. Profits earned by enterprises are taxed in Lithuania and Latvia, which are adjusted for permanent and temporary differences stipulated by tax laws.

The deferred income tax liability is recognised for all temporary taxable differences, tax bases of assets and liabilities and their carrying amounts presented in the consolidated financial statements. Deferred income tax is not calculated when it arises from the initial recognition of an asset or a liability in a transaction other than a business combination, which at the time of the transaction does not affect profit (or loss) for accounting or tax purposes.

Deferred income tax is calculated on the basis of tax rates and laws in force at the balance sheet date, which are expected to exist also at the time when the deferred income tax asset or liability will realise. The Group recognises deferred income tax assets only to the extent that the respective temporary difference is reversed in the near future and taxable income arises in the future on account of which the temporary difference can be used.

**Offsetting financial instruments**

Financial assets and liabilities are offset only when there is a legally enforceable right to do that and there is an intention to settle the amounts ´simultaneously or on a net basis.

**Statutory reserve capital**

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

**New International Financial Reporting Standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)**

By the time of preparing these financial statements, new International Financial Reporting Standards and their interpretations have been published which will become mandatory for the Group from 1 January 2006 and which the Group has not adopted early. The following IAS amendments affect the Group:

- IAS 1 (Amendment) – Presentation of Financial Statements: Capital Disclosures which is effective from 1 January 2007 or later. The standard requires additional disclosures in the financial statements.
- IAS 7 Financial Instruments: Disclosures and supplementary annex IAS 1, Presentation of Financial Statements, which is effective from 1 January 2007. IFRS 7 introduces new requirements for the notes in order to improve the presentation of information in the financial statements. This requires presentation of qualitative and quantitative information on the risks arising from financial instruments, containing specific minimum requirements for credit risk, liquidity risk and market risk (incl. sensitivity analysis of market risk). This replaces standard IAS 30, Disclosures in the Financial Statements and Other Financial Institutions and IAS 32 Financial Instruments: Disclosure and Presentation. This standard is effective for all companies preparing their financial statements in accordance with International Financial Reporting Standards. The revision to IAS 1 presents additional requirements for the Company's capital and capital management. The management considers the adoption of this revision.

The management is in the opinion that the amendments to and revisions of the following standards do not have a significant impact on the financial statements of the Group:

- IAS 19 (revision) - Employee Benefits
- IAS 21 (amendment) - The Effects of Changes in Foreign Exchange Rates
- IAS 39 (revision) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (revision) - Fair Value Option
- IAS 39 and IFRS 4 (revision) - Financial Guarantee Contracts
- IFRS 6 - Exploration for and Evaluation of Mineral Resources
- IFRIC 4 - Determining Whether an Arrangement Contains a Lease
- IFRIC 5 - Rights to Interests Arising from Decommissioning, Restoration and Rehabilitation Funds
- IFRIC 6 - Liabilities arising from Participating a Specific Market – Waste Electric and Electronic Equipment

- IFRIC 7 - Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Environments
- IFRIC 8 - Share-based Compensations as defined in IFRS 2
- IFRIC 9 – Reassessment of Embedded Derivatives.

**Note 2. Significant management judgements and estimates**

In accordance with IFRS, several financial figures presented in the financial statements are based on management's estimates, which will affect the assets and liabilities presented in the financial statements during the next financial year. Although these estimates have been made to the best of management's knowledge, they may not coincide with subsequent actual results.

The areas which have required more significant management estimates are primarily the assessment of investments, loans and receivables recognised at fair value through profit or loss as well as the recognition of a provision relating to the court case initiated by the US Securities and Exchange Commission (US SEC) (detailed information on this case is presented in Note 19).

Unlisted equity instruments recognised at fair value are assessed using mainly specific purchase offers made for these investments which management considers the best indication of their fair value.

Objective evidence of impairment has been assessed individually with regard to each loan and receivable. All known information on the client has been taken into account when making the assessment such as:

- violation of contractual terms and untimely collection of payments;
- client's major financial difficulties and probability of bankruptcy;
- in case of secured loans, the amounts collectible from the potential settlement of the collateral.

Changes in management's estimates are reported in the income statement of the period in which the change occurred.

**Note 3. Transition to IFRS and the effect on the financial statements**

These financial statements are the first financial statements prepared in accordance with IFRS as adopted in the European Union. The requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" have been used as the basis for the transition to IFRS. The transition date to IFRS is 1.01.2004 and the adoption date is 1.01.2005. The Group has used the following exceptions allowed under IFRS 1 "First-time Adoption of IFRS":

a) business combinations – the Group has used this exception and has not restated its business combinations occurred before 1.01.2004;
b) classification of existing financial instruments – the Group has used this exception and reclassified financial investments at fair value through profit or loss at transition date to IFRS.

The remaining allowed exceptions were either not relevant for LHV or they have not been applied.

IFRS 1 also sets out four mandatory exceptions, which LHV has followed.

a) derecognition of financial assets and liabilities – the Group has not retrospectively recognised financial assets or financial liabilities in the balance sheet that had been derecognised before the transfer date;
b) *hedge accounting* – the Group does not use *hedge accounting;*
c) exception regarding estimates – in the IFRS financial statements, the Group has used the same estimates as the ones used to prepare the financial statements in accordance with the generally accepted accounting principles of Estonia as at 1.01.2004 and 31.12.2004;
d) assets held for sale and discontinued operations - the Group applies IFRS 5 retrospectively from 1.01.2005.

The transfer to IFRS resulted only in the changes of presentation of the balance sheet and the income statement.

The parent company AS LHV Group has used IFRS from the date of establishment in August 2004.

### Note 4. Cash and bank

| | Note | 31.12.2005 | 31.12.2004 |
|---|---|---|---|
| Cash and cash equivalents | | | |
| Deposits held at call | | 20 029 | 15 426 |
| Term deposits (up to 3 months) | | 8 218 | 0 |
| Money market fund units | | 141 | 0 |
| Other receivables from financial institutions (up to 3 months) | 19 | 23 183 | 0 |
| **Total cash and cash equivalents** | | **51 571** | **15 426** |
| Other receivables from financial institutions (over 3 months) | 19 | 4 591 | 0 |
| **Total cash and bank** | | **56 162** | **15 426** |

The interest on term deposits was between 2.2 – 2.35%.

### Note 5. Trading portfolio

| | 31.12.2005 | 31.12.2004 |
|---|---|---|
| Shares | 534 | 153 |
| Fund units | 350 | 241 |
| **Total trading portfolio** | **884** | **394** |

### Note 6. Derivatives

| | Receivable /(liability) in the balance sheet | Contractual amount as off-balance sheet asset | Contractual amount as off-balance sheet liability |
|---|---|---|---|
| **As at 31.12.2005** | | | |
| Foreign currency forward contracts | -117 | 27 082 | 27 199 |
| **As at 31.12.2004** | | | |
| Foreign currency forward contracts | 215 | 4 976 | 4 761 |

The Group's foreign currency forward contracts have been concluded with AS LHV Arbitrage in US dollars, Lithuanian litas and Swedish kroons in order to hedge the foreign currency risk of fixed loans, receivables and securities. The due dates of contracts are between 1 and 4 months after the balance sheet date (2004: 2-5 months).

### Note 7. Loans to clients

| | Loan balance | Loan balance | Due date | Interest rate |
|---|---|---|---|---|
| **Borrower** | **31.12.2005** | **31.12.2004** | | |
| Loans to clients | 13 680 | 5 411 | Note 32 | 7,5%-12% |
| Loans to related parties (Note 21) | 1 964 | 3 347 | Note 32 | 4,0%-9% |
| Allowance for doubtful receivables | -160 | 0 | | |
| **Total loans** | **15 484** | **8 758** | | |

In 2005, loans in the amount of 160 thousand kroons have been written down and deemed as uncollectible. There were not any other movements and write-offs of the loans in 2004 and 2005 (see also Note 27).

### Note 8. Finance lease receivables

At 21.01.2005, the Group acquired from OÜ Ilmarise Kvartal receivables relating to finance lease payments from tenants in the amount of 18 529 thousand kroons. The underlying currency of finance lease agreements is the Estonian kroon. The annual interest rate of the finance lease is between 6% and 8%. In 2005, clients made principal payments in the amount of 1 367 thousand kroons and the ownership of 8 apartments were transferred in the total amount of 6 287 thousand kroons. All finance lease receivables have been pledged as collateral for bonds issued. The guarantee agent and custodian for pledged assets is AS Sampo Pank (Note 15).

| **Net investment by due dates** | **31.12.2005** |
|---|---|
| incl. up to 1 year | 545 |
| between 1 and 5 years | 1 276 |
| over 5 years | 9 052 |
| **Total net investment** | **10 875** |
| | |
| **Future interest income by due dates** | |
| incl. up to 1 year | 643 |
| between 1 and 5 years | 2 370 |
| over 5 years | 5 144 |
| **Total prepaid expenses** | **8 157** |
| | |
| **Gross investment by due dates** | |
| incl. up to 1 year | 1 191 |
| between 1 and 5 years | 3 645 |
| over 5 years | 14 196 |
| **Total gross investment** | **19 032** |

### Note 9. Investment portfolio

| **Financial assets at fair value through profit or loss** | **31.12.2005** | **31.12.2004** |
|---|---|---|
| Fund units | 828 | 1 764 |
| Bonds | 3 440 | 4 451 |
| Shares | 8 936 | 3 195 |
| **Total** | **13 204** | **9 410** |
| **Available for sale investments** | | |
| Shares | 7 025 | 8 967 |
| **Total** | **7 025** | **8 967** |

Investments that are reported at fair value through profit or loss include mostly listed securities or securities that are subject to periodic repurchasing. In one case, the price in the purchase offer made to the Group was used.

### Note 10. Other receivables and assets

| | Note | 31.12.2005 | 31.12.2004 |
|---|---|---|---|
| Guarantee deposits of Baltic stock exchanges | | 1 433 | 323 |
| Accrued interest | | 266 | 200 |
| Prepayments to suppliers | | 2 327 | 1064 |
| Prepaid personal income tax | | 107 | 72 |
| Prepaid value added tax | | 580 | 480 |
| Amounts due from the sale of associate | 12 | 0 | 7 480 |
| **Total** | | **4 713** | **9 619** |

### Note 11. Business combinations and subsidiaries

In July 2004, the Group acquired a 51% of holding in UAB Hermis Finansai which is a company registered in Lithuania. The acquisition price and the fair value of the acquired net assets were 966 thousand kroons. The purchase consideration was paid in cash.

| **Purchase analysis (in thousand Estonian kroons)** | **31.05.2004** |
|---|---|
| Cash and bank | 838 |
| Trade receivables | 997 |
| Other receivables | 146 |
| Non-current assets | 303 |
| Liabilities | 390 |
| Equity | 1 894 |
| Fair value of the 51% holding acquired and purchase consideration paid | 966 |

The retained earnings of UAB Hermis Finansai in the first half of 2004 totalled 1 512 thousand and net profit totalled 564 thousand kroons. Income earned in the second half of the year totalled 1 225 thousand and the loss to 609 thousand kroons.

The Group has investments in the following subsidiaries provided in the table below.

| | **Online Kauplemis-süsteemid** | **LHV Arbitrage** | **LHV Global Opportunity** | **Total subsidiaries** |
|---|---|---|---|---|
| Ownership % at beginning of 2004 | 100% | 100% | 0% | |
| Cost at beginning of 2004 | **42** | **400** | **0** | **442** |
| % of holding acquired in 2004 | - | - | 100% | |
| Acquisition cost of holding obtained in 2004 | 0 | 0 | 400 | 400 |
| Ownership % at end of 2004 | 100% | 100% | 100% | |
| **Book value at end of 2004** | **42** | **400** | **400** | **842** |
| | | | | |
| % of holding sold in 2005 | 100% | - | - | |
| Sales price | 42 | 0 | 0 | 42 |
| Ownership % at end of 2005 | 0% | 100% | 100% | |
| **Book value at end of 2005** | **0** | **400** | **400** | **800** |

**AS LHV Arbitrage**

AS LHV Arbitrage is a company set up specifically for offering alternative investment opportunities for investors, which is not consolidated because the company's risks and rewards are born by investors. The company invests primarily in financial and other instruments traded in the Baltic financial markets and offers project-based secured financing. The value of bonds issued by AS LHV Arbitrage equals at any given time the value of net assets of AS LHV Arbitrage, less the value of share capital. Thus, gains and losses arising from the assets are directly reflected in the value of bonds and they are therefore transferred to the bond holders. AS LHV Arbitrage as a company neither earns any profits nor incurs any losses. In accordance with the asset management contract entered into between AS LHV Financial Advisory Services (LHV FAS) and AS LHV Arbitrage, the latter pays a monthly management fee to AS LHV FAS amounting to 0.25% (3% p.a.) on the value of issued bonds and performance fee in case the value of bonds has increased to the record level in given month. In such a case, the performance fee is 20% of this increase over the previous record level.

| **Balance sheet (in thousand Estonian kroons)** | **31.12.2005** | **31.12.2004** |
|---|---|---|
| Cash and bank | 4 877 | 22 101 |
| Loans and other receivables | 131 980 | 36 209 |
| Short and long-term financial investments | 105 141 | 53 987 |
| Investment property | 41 632 | 0 |
| **Total assets** | **283 630** | **112 297** |
| Issued bonds | 131 626 | 80 669 |
| Other liabilities | 151 604 | 31 228 |
| Share capital | 400 | 400 |
| **Total liabilities and equity** | **283 630** | **112 297** |

**AS LHV Global Opportunity**

AS LHV Global Opportunity is also a company specifically set up for offering alternative investment opportunities for investors which is not consolidated because the Company's risks and rewards are born by investors. The Company invests mostly in international hedge funds. The value of issued bonds of AS LHV Global Opportunity equals at any given time the value of net assets of AS LHV Global Opportunity less the value of share capital. Thus, all gains and losses arising from the value of assets are directly reflected in the change of the value of bonds and are therefore transferred to the bond holders. AS LHV Global Opportunity as a company neither earns any profits nor incurs any losses. In accordance with the asset management contract entered into between LHV FAS and AS LHV Global Opportunity, the latter pays a monthly management fee to LHV FAS amounting to 0.167% (2% p.a.) on the value of issued bonds and performance fee in case the value of bonds has increased to a record level in a given month. In such a case, the performance fee is 20% of this increase above the previous record level.

| **Balance sheet (in thousand Estonian kroons)** | **31.12.2005** | **31.12.2004** |
|---|---|---|
| Cash and bank | 6 930 | 4 242 |
| Shares and other securities | 95 355 | 55 112 |
| Other investments and receivables | 120 270 | 16 003 |
| **Total assets** | **222 555** | **75 357** |
| Issued bonds | 209 953 | 74 389 |
| Other liabilities | 12 202 | 568 |
| Share capital | 400 | 400 |
| **Total liabilities and equity** | **222 555** | **75 357** |

**Note 12. Associates**

| | Vara-haldus | Consoli-dated Auctions | PAM | EE REIT | Total associates |
|---|---|---|---|---|---|
| Ownership % at beginning of 2004 | 18.6% | 30.5% | - | - | |
| **Cost at beginning of 2004** | **8 233** | **0** | **0** | **0** | **8 233** |
| % of holding acquired in 2004 | 14.1% | - | - | - | |
| Acquisition cost of holding obtained | 8 229 | 0 | 0 | 0 | 8 229 |
| % of holding sold and transferred in 2004 | 11.1% | - | - | - | |
| Sales price | 7 480 | 0 | 0 | 0 | 7 480 |
| Sales profit | 535 | 0 | 0 | 0 | 535 |
| Loss from equity method | -1 007 | 0 | 0 | 0 | -1 007 |
| Ownership % at end of 2004 | 21.6% | 30.5% | - | - | |
| **Book value at end of 2004** | **8 510** | **0** | **0** | **0** | **8 510** |
| % of holding acquired in 2005 | - | - | 50% | 50% | |
| Acquisition cost of holding obtained | 0 | 0 | 20 | 200 | 220 |
| % of holding transferred in 2005 (see the explanation) | - | 30.5% | - | - | |
| Additional payment to the initial purchase price | -377 | 0 | 0 | 0 | -377 |
| Profit from equity method | 217 | 0 | 1 138 | 0 | 1 355 |
| Ownership % at end of 2005 | 21,6% | - | 50% | 50% | 0 |
| **Book value at end of 2005** | **8 726** | **0** | **1 158** | **200** | **10 085** |

**AS LHV- Seesam Varahaldus (Varahaldus)**

At the end of 2004, a 100% holding was acquired in the company AS Seesam Varahaldus from AS Seesam Elukindlustus and merger agreements were signed between AS Seesam Varahaldus and AS LHV Varahaldus. At the same time, the Group sold a 11.1% holding in AS LHV Varahaldus to AS Seesam Elukindlustus. Previously, AS LHV Group had acquired a 14.1% holding from other shareholders. At 09.03.2005, a merger permit for AS LHV Varahaldus and AS Seesam Varahaldus was granted by the Financial Supervision Authority. The companies were merged as at 01.01.2005. As a result of the transaction, the Group's ownership increased from 18.6% to 21.6%. As at 31.12.2004, the Group had a receivable from AS Seesam Elukindlustus for the sale of shares of LHV Varahaldus in the amount of 7 480 thousand kroons (Note 10) and a liability to other shareholders for the purchase of shares of LHV Varahaldus in the amount of 8 229 thousand kroons (Note 16). As the purchase price was dependent on the timing of the settlement, then additional 377 thousand kroons was added to the purchase consideration in 2005.

| **Financial information** | **31.12.2005** | **31.12.2004** |
|---|---|---|
| Assets | 41 257 | 81 413 |
| Liabilities | 814 | 41 977 |
| Equity | 40 442 | 39 436 |
| Income | 11 018 | 5 878 |
| Net profit (loss) for the financial year | 1 006 | -4 821 |

**OÜ Consolidated Auctions**

In 2005, the holding in the company was exchanged for a 3.2% holding in OÜ Moonfish Media, registered in Estonia, which is subsequently considered part of the investment portfolio.

**OÜ LHV & Uus Maa Property Asset Management (PAM)**

The company was set up at 12.04.2005. Its main activity is to provide investment advisory service to AS Eastern Europe Real Estate Investment Trust.

| Financial information | 31.12.2005 |
|---|---|
| Assets | 3 971 |
| Liabilities | 141 |
| Equity | ˇ3 830 |
| Income | 4 492 |
| Net profit (loss) for the financial year | 3 790 |

**AS Eastern Europe Real Estate Investment (EE REIT)**

The company was set up at 12.04.2005 to offer investors an opportunity to invest in various real estate projects.

The value of issued bonds of AS Eastern Europe Real Estate equals at any given time the value of net assets, less the value of share capital. Thus, total profits and losses arising from the assets are directly reflected in the value of bonds and are therefore transferred to bond holders. AS Eastern Europe Real Estate as a company neither earns any profits nor incurs any losses. In accordance with the investment advisory contract entered into between OÜ LHV & Uus Maa Property Asset Management and AS Eastern Europe Real Estate, EE Reit pays quarterly management fees to PAM amounting to 0.5% (2% annually) and performance fees of 20% if the value of bonds has increased to the record level in a given month.

**Balance sheet** (in thousand Estonian kroons)

| **Assets** | **31.12.2005** |
|---|---|
| Cash and bank | 30 300 |
| Loans granted | 48 000 |
| Receivables and accrued income | 2 410 |
| Non-current assets and investment property | 303 497 |
| **Total assets** | **384 207** |
| | |
| **Liabilities and equity** | |
| Current liabilities | 72 001 |
| Issued bonds | 183 304 |
| Non-current liabilities | 128 502 |
| Share capital | 400 |
| **Total liabilities and equity** | **384 207** |

### Note 13. Property, plant and equipment and intangible assets

| Balance as at 31.12.2004 | Property, plant and equipment | Intangible assets | Total |
|---|---|---|---|
| Cost | 5 518 | 1 081 | 6 599 |
| Accumulated depreciation | -1 697 | -879 | -2 576 |
| **Net book amount** | **3 821** | **202** | **4 023** |
| | | | |
| **Changes occurred in 2005** | | | |
| Purchase of non-current assets | 1 631 | 88 | 1 719 |
| Non-current assets sold at carrying amount | -6 | 0 | -6 |
| Non-current assets written off at carrying amount | -35 | 0 | -35 |
| Depreciation charge | -1 686 | -104 | -1 790 |
| | | | |
| **Balance as at 31.12.2005** | | | |
| Cost | 6 939 | 1 170 | 8 109 |
| Accumulated depreciation | -3 214 | -983 | -4 197 |
| **Net book amount** | **3 725** | **187** | **3 912** |

| Balance as at 31.12.2003 | Property, plant and equipment | Intangible assets | Total |
|---|---|---|---|
| Cost | 4 163 | 1 000 | 5 163 |
| Accumulated depreciation | -2 502 | -809 | -3 310 |
| **Net book amount** | **1 662** | **191** | **1 853** |
| | | | |
| **Changes occurred in 2004** | | | |
| Purchase of property, plant and equipment | 2 754 | 131 | 2 885 |
| Acquired in a business combination | 303 | 0 | 303 |
| Non-current assets sold at carrying amount | -90 | 0 | -90 |
| Non-current assets written off at carrying amount | -60 | -2 | -62 |
| Depreciation charge | -748 | -115 | -863 |
| Exchange rate differences | -3 | 0 | -3 |
| | | | |
| **Balance as at 31.12.2004** | | | |
| Cost | 5 518 | 1 081 | 6 599 |
| Accumulated depreciation | -1 697 | -879 | -2 576 |
| **Net book amount** | **3 821** | **202** | **4 023** |

Information on non-current assets acquired under a finance lease is presented in Note 22.

### Note 14. Borrowings

| | Loan balance 31.12.2005 | Loan balance 31.12.2004 | Interest |
|---|---|---|---|
| Loans from shareholders and companies related to them (Note 21) | 8 500 | 0 | 0% |
| Loans from clients | 80 | 0 | 10% |
| **Total** | **8 580** | **0** | |

The loans are denominated in Estonian kroons. The due dates are presented in Note 32, in tables dealing with liquidity risk.

**Note 15. Issued bonds**

| Liabilities by due dates | 31.12.2005 |
|---|---|
| Incl. up to 1 year | 1 466 |
| between 1 and 5 years | 1 275 |
| over 5 years | 9 052 |
| **Total bonds issued** | **11 793** |

At 19 January 2005, the placement of bonds secured by the finance lease agreements acquired from OÜ Ilmarine Kvartal in the total amount of 18 529 thousand kroons was carried out. The bonds are coupon bonds with the annual coupon rate of 5.8%. The redemption and interest payments of bonds take place on a quarterly basis. The contractual maturities of payments are presented in Note 32. By the time of signing the annual report, the following principal and interest payments have been made:

| Date | Quantity of bonds | Principal payments | Cumulative principal payments | Interest payment | Cumulative interest payments |
|---|---|---|---|---|---|
| 19.04.2005 | 23 875 | 2 388 | 2 388 | 269 | 269 |
| 19.07.2005 | 30 128 | 3 013 | 5 400 | 236 | 505 |
| 19.10.2005 | 13 359 | 1 336 | 6 736 | 190 | 695 |
| 19.01.2006 | 9 491 | 949 | 7 685 | 171 | 866 |
| 19.04.2006 | 22 770 | 2 277 | 9 962 | 157 | 1 023 |

The issued bonds are secured by the finance lease receivables (Note 8). Also, the 100% share in the subsidiary LHV Ilmarise Kinnisvaraportfelli OÜ has been pledged as collateral. The quantee agent and pledge holder is Sampo Pank.

**Note 16. Other liabilities**

| | Note | 31.12.2005 | 31.12.2004 |
|---|---|---|---|
| Payables related to the sale of associate | 12 | 0 | 8 229 |
| Liabilities arising from investment contract | 28 | 3674 | 2 372 |
| Security deposit received from companies related to shareholders | 21 | 1 400 | 0 |
| Other payables to companies related to shareholders | 21 | 3 819 | 0 |
| Other payable to customers | | 5 087 | 2 063 |
| Payables for treasury shares | 20 | 1 382 | 0 |
| Prepayments for preferred shares of AS LHV Financial Advisory Services | | 0 | 8 |
| Other liabilities | | 141 | 0 |
| **Total** | | **15 503** | **12 674** |

**Note 17. Accrued expenses**

| | Note | 31.12.2005 | 31.12.2004 |
|---|---|---|---|
| Supplier payables | | 2 462 | 1 643 |
| Payables to related parties | 21 | 17 | 113 |
| Payables to employees | | 3 073 | 1 558 |
| Other accrued expenses | | 197 | 221 |
| **Total** | | **5 749** | **3 535** |

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Lõhmus Haavel & Viisemann

### Note 18. Tax liabilities

| | Note | 31.12.2005 | 31.12.2004 |
|---|---|---|---|
| Personal income tax | | 305 | 267 |
| Social security tax | | 502 | 438 |
| Unemployment and pension insurance payments | | 42 | 35 |
| Corporate income tax on fringe benefits and gifts | | 5 | 17 |
| Value added tax | | 846 | 798 |
| **Other tax liabilities** | | **1 700** | **1 555** |
| Corporate income tax liability | 29 | 779 | 0 |
| **Total tax liabilities** | | **2 479** | **1 555** |

### Note 19. Litigation provisions

On 1 November 2005, the US Securities Exchange Commission (US SEC) filed a claim accusing the subsidiary AS Lõhmus, Haavel & Viisemann and two of its employees in electronic fraud and illegal profit making. All accounts opened by AS Lõhmus, Haavel & Viisemann were frozen in the USA, whose amounts almost exclusively belonged to the clients of AS Lõhmus, Haavel & Viisemann. Due to close cooperation with the US SEC, the assets of uninvolved investors were unfrozen. The last funds were unfrozen at 29 January 2006. The assets of persons that the US SEC accuses of misusing insider information continue to be frozen. As at 31.12.2005, the claim of AS Lõhmus, Haavel & Viisemann against the broker in the USA amounted to 27 774 thousand kroons (Note 4). The Company expects to reach an out-of-court settlement with the US SEC in the near term. Based on the results of preliminary negotiations, the fine is expected not to exceed 400 thousand US dollars. According to the lawyers, the actual amount of the fine may fall between 150 and 800 thousand US dollars, consisting of the net fee and commission income from suspicious transactions and possible fine. In the 2005 annual report, a provision in the amount of 5 430 thousand kroons has been recognised.

### Note 20. Equity

| | 31.12.2005 | 31.12.2004 |
|---|---|---|
| Share capital (in thousand Estonian kroons) | 28 300 | 28 300 |
| Number of shares (pcs) | 283 000 | 283 000 |
| Nominal value in shares (in kroons) | 100 | 100 |

In 2004, the Group was restructured and at 26.08.2004, the parent company AS LHV Group was set up with the share capital of 28 300 000 kroons Non-monetary contribution to share capital was made by the shares of AS Lõhmus, Haavel& Viisemann belonging to owners. According to the Company's articles of association, the minimum share capital is 15 000 000 and the maximum share capital is 60 000 000 kroons.

In 2005, a total of 13 000 shares were repurchased in the amount of 3 527 thousand kroons and 5 000 shares were sold for 721 thousand kroons. As at 31.12.2005, AS LHV Group had 8 000 treasury shares worth 2 806 thousand kroons, the payable for which amounted to 1 382 thousand kroons (Note 16).

In 2005, dividends in the amount of 9 657 thousand kroons were declared and paid to the shareholders (2004:1 353 thousand kroons). Upon the payment of dividends, from 1 January 2006, the corporate income tax on dividends amounts to 23/77 (until 31. 12.2005: 24/76) of net dividend paid. In accordance with the Commercial Code, it is possible to pay out as dividends that portion of net profit of the group which exceeds the amount of the share capital and the reserves of the parent company. The possible payment of dividends out of retained earnings and the accompanying income tax expense is presented in the following table.

With regard to income tax amounts, no possibility of deducting tax already paid or withheld in a foreign country on the portion of profits to be paid out has been taken into consideration in the calculations provided below.

| | **31.12.2005** | **31.12.2004** |
|---|---|---|
| Consolidated equity attributable to shareholders of the parent company | 76 612 | 53 513 |
| Consolidated retained earnings attributable to shareholders of the parent company | 50 375 | 25 355 |
| **Parent company's reserves** | | |
| Share capital | 28 300 | 28 300 |
| Share premium | 18 159 | 18 159 |
| Statutory reserve capital | 2 648 | 871 |
| Treasury shares | 2 806 | 0 |
| Amount of share capital and reserves of the parent company which should not be distributed as dividends | 51 913 | 47 330 |
| **Retained earnings which can be distributed to shareholders of the parent company** | **24 699** | **6 183** |
| incl. net dividends to owners | 19 018 | 4 699 |
| incl. corporate income tax on dividends | 5 681 | 1 484 |

### Note 19. Transactions with related parties

In preparing the financial statements of AS LHV Group, the following entities have been considered as related parties:

- owners
- associates and subsidiaries which are not subject to consolidation;
- management and supervisory board;
- close relatives of the persons mentioned above and the companies related to them.

| **Movements and balances of loans granted** | **Note** | **2005** | **2004** |
|---|---|---|---|
| Associates and subsidiaries not subject to consolidation | | 12 150 | 0 |
| Shareholders and related companies | | 3 476 | 2 326 |
| **Total loans granted** | | **15 626** | **2 326** |
| Associates and subsidiaries not subject to consolidation | | 12 150 | 0 |
| Shareholders and related companies | | 4 860 | 4 342 |
| **Loan repayments received** | | **17 010** | **4 342** |
| Shareholders and related companies | | 1 964 | 3 347 |
| **Loans granted as at the year-end** | **7** | **1 964** | **3 347** |

| **Movements and balances of loans received** | **Note** | **2005** | **2004** |
|---|---|---|---|
| Shareholders and related companies | | 8 500 | 0 |
| **Loans received** | | **8 500** | **0** |
| Shareholders and related companies | | 0 | 1 280 |
| **Loan repayments received** | | **0** | **1 280** |
| Shareholders and related companies | | 8 500 | 0 |
| **Loans as at the year-end** | **14** | **8 500** | **0** |

| Transactions | Note | 2005 | 2004 |
|---|---|---|---|
| Associates and subsidiaries not subject to consolidation | | 63 | 64 |
| **Total services purchased** | | **63** | **64** |
| Associates and subsidiaries not subject to consolidation | | 18 816 | 8 591 |
| Shareholders and related companies | | 307 | **0** |
| **Total services sold** | | **19 123** | **8 591** |
| Associates and subsidiaries not subject to consolidation | | -20 | 389 |
| **Profit/(loss) from forward contracts** | | **-20** | **389** |
| Shareholders and related companies | | 2 046 | -1 100 |
| **Total other income/(expenses)** | **28** | **2 046** | **-1 100** |

| Other balances | 31.12.2005 | 31.12.2004 |
|---|---|---|
| Associates and subsidiaries not subject to consolidation | 2 622 | 1 178 |
| Shareholders and related companies | 36 | 0 |
| **Receivables as at the year-end** | **2 658** | **1 178** |
| Associates and subsidiaries not subject to consolidation | 17 | 113 |
| Shareholders and related companies | 8 962 | 7 075 |
| **Liabilities as at the year-end** | **8 979** | **7 188** |
| Bonds of associates and subsidiaries not subject to consolidation | 3 440 | 2 113 |
| **Investments as at the year-end** | **3 440** | **2 113** |

AS LHV Group belongs to private persons who as partners are actively engaged in the daily management of the companies. In 2005, remuneration, bonuses and other benefits and compensations (incl. lease payments for cars used for business purposes) with social security and other taxes paid to the partners and other members of the Management Board amounted to 9 508 thousand kroons (2004: 9 634 thousand kroons).

As at 31.12.2005, salaries for December and bonuses to the partners and other members of the Management Board together with social security and other taxes in the amount of 1 344 thousand kroons have been recorded as a liability. At 31.12.2004, this amount was 1 076 thousand kroons. The Company did not have any long-term remuneration payables to the members of the Management Board and the Supervisory Board as at 31.12.2005 and 31.12.2004 (eg. pension liabilities, termination benefits, etc.).

Information about assets of related parties held in custody is presented in Note 23. Information on treasury shares purchased from shareholders is disclosed in Note 20. Balances arising from derivatives with related parties are disclosed in Note 6.

## Note 22. Finance and operating lease

**The Group as the lessee**

The Company leases cars, office space and personal computers under the operating lease terms. All lease agreements are cancellable upon the consent of both parties. The minimum unilaterally non-cancellable lease payable in the next period amounts to 6 976 thousand kroons, the current portion of which amounts to 2 435 thousand and the non-current portion amounts to 4 541 thousand kroons. The minimum amount of lease payments for agreements which are cancellable with a three-month notice is 207 thousand kroons.

| Operating lease payments made | Note | 2005 | 2004 |
|---|---|---|---|
| Office space | | 3 049 | 2 359 |
| Cars | | 726 | 952 |
| Personal computers | | 18 | 0 |
| **Total** | **27** | **3 793** | **3 311** |

**Cars acquired under finance lease terms**

| | 2005 | 2004 |
|---|---|---|
| Cost at beginning of year | 708 | 0 |
| Accumulated depreciation at beginning of the year | -41 | 0 |
| **Net book amount at beginning of year** | **667** | **0** |
| | | |
| **Changes occurred during the year** | | |
| Purchase of fixed assets | 646 | 541 |
| Non-current assets acquired in a business combination | 0 | 167 |
| Depreciation charge | -222 | -41 |
| | | |
| Cost at end of year | 1 355 | 708 |
| Accumulated depreciation at end of the year | -263 | -41 |
| **Net book amount at end of the year** | **1 091** | **667** |

Present value of minimum finance lease payments:

| | 2005 | 2004 |
|---|---|---|
| Current portion up to 1 year | 274 | 180 |
| Non-current portion 1-5 years | 686 | 413 |
| **Total** | **960** | **593** |

Information on the **Group as the lessor** and the Group's finance lease receivables is disclosed in Note 8.

## Note 23. Off-balance sheet assets and liabilities

The Group acts as a custodian and is keeping on its own account or intermediates the following customer assets.

| | 31.12.2005 | 31.12.2004 |
|---|---|---|
| **Clients' cash balances** | **348 908** | **39 633** |
| incl. associates and subsidiaries not subject to consolidation | 10 327 | 1 443 |
| incl. shareholders and related companies | 141 750 | 1 261 |
| | | |
| **Clients' securities** | **1 371 223** | **548 062** |
| incl. associates and subsidiaries not subject to consolidation | 22 334 | 27 828 |
| incl. shareholders and related companies | 75 469 | 27 329 |
| **Total** | **1 720 131** | **587 695** |

### Note 24. Net fee and commission income

| | 2005 | 2004 |
|---|---|---|
| **Fee and commission income** | | |
| Financial advisory services | 30 928 | 27 556 |
| Securities brokerage and intermediation commissions | 31 177 | 12 464 |
| Assets management and similar fees | 23 511 | 9 863 |
| **Total** | **85 616** | **49 883** |
| **Fee and commission expenses** | | |
| Financial advisory and other similar services purchased | -10 801 | -4 595 |
| Securities brokerage and intermediation commissions paid | -2 875 | -2 833 |
| **Total** | **-13 676** | **-7 428** |
| **Net fee and commission income** | **71 940** | **42 455** |

### Note 25. Net interest income

| | 2005 | 2004 |
|---|---|---|
| **Interest income** | | |
| Interest on cash and bank accounts | 1 355 | 453 |
| Interest on finance lease receivables | 960 | 0 |
| Interest on loans and lending of securities | 2 257 | 1 665 |
| **Total** | **4 572** | **2 118** |
| **Interest expenses** | | |
| Interest on issued bonds | -832 | 0 |
| Interest on loans received | -250 | -160 |
| **Total** | **-1 082** | **-160** |
| **Net interest income** | **3 490** | **1 958** |

### Note 26. Profit/loss from securities

| | 2005 | 2004 |
|---|---|---|
| **Net profit/loss from trading** | | |
| Foreign exchange: | | |
| - translation gains less losses | 344 | -565 |
| - transactions gains less losses | 823 | 644 |
| Profit/loss from revaluation and sale of shares and fund units | 163 | 188 |
| **Total** | **1 330** | **267** |
| **Net profit/ loss from investments** | | |
| Profit/loss from revaluation and sale of bonds | 527 | 151 |
| Profit from sale of share option | 637 | 0 |
| Profit/loss from revaluation and sale of shares and fund units | 11 940 | 1 235 |
| **Total** | **13 104** | **1 386** |
| **Dividend income** | | |
| Trading securities | 10 | 36 |
| Investment securities | 418 | 564 |
| **Total** | **428** | **600** |
| **Net profit/loss from securities** | **14 862** | **2 253** |

### Note 27. Operating expenses and impairment of receivables

| | Note | 2005 | 2004 |
|---|---|---|---|
| **Staff costs** | | | |
| Wages, salaries and bonuses | | 15 383 | 8 660 |
| Social security and other taxes | | 4 537 | 3 662 |
| **Total** | | **19 920** | **12 322** |
| Administrative expenses | | 20 308 | 13 101 |
| Depreciation and write-off of non-current assets | 13 | 1 825 | 925 |
| Operating lease payments | 22 | 3 793 | 3 311 |
| Other operating expenses | | 5 572 | 2 177 |
| **Total operating expenses** | | **51 418** | **31 836** |

In 2005, a loan in the amount of 160 thousand kroons was written down and deemed as uncollectible (Note 7). Trade receivables in the amount of 1 161 thousand kroons (2004: 65 thousand kroons) were also written down. There have not been any other movements in 2004 and 2005.

### Note 28. Other income

In 2005, income from the investment contract was recognised in the income statement in the amount of 2 046 thousand kroons and expenses for 2004 in the amount of 1 100 thousand kroons.

In 2001, AS Lõhmus, Haavel & Viisemann concluded a supplementary investment contract with two shareholders for financing the department of investment services and sharing its profits and losses. Under the contract, the shareholders participated both in the department's profits and losses, recognised respectively as an income or expense in the income statement of AS Lõhmus, Haavel & Viisemann. In 2005, the underlying contract was supplemented, according to which an additional investment of AS Lõhmus Holdings and AS Viisemann Holdings in amount of 10.7 million kroons was agreed. Following an additional investment which may be participation in covering the loss of the subsidiary AS Lõhmus, Haavel & Viisemann, waiving receivables or other monetary payment, and fulfilling certain conditions, the parent company has an obligation to transfer a 42.4% holding in AS Lõhmus, Haavel& Viisemann. As at 31.12.2005 2.7 million kroons has to be still invested under this investment contract

As a prepayment for the shares of AS Lõhmus, Haavel & Viisemann, a liability in the amount of 3 674 thousand kroons is recorded in the balance sheet. As at 31.12.2004, liabilities to the shareholders arising from the above investment contract amounted to 2 372 thousand kroons (Notes 16 and 21).

### Note 29. Corporate income tax

**Corporate income tax of companies registered in Estonia**
In accordance with the current legislation, the net profit earned by entities is not taxed in Estonia. Instead, the dividends paid out of retained earnings are subject to the tax at rate of 23/77. Until 31.12.2005, the tax rate was 24/76 and until 31.12.2004, the tax rate was 26/74 of the amount paid out as net dividends.

**Corporate income tax of subsidiaries registered in Latvia and Lithuania**
In accordance with the income tax laws in Latvia and Lithuania, the net profit earned by entities, adjusted for permanent and temporary differences, is taxed at the rate of 15%.

| 2005 | Estonia | Latvia | Lithuania | Total |
|---|---|---|---|---|
| Corporate income tax payable | 3 049 | 18 | 779 | 3 846 |
| Deferred income tax expense | 0 | 8 | 0 | 8 |
| **Total corporate income tax expense** | **3 049** | **26** | **779** | **3 854** |

| Comparison of actual income tax with the income tax expense calculated on the basis of accounting profit | Estonia | Latvia | Lithuania | Total |
|---|---|---|---|---|
| Profit/loss before income tax | 42 002 | 45 | 5 370 | |
| Tax rate | 0% | 15% | 15% | |
| **Theoretical income tax expence** | **0** | **7** | **805** | **812** |
| Income tax on dividends (24/76 of net dividends) | 3 049 | 0 | 0 | |
| Taxable expenses | 0 | 130 | 186 | |
| Non-taxable income | 0 | 0 | -86 | |
| Less losses carried forward | 0 | 0 | -276 | |
| Total permanent differences | 0 | 130 | -177 | |
| **Effect of permanent differences on income tax expense** | **3 049** | **20** | **-27** | **3 042** |
| Temporary differences relating to non-current assets | 0 | -56 | 0 | |
| **Effect on income tax expense arising from temporary differences** | **0** | **-8** | **0** | **-8** |
| **Income tax payable** | **3 049** | **18** | **779** | **3 846** |
| Paid during the year | 3 049 | 18 | 0 | 3 067 |
| **Tax liability as at 31.12.2005** | **0** | **0** | **779** | **779** |

| Deferred income tax relating to non-current assets | | | | |
|---|---|---|---|---|
| Income tax liability as at 31.12.2004 | 0 | 33 | 0 | 33 |
| Income tax liability as at 31.12.2005 | 0 | 41 | 0 | 41 |
| **Deferred income tax expense** | **0** | **8** | **0** | **8** |

| Change in unrecognised deferred income tax asset | Estonia | Latvia | Lithuania | Total |
|---|---|---|---|---|
| **Tax losses brought forward as at 31.12.2004** | 0 | 0 | **276** | **276** |
| Less  tax losses utilised | 0 | 0 | -276 | -276 |
| **Tax losses carried forward as at 31.12.2005** | 0 | 0 | **0** | **0** |

| 2004 | Estonia | Latvia | Lithuania | Total |
|---|---|---|---|---|
| Corporate income tax payable | 475 | 51 | 0 | 526 |
| Deferred income tax | 0 | 33 | 0 | 33 |
| **Total income tax expense** | **475** | **84** | **0** | **559** |

| **Comparison of actual income tax with the income tax expense calculated on the basis of accounting profit** | Estonia | Latvia | Lithuania | **Total** |
|---|---|---|---|---|
| Profit/loss before income tax | 17 454 | 472 | -45 | |
| Tax rate | 0% | 15% | 15% | |
| **Theoretical income tax** | **0** | **71** | **-7** | **64** |
| Income tax on dividends (26/74 on net dividends) | 475 | 0 | 0 | |
| Taxable expenses | 0 | 89 | 607 | |
| Non-taxable income | 0 | 0 | -18 | |
| Less losses carried forward | 0 | 0 | -544 | |
| Total permanent differences | 475 | 89 | 45 | |
| **Effect of permanent differences on income tax expense** | **475** | **13** | **7** | **495** |
| Temporary differences relating to non-current assets | 0 | -218 | 0 | |
| **Effect on income tax expense arising from permanent differences** | **0** | **-33** | **0** | **-33** |
| **Income tax payable** | **475** | **51** | **0** | **526** |
| Paid during the year | 475 | 51 | 0 | 526 |
| **Tax liability as at 31.12.2004** | **0** | **0** | **0** | **0** |

| **Deferred income tax relating to non-current assets** | | | | |
|---|---|---|---|---|
| Income tax liability as at 31.12.2003 | 0 | 0 | 0 | 0 |
| Income tax liability as at 31.12.2004 | 0 | 33 | 0 | 33 |
| **Deferred income tax expense** | **0** | **33** | **0** | **33** |

| **Change in unrecognised deferred income tax asset** | **Estonia** | **Latvia** | **Lithuania** | **Total** |
|---|---|---|---|---|
| **Tax losses brought forward as at 31.12.2003** | **0** | **0** | **3 108** | **3 108** |
| Less tax losses utilised | 0 | 0 | -544 | -544 |
| Tax losses expired | 0 | 0 | -2 288 | -2 288 |
| **Tax losses carried forward as at 31.12.2004** | **0** | **0** | **276** | **276** |

### Note 30. Contingent liabilities

Tax authorities have the right to review the Group's tax records for up to 6 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits in any of the group companies' during 2004-2005. The management believes that there are no any circumstances which may lead the tax authorities to impose significant additional taxes on the group companies.

### Note 31. Fair value of financial assets and liabilities

As at 31.12. 2005 and 31.12. 2004, the carrying amounts of financial assets and liabilities do not significantly differ from their fair values. Respective information is not available for available for sale equity instruments recognised in the investment portfolio and measured at cost.

### Note 32. Risk management

**Risk management policy**

The principles of identification, management and control of risks at the Group are set out in the policies and procedures approved by the Supervisory Board of the parent company AS LHV Group. The goal of risk management is to identify, assess, manage and control all risks related to the activities of the Group in order to ensure its reliability, stability and profitability. The risk management system of the Group is mostly centralised, in order to ensure effective application of risk management principles all over the group companies.

The main risks arising from the activities of the group are:

- credit risk,
- market risk,
- liquidity risk,
- operating risk.

**Credit risk**

Credit risk is the potential loss which would arise from the counterparty's inability to meet is obligations to the Group. In order to hedge credit risk, the operations and financial position of both of its clients as well as business partners are analysed. Credit risk related to margin loans has been hedged through constant monitoring of the value of securities accepted as collateral. The limit of margin is up to 50% of the value of securities accepted as a guarantee. Upon the decreasing of the client's own financing below 35% of total funds (i.e. the value of securities accepted as collateral), the securities are automatically sold by the brokers. The real estate properties leased out under finance lease terms act as collateral for finance lease receivables as the Group holds the title of those properties and therefore no significant credit risk arises. The latter under the assumption that the prices in real estate markets do not fall considerably, as a result of which the price of the real estate property may fall below the amount of the outstanding client receivable.

The Management Board of the parent company is responsible for managing credit risk and the finance department is engaged in control.

**Operating risk**

Operating risk is a potential loss caused by insufficient or non-operating processes, employees and information systems or external factors. The Management Board of the Group is responsible for regular assessment and management of operating risk, which ensures involvement of employees in the process of assessing risks and improves overall risk analysis. When completing transactions, different limits and competence systems are used to minimize potential losses. The principle of duality, according to which an approval by at least two employees independent of each other or the unit are required to carry out the transaction or procedure. The risk manager and the internal auditor of the Group have a directing, helping, controlling and summarising function.

**Market risk**

Market risk arises from trading and investment activities in the markets of interest rate products, foreign exchange markets and stock exchanges. Market risk is a potential loss which may arise from unfavourable changes in foreign exchange rates, prices of securities or interest rates. Foreign exchange risk may arise from acquisition of securities mostly denominated in foreign currencies or foreign currency receivables and liabilities. In order to hedge market risk, conservative limit of the trading portfolio and open foreign currency positions have been set which are monitored by the finance department.

To reduce the interest rate risk, primarily fixed interest rates both for borrowings as well as granted loans are used. In 2005, the fixed interest rate on loans was between 9-12% (2004: 7.5- 12%). The interest on finance lease receivables is between 6- 8%. The interest rates on borrowings were up to 4% (2004: 3%). The average interest rate of issued bonds is 5.8% The floating interest rate of the deposit in Estonian kroons was between 1.4- 2.6% and that of the deposit in USD was up to 3.8%.

The following tables present the market risk derived from the location of assets or customers.

| | 31.12.2005 | 31.12.2004 |
|---|---|---|
| **Cash and bank accounts (by location)** | | |
| Estonia | 20 580 | 14 405 |
| USA | 27 774 | 0 |
| Lithuania | 6 079 | 496 |
| Latvia | 1 729 | 196 |
| Other | 0 | 329 |
| **Total** | **56 162** | **15 426** |

| **Trading portfolio and investment portfolio at fair value through profit or loss** | **31.12.2005** | **31.12.2004** |
|---|---|---|
| **Shares and bonds** | | |
| Estonia | 12 717 | 3 110 |
| Lithuania | 131 | 0 |
| Russia | 0 | 2 338 |
| Europe | 0 | 129 |
| USA | 62 | 2 222 |
| **Total** | **12 910** | **7 799** |
| | | |
| **Fund units (by investment strategy)** | | |
| Europe | 0 | 1 427 |
| Investments with fixed rates of return | 828 | 363 |
| Global and other strategies | 350 | 215 |
| **Total** | **1 178** | **2 005** |

The following tables present the risks arising from open foreign currency positions. Assets and liabilities denominated in foreign currencies have been presented in EEK equivalent in respective columns. Derivatives reported at fair value in the balance sheet have been included within contractual amounts under off-balance sheet assets and liabilities.

**As at 31.12.2005**

| **Assets** | EEK | EUR | LTL | LVL | SEK | USD | Other | **Total** |
|---|---|---|---|---|---|---|---|---|
| Cash and bank | 17 246 | 9 731 | 1 019 | 392 | 0 | 27 774 | 0 | **56 162** |
| Trading portfolio | 341 | 188 | 131 | 0 | 15 | 198 | 11 | **884** |
| Trade receivables | 5 192 | 921 | 391 | 198 | 0 | 26 | 150 | **6 878** |
| Loans to clients | 7 294 | 735 | 4 549 | 106 | 526 | 2 274 | 0 | **15 484** |
| Finance lease receivables | 10 875 | 0 | 0 | 0 | 0 | 0 | 0 | **10 875** |
| Investment portfolio | 12 498 | 6 953 | 544 | 0 | 0 | 234 | 0 | **20 229** |
| Investments in subsidiaries | 800 | 0 | 0 | 0 | 0 | 0 | 0 | **800** |
| Investments in associates | 10 085 | 0 | 0 | 0 | 0 | 0 | 0 | **10 085** |
| Property, plant and equipment and intangible assets | 2 231 | 0 | 1 067 | 614 | 0 | 0 | 0 | **3 912** |
| Other receivables and assets | 2 355 | 0 | 205 | 831 | 0 | 1 322 | 0 | **4 713** |
| **Total assets** | **68 917** | **18 528** | **7 906** | **2 141** | **541** | **31 829** | **161** | **130 022** |
| **Net position of off-balance sheet assets at contractual amounts** | **27 082** | **0** | **0** | **0** | **0** | **0** | **0** | **27 082** |
| **Liabilities** | | | | | | | | |
| Loans received | 8 580 | 0 | 0 | 0 | 0 | 0 | 0 | **8 580** |
| Issued bonds | 11 793 | 0 | 0 | 0 | 0 | 0 | 0 | **11 793** |
| Finance lease liabilities | 0 | 0 | 641 | 319 | 0 | 0 | 0 | **960** |
| Other payables | 10 416 | 5 | 0 | 0 | 0 | 5 082 | 0 | **15 503** |
| Accrued expenses | 3 792 | 153 | 427 | 161 | 0 | 1 216 | 0 | **5 749** |
| Deferred tax liabilities | 0 | 0 | 0 | 41 | 0 | 0 | 0 | **41** |
| Corporate income tax liabilities | 0 | 0 | 779 | 0 | 0 | 0 | 0 | **779** |
| Other tax liabilities | 1 647 | 0 | 53 | 0 | 0 | 0 | 0 | **1 700** |
| Provisions | 0 | 0 | 0 | 0 | 0 | 5 430 | 0 | **5 430** |
| **Total liabilities** | **36 228** | **158** | **1 900** | **521** | **0** | **11 728** | **0** | **50 535** |
| **Net position of off-balance sheet assets at contractual amounts** | **0** | **0** | **5 438** | **0** | **168** | **21 593** | **0** | **27 199** |
| *Equity* | | | | | | | | *79 370* |
| **Open foreign currency position** | **59 771** | **18 370** | **568** | **1 619** | **373** | **-1 493** | **161** | **79 370** |

**As at 31.12.2004**

| **Assets** | EEK | EUR | LTL | LVL | USD | Other | **Total** |
|---|---|---|---|---|---|---|---|
| Cash and bank | 14 396 | 0 | 492 | 196 | 21 | 321 | **15 426** |
| Trading portfolio | 394 | 0 | 0 | 0 | 0 | 0 | **394** |
| Trade receivables | 2 222 | 0 | 203 | 4 146 | 0 | 120 | **6 691** |
| Loans to clients | 3 587 | 485 | 163 | 0 | 4 523 | 0 | **8 758** |
| Investment portfolio | 9 362 | 6 046 | 544 | 0 | 2 425 | 0 | **18 377** |
| Investments in subsidiaries | 842 | 0 | 0 | 0 | 0 | 0 | **842** |
| Investments in associates | 8 510 | 0 | 0 | 0 | 0 | 0 | **8 510** |
| Property, plant and equipment and intangible assets | 2 702 | 0 | 644 | 677 | 0 | 0 | **4 023** |
| Other receivables and assets | 8 707 | 0 | 380 | 532 | 0 | 0 | **9 619** |
| **Total assets** | **50 722** | **6 531** | **2 426** | **5 551** | **6 968** | **441** | **72 639** |
| **Net position of off-balance sheet assets at contractual amounts** | 4 976 | 0 | 0 | 0 | 0 | 0 | **4 976** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Other payables | 10 813 | 485 | 0 | 0 | 1 376 | 0 | **12 674** |
| Finance lease liabilities | 0 | 0 | 123 | 470 | 0 | 0 | **593** |
| Accrued expenses | 1 983 | 332 | 201 | 1 019 | 0 | 0 | **3 535** |
| Deferred tax liabilities | 0 | 0 | 0 | 33 | 0 | 0 | **33** |
| Other tax liabilities | 1 519 | 0 | 36 | 0 | 0 | 0 | **1 555** |
| **Total liabilities** | **14 314** | **817** | **360** | **1 522** | **1 376** | **0** | **18 390** |
| **Net position of off-balance sheet assets at contractual amounts** | 0 | 0 | 0 | 0 | 4 761 | 0 | 4 761 |
| | | | | | | | |
| *Equity* | | | | | | | *54 465* |
| **Open foreign currency position** | **41 384** | **5 714** | **2 066** | **4 029** | **831** | **441** | **54 465** |

**Liquidity risk**

Liquidity risk relates to the solvency of the Group to meet its contractual obligations on time and it arises from differences of due dates of assets and liabilities. The CFO of the Group manages liquidity risk. In order to hedge liquidity risk, a regular monitoring over the probable net positions of receivables and liabilities by maturities is carried out and adequate amount of liquid assets are kept in each time period.

**As at 31.12.2005**

| **Assets** | up to 3 months | 3-12 month | 1-5 years | over 5 years | **Total** |
|---|---|---|---|---|---|
| Cash and bank | 51 571 | 4 591 | 0 | 0 | **56 162** |
| Trading portfolio | 884 | 0 | 0 | 0 | **884** |
| Trade receivables | 6 871 | 7 | 0 | 0 | **6 878** |
| Loans to clients | 12 757 | 2 147 | 580 | 0 | **15 484** |
| Finance lease receivables | 128 | 420 | 1 276 | 9 051 | **10 875** |
| Investment portfolio | 0 | 828 | 19 401 | 0 | **20 229** |
| Investments in subsidiaries | 0 | 0 | 0 | 800 | **800** |
| Investments in associates | 0 | 0 | 0 | 10 085 | **10 085** |
| Property, plant and equipment and intangible assets | 0 | 0 | 3 912 | 0 | **3 912** |
| Other receivables and assets | 504 | 2 118 | 2 085 | 6 | **4 713** |
| **Total assets** | **72 715** | **10 111** | **27 254** | **19 942** | **130 022** |
| | | | | | |
| **Liabilities** | | | | | |
| Derivatives | 117 | 0 | 0 | 0 | **117** |
| Loans received | 8 500 | 80 | 0 | 0 | **8 580** |
| Finance lease liabilities | 28 | 246 | 686 | 0 | **960** |
| Issued bonds | 949 | 517 | 1 276 | 9 051 | **11 793** |
| Other payables | 10 682 | 4 227 | 453 | 141 | **15 503** |
| Accrued expenses | 5 246 | 503 | 0 | 0 | **5 749** |
| Corporate income tax liabilities | 0 | 779 | 0 | 0 | **779** |
| Other tax liabilities | 1 700 | 0 | 0 | 0 | **1 700** |
| Deferred tax liabilities | 0 | 0 | 41 | 0 | **41** |
| Provisions | 0 | 5 430 | 0 | 0 | **5 430** |
| **Total liabilities** | **27 222** | **11 782** | **2 456** | **9 192** | **50 652** |
| | | | | | |
| **Liquidity gap** | **45 493** | **-1 671** | **24 798** | **10 750** | **79 370** |
| *Equity* | | | | | *79 370* |

**As at 31.12.2004**

| **Assets** | up to 3 months | 3-12 month | 1-5 years | over 5 years | **Total** |
|---|---|---|---|---|---|
| Cash and bank | 15 426 | 0 | 0 | 0 | **15 426** |
| Trading portfolio | 394 | 0 | 0 | 0 | **394** |
| Derivatives | 215 | 0 | 0 | 0 | **215** |
| Trade receivables | 6 691 | 0 | 0 | 0 | **6 691** |
| Loans to clients | 1 976 | 6 782 | 0 | 0 | **8 758** |
| Investment portfolio | 0 | 8582 | 9 795 | 0 | **18 377** |
| Investments in subsidiaries | 0 | 0 | 0 | 842 | **842** |
| Investments in associates | 0 | 0 | 0 | 8 510 | **8 510** |
| Property, plant and equipment and intangible assets | 0 | 0 | 4 023 | 0 | **4 023** |
| Other receivables and assets | 176 | 9 120 | 0 | 323 | **9 619** |
| **Total assets** | **24 878** | **24 484** | **13 818** | **9 675** | **72 855** |
| | | | | | |
| **Liabilities** | | | | | |
| Finance lease liabilities | 46 | 135 | 412 | 0 | **593** |
| Other payables | 2 074 | 10 600 | 0 | 0 | **12 674** |
| Accrued expenses | 3 347 | 188 | 0 | 0 | **3 535** |
| Other tax liabilities | 1 555 | 0 | 0 | 0 | **1 555** |
| Deferred tax liabilities | 0 | 0 | 33 | 0 | **33** |
| **Total liabilities** | **7 022** | **10 923** | **445** | **0** | **18 390** |
| | | | | | |
| **Liquidity gap** | **17 856** | **13 561** | **13 373** | **9 675** | **54 465** |
| *Equity* | | | | | *54 465* |

### Note 33. Financial information on the parent company

The parent company AS LHV Group was established at 26.08.2004 in the process of restructuring of the Group. The financial year ended on 31.12.2005 was the first financial year for the parent company. AS LHV Group was registered in the Commercial registry at 21.01.2005.

**Balance sheet of the parent company**

| *(In thousand Estonian kroons)* | **31.12.2005** |
|---|---|
| **Assets** | |
| Cash and bank | 989 |
| Loans to clients | 2 000 |
| Investment portfolio | 18 856 |
| Other receivables and assets | 19 |
| Investments in subsidiaries | 27 860 |
| Investments in associates | 9 320 |
| **Total assets** | **59 044** |
| | |
| **Liabilities** | |
| Loans received | 2 000 |
| Other payables | 3 076 |
| Liabilities relating to Group's restructuring | 0 |
| Accrued expenses | 50 |
| **Total liabilities** | **5 126** |
| | |
| **Equity** | |
| Share capital | 28 300 |
| Share premium | 18 159 |
| Reserves | 871 |
| Retained earnings | 9 394 |
| Treasury shares repurchased | -2 806 |
| **Total equity** | **53 918** |
| | |
| **Total liabilities and equity** | **59 044** |

**Income statement of the parent company**

| *(In thousand Estonian kroons)* | **26.08.2004-31.12.2005** |
|---|---|
| Interest income | 129 |
| Interest expense | -48 |
| **Net interest income** | **81** |
| Net profit/ loss from investments | 12 389 |
| Dividend income | 4 360 |
| **Net profit/loss from securities** | **16 749** |
| Operating expenses | -531 |
| **Operating profit** | **15 922** |
| Profit/ loss from shares of associates | -377 |
| Profit/ loss from shares of subsidiaries | -1 694 |
| **Net profit for the financial year** | **14 228** |

**Cash flow statement of the parent company**

| *(In thousand Estonian kroons)* | **26.08.2004-31.12.2005** |
|---|---|
| **Cash flows from operating and investing activities** | |
| Operating expenses | -377 |
| Interest received | 119 |
| Interest paid | -53 |
| Loans granted | -2 000 |
| Purchase of securities in investment portfolio | -3 476 |
| Sale of securities in investment portfolio | 5 760 |
| Uncollectible amounts from the sale of subsidiary | 42 |
| Dividends received | 4 360 |
| **Total cash flows from operating and investing activities** | **4 375** |
| | |
| **Cash flow from financing activities** | |
| Paid for treasury shares | -2 145 |
| Collected for sale of treasury shares | 721 |
| Loans received | 8 700 |
| Loan repayments received | -6 700 |
| Dividends paid | -3 962 |
| **Total cash flows from financing activities** | **-3 386** |
| | |
| **Total cash flows** | **989** |
| | |
| Cash and cash equivalents at beginning of the period | 0 |
| Cash and cash equivalents at end of the period | 989 |
| **Net increase/decrease in cash and cash equivalents** | **989** |

**Statement of changes in equity**

| *(In thousand Estonian kroons)* | **Share capital** | **Share premium** | **Treasury shares** | **Statutory reserve capital** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|
| Contributions to share capital | 28 300 | 18 159 | 0 | 0 | 0 | 46 459 |
| Net profit for financial year | 0 | 0 | 0 | 0 | 14 228 | 14 228 |
| Transfer to statutory reserve capital | 0 | 0 | 0 | 871 | -871 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | -3 962 | -3 962 |
| Treasury shares repurchased | 0 | 0 | 3 527 | 0 | 0 | 3 527 |
| Treasury shares sold | 0 | 0 | -721 | 0 | 0 | -721 |
| **Balance as at 31.12.2005** | **28 300** | **18 159** | **-2 806** | **871** | **9 394** | **53 918** |
| Carrying amount of holdings under control and significant influences | 0 | 0 | 0 | 0 | -37 180 | **-37 180** |
| Carrying amount of holdings under control and significant influence under equity method | 0 | 0 | 0 | 0 | 59 874 | **59 874** |
| **Adjusted unconsolidated equity at 31.12.2005** | **28 300** | **18 159** | **-2 806** | **871** | **32 088** | **76 612** |

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**AUDITOR'S REPORT**

(Translation of the Estonian original)

To the shareholders of AS LHV Group

We have audited the accompanying consolidated balance sheet of AS LHV Group and its subsidiary companies (the Group) as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements as set out on pages 11 to 49 are the responsibility of the Management Board of AS LHV Group. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

Tiit Raimla
Authorised Auditor

28 June 2006

**Proposal of the distribution of profit**

The Management Board of AS LHV Group proposes to the General Meeting of Shareholders to distribute the net profit of 2005 in the amount of 35 547 thousand kroons as follows:

| | |
|---|---|
| Transfer to statutory reserve capital | 1 959 thousand kroons |
| Distribution of dividends on ordinary shares | 8 067 thousand kroons |
| Transfer to retained earnings | 25 521 thousand kroons |

**Signatures of the Management Board and the Supervisory Board of AS LHV Group to the 2005 annual report**

The Management Board has prepared the management report, the financial statements and the proposal of the distribution of the profit for the year 2005.

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

| | Name | Date | Signature |
|---|---|---|---|
| **Management Board:** | | | |
| Member of the Management Board | Rain Tamm | 29.06.2006 | |
| Member of the Management Board | Karolis Pocius | 29.06.2006 | |
| Member of the Management Board | Tõnno Vähk | 29.06.2006 | |
| **Supervisory Board:** | | | |
| Member of the Supervisory Board | Tõnis Haavel | 29.06.2006 | |
| Member of the Supervisory Board | Andres Viisemann | 29.06.2006 | |
| Member of the Supervisory Board | Tarmo Jüristo | 29.06.2006 | |