AS LHV Group

2006 Annual Report of the Group

(translation of the Estonian original)

Lõhmus Haavel & Viisemann

Annual Report of the Group for 01.01.2006 – 31.12.2006

Business name	AS LHV Group
Commercial Registry no.	11098261
Legal address	Tartu mnt. 2, 10145 Tallinn
Phone	(372) 6800401
Fax	(372) 6800410
E-mail	lhv@lhv.ee
Main activity	Investment banking and securities brokerage
Management Board	Rain Lõhmus
Supervisory Board	Andres Viisemann
	Tiina Mõis
	Tarmo Sild
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT FOR 2006

The most important events for AS LHV Group in 2006 were:

- In september 2006 the general meeting of shareholders approved dividing business lines following an important change in the structure of shareholders. The new shareholders of AS LHV Group are Rain Lõhmus and Andres Viisemann. AS LHV Group handed over to AS GILD Professional Services all shares of AS GILD Financial Advisory Services and AS GILD Latvia that belonged to AS LHV Group; previously AS LHV Group had already sold the shares of UAB Hermis Finansai. The investment portfolio (minor participations) in several unquoted companies was given to AS GILD Holdings. In conclusion of this division the holding company AS LHV Group main assets remained the controlling shareholding 100% in AS Lõhmus Haavel & Viisemann (licenced securities brokerage company) and shareholding of 30.74% in AS LHV Varahaldus (licenced fund managing company).

- Increase of share capital by 12 000 thousand kroons to 40 300 thousand kroons in December, 2006. The new shares were purchased by AS Lõhmus Holdings and Viisemann Holdings OÜ.

- Increase of holding in AS LHV Varahaldus – the new funds received in share capital increase were mostly placed to AS LHV Varahaldus as investment to equity, result of which AS LHV Group and its´ shareholders gained majority holding in the companie´s share capital (but not controlling interest).

These changes also reflected in management of AS LHV Group - the new supervisory board of the company is: Andres Viisemann, Tiina Mõis ning Tarmo Sild. The new member of the Management Board of AS LHV Group is Rain Lõhmus.

The new structure of the concern:

	Relationship	Holding	Country	Areas of activity
AS LHV Group	Parent company		Estonia	Holding
AS Lõhmus, Haavel & Viisemann	Subsidiary	100%	Estonia (offices also in Latvia and Lithuania)	Investment services
LHV Ilmarise Kinnisvaraportfelli OÜ	Subsidiary	100%	Estonia	Real estate transactions and leasing

AS of 31.12.2006 the concern employed 38 people. In the financial year, employee wages and salaries amounted to 9.3 million kroons (2005: 5.5 million kroons). No salary payments were made to the management board members of AS LHV Group.

AS LHV Group has one joint venture – asset management company AS LHV Varahaldus with the holding of 31%.

Pension funds managed by AS LHV Varahaldus	Country	Areas of activity
Pension Fund LHV Global Equities	Estonia	Mandatory pension fund
Pension Fund LHV New Markets	Estonia	Mandatory pension fund
Pension Fund LHV Quality Bonds	Estonia	Mandatory pension fund
Pension Fund LHV Dynamic Bonds	Estonia	Mandatory pension fund
Pension Fund LHV Balanced Strategy	Estonia	Mandatory pension fund
LHV Supplementary Pension Fund	Estonia	Supplementary pension fund

AS Lõhmus, Haavel & Viisemann - business environment and results of operations

The Baltic states were one of the fastest growing regions of Europe and the world throughout the year 2006. Strong economic growth was mostly supported by higher domestic consumption, due to which the fastest appreciation on the stock exchange was experienced by companies exposed to consumer consumption such as Tallinna Kaubamaja, Baltika and PTA. However, fast salary increase due to economic growth exerted negative pressure on production companies, as a result of which the representatives of this sector experienced the biggest declines on the stock exchange.

In 2006, the situation on the US stock exchanges was relatively volatile, where major profit taking occurred in mid-year. Nasdaq experienced the fastest decline, depreciating over 10%. Overall, the indices pulled back by the end of the year –Nasdaq increased over 3%, S&P500 and DJIA over 15%. Optimism was so high that the year 2006 was the first one in 50 years when the S&P index increased in 11 months out of 12.

The trends in the world markets have had a positive effect on the results of operations of AS Lõhmus, Haavel & Viisemann (hereinafter LHV) and the investments of LHV's clients. LHV's net service fee income increased 20% in 2006 as compared to the previous financial year. LHV's clients have also started to use the opportunity of margin purchase, as a result of which the net interest income of LHV increased over 24% as compared to 2005. The market share of LHV in the number of share transactions on the Baltic stock exchanges had increased to 7.5% by the end of 2006.

Many new investors have been gained through LHV's seminars, the financial portal www.lhv.ee and other channels. The total number of LHV's clients increased 22% in 2006 and the number of the users of the financial portal increased 24%. New clients have been gained especially fast in Lithuania, when the number of clients has tripled. LHV's assets under management increased 6%, including the volume of assets of Lithuanian clients which more than doubled.

Financial information *(in thousand kroons):*	**2006**	**2005**	**Growth**
Net service fee income	21 816	17 829	22%
Net interest income	3 285	2 959	11%
Volume of leveraged loans	44 297	11 755	277%

AS LHV Varahaldus - business environment and results of operations

AS LHV Varahaldus is a fund management company. In 2006 the main business activity of the company was to provide fund management services to five mandatory pension funds and one supplementary pension fund. All mandatory pension funds managed by AS LHV Varahaldus achieved undeniably the best investment returns in the whole mandatory funded pension market in Estonia.

In the end of 2006, the total amount of assets under management was 331 million kroons, out of which 310 million kroons was in mandatory pension funds. The biggest and most popular fund is LHV Global Equities Pension Fund, which total assets amounted to 204 million kroons.

Priorities for the year 2007

AS LHV Group activities in 2007 are oriented to finance sector with priorities to develop the existing two major business lines – investment banking and asset management.

The goal of AS Lõhmus, Haavel & Viisemann is to be the most professional internet-based bank in the Baltic states and the most popular financial news portal in Estonia which offers high quality securities intermediation services in international financial markets, personal advisory services and an asset management service to private persons and companies of Estonia, Latvia and Lithuania as well as a brokerage service of the Baltic markets to institutional investors.

AS LHV Varahaldus plans to broaden its activities by starting to offer fund management services also to equity funds. During the first half of the year the company plans to launch two new investment funds; the first fund will invest in the Central- and Eastern European region according to a specific investment strategy, the second fund will invest globally.

CONSOLIDATED FINANCIAL STATEMENTS

Management Board's declaration

The Management Board confirms the correctness and completeness of the consolidated 2006 financial statements of AS LHV Group presented on pages 7-49.

The Management Board confirms that:

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

Management Board		Date	Signature
Charirman of the Management Board	Rain Lõhmus	11.05.2007	....

Consolidated balance sheet

(In thousand Estonian kroons)	Note	31.12.2006	Corrected 31.12.2005
Assets			
Cash and bank	5	14 980	56 162
Derivatives	6	64	0
Other financial assets at fair value through profit or loss	7	278	14 103
Loans to customers	8	44 297	15 750
Receivables from customers	9	1 819	6 905
Finance lease receivables	10	4 582	10 848
Available-for-sale financial assets		0	7 010
Other assets	11	766	4 447
Investments in joint ventures	12	18 164	9 885
Investments in associates	12	0	1 000
Property, plant and equipment and intangible assets	13	607	3 912
Total assets		**85 557**	**130 022**
Liabilities			
Derivatives	6	30	117
Loans received	14	30 218	8 580
Other financial liabilities	15	10 661	19 656
Finance lease liabilities		0	960
Corporate income tax liabilities		0	820
Accrued expenses and other liabilities	16	3 271	7 425
Bonds issued	17	6 426	11 931
Provisions	18	4 880	5 430
Total liabilities		**55 486**	**54 919**
Equity			
Minority interest		0	2 758
Equity attributable to shareholders of the parent company			
Share capital	20	40 300	28 300
Share premium		532	0
Statutory reserve		2 830	871
Currency translation differences		0	-128
(Accumulated deficit) / Retained earnings		-9 308	46 108
Treasury shares		-4 283	-2 806
Total equity attributable to shareholders of the parent company		**30 071**	**72 345**
Total equity		**30 071**	**75 103**
Total liabilities and equity		**85 557**	**130 022**

The notes on pages 13 to 49 are an integral part of these consolidated financial statements.

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Lõhmus Haavel & Viisemann

Consolidated income statement

(In thousand Estonian kroons)

	Note	2006	2005
Fee and commission income	24	27 768	38 453
Fee and commission expense	24	-5 854	-20 624
Net fee and commission income		**21 914**	**17 829**
Interest income	25	4 750	4 114
Interest expense	25	-1 219	-1 074
Net interest income		**3 531**	**3 040**
Net gains less losses from trading	26	1 496	1 327
Net gains less losses from investment securities	26	1 291	12 051
Dividend income	26	83	428
Net gains less losses from securities		**2 870**	**13 806**
Operating expenses	27	-29 117	-28 364
Other operating income	28	2 423	1 770
Operating profit		**1 621**	**8 081**
Share of loss/profit of joint ventures	12	-1 977	217
(Loss) / profit before income tax		**-356**	**8 298**
Income tax expense	29	0	-1 251
(Loss) / profit for the year from continued operations		**-356**	**7 047**
Profit for the year from discontinued operations	19	**23 072**	**28 704**
Total profit for the year		**22 716**	**35 751**

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Consolidated cash flow statement

(In thousand Estonian kroons)

	Note	2006	2005
Cash flows from operating activities			
Fee and commission income received		30 590	40 333
Fee and commission expence		-5 854	-20 765
Operating and other expenses paid		-27 894	-21 573
Finance lease receivables aquired		0	-18 529
Finance lease receivables paid by customers		6 258	7 654
Interest received		4 179	4 151
Interest paid		-558	-170
Settlement of foreign currency forward contracts		-152	-81
Net acquisition/disposal of trading portfolio		415	-642
Change in loans granted		-30 157	-5 155
Change in other liabilities		-7 581	13 731
Change in the stock exchange security deposit		1 204	-1 110
Corporate income tax paid on dividends	29	0	-1 251
Freezing of cash and bank accounts	5	0	-27 774
Released previously frozen bank accounts	5	26 913	0
Cash flows of operating activities from discontinued operations		*7 619*	*21 302*
Net cash generated from / (used in) operating activities		**4 982**	**-9 879**
Cash flows from investing activities			
Non-current assets acquired	13	-381	-318
Purchase of investment securities		0	-3 949
Proceeds from sale of investment securities		828	12 137
Purchase of additional shares in joint ventures	12	-11 414	0
Paid for the acquisition (in 2004) of associates		0	-8 229
Proceeds from sale (in 2004) of associates		0	7 480
Purchase of shares of subsidiaries		-385	0
Sale of shares of subsidiaries		1 800	42
Dividends received from investment securities	26	83	421
Cash flows of investment activities from discontinued operations		*490*	*4 844*
Net cash (used in) / from investing activities		**-8 979**	**12 428**
Cash flows from financing activities			
Share capital increase	20	12 532	0
Treasury shares purchased	20	-2 859	-2 145
Treasury shares sold		0	721
Guarantee payment received		0	141
Issued bonds	17	0	18 529
Redeemed bonds	17	-5 440	-6 736
Loans received		54 546	27 700
Loan repayments		-42 472	-12 100
Intrerest paid		-564	-694
Dividends paid	20	0	-3 962
Cash flows of financing activities from discontinued operations		*-8 543*	*-11 041*
Net cash from financing activities		**7 200**	**10 413**

Total net cash flows from activites of discontinued operations		434	0
Cash and bank of discontinued operations at beginning of the year		-23 500	0
Dividens distributed to Group from discontinued operations		11 310	0
Cash handed out by the Group in the process of de-merger of discontinued operations	19	-5 716	0
Net cash flows of discontinued operations		**-17 472**	**0**
Net increase/decrease in cash and cash equivalents		**-14 269**	**12 962**
Cash and cash equivalents at beginning of the year	5	28 388	15 426
Cash and cash equivalents at end of the year	**5**	**14 119**	**28 388**

The notes on pages 13 to 49 are an integral part of these consolidated financial statements.

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Consolidated statement of changes in shareholders' equity

(In thousand Estonian kroons)

	Share capital	Share premium	Treasury shares	Statutory reserve capital	Currency translation differ-rencies	(Accu-mulated deficit) / Retained earnings	**Total**	Minority interest	**Total**
Balance as of 01.01.2005	**28 300**	**0**	**0**	**0**	**-142**	**25 355**	**53 513**	**952**	**54 465**
Transfer to statutory reserve	0	0	0	871	0	-871	0	0	**0**
Dividends paid (Note 29)	0	0	0	0	0	-9 656	-9 656	0	**-9 656**
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**
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**
Distributions to shareholders (Note 15)	0	0	0	0	0	-2 221	-2 221	0	**-2 221**
Net profit for 2005 from continued operations	0	0	0	0	0	7 047	7 047	0	**7 047**
Net profit for 2005 from discontinued operations (Note 19)	0	0	0	0	0	26 454	26 454	2 250	**28 704**
Total recognized gains in 2005	*0*	*0*	*0*	*0*	*0*	*33 501*	*33 501*	*2 250*	***35 751***
Balance as of 31.12.2005	**28 300**	**0**	**-2 806**	**871**	**-128**	**46 108**	**72 345**	**2 758**	**75 103**
Balance as of 01.01.2006	**28 300**	**0**	**-2 806**	**871**	**-128**	**46 108**	**72 345**	**2 758**	**75 103**
Transfer to statutory reserve	0	0	0	1 959	0	-1 959	0	0	**0**
Share capital increase	12 000	532	0	0	0	0	12 532	0	**12 532**
Treasury shares repurchased	0	0	-1 477	0	0	0	-1 477	0	**-1 477**
Currency translation differences arising from foreign subsidiaries	0	0	0	0	-8	0	-8	0	**-8**
Net loss for 2006 from continued operations	0	0	0	0	0	-356	-356	0	**-356**
Net profit for 2006 from discontinued operations (Note 19)	0	0	0	0	0	23 246	23 246	-174	**23 072**
Total recognized gains in 2006	*0*	*0*	*0*	*0*	*0*	*22 890*	*22 890*	*-174*	***22 716***
Net assets handed out by the Group in the process of de-merger of discontinued operations (Note 19)	0	0	0	0	136	-76 347	-76 211	-2 584	**-78 795**
Balance as of 31.12.2006	**40 300**	**532**	**-4 283**	**2 830**	**0**	**-9 308**	**30 071**	**0**	**30 071**

More detailed information is provided in Note 20.

The notes on pages 13 to 49 are an integral part of these consolidated financial statements.

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Lõhmus Haavel & Viisemann

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General information

AS LHV Group is a holding company which subsidiary company AS Lõhmus, Haavel & Viisemann (LHV) provides investment and securities brokerage services to clients in Estonia, Lavia and Lithuania. Subsidiary of LHV – LHV Ilmarise Kinnisvaraportfelli OÜ – offers real estate transaction and leasing services.

AS LHV Group is a limited liability company incorporated and domiciled in Estonia. The address of its registered office is Tartu mnt. 2, Tallinn.
These group consolidated financial statements were authorised for issue by the Management Board on May, 11, 2007.

Note 2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group for the financial year 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The consolidated financial statements have been prepared under the historical cost convention, exept as disclosed in some of the accounting policies below: "financial assets at fair value through profit or loss" including derivatives, "available-for-sale financial assets".

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented and to all the companies in the Group, unless otherwise stated.

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

The financial year started at 1 January 2006 and ended at 31 December 2006. The financial figures have been presented in thousands of Estonian kroons unless specifically referred differently in specific disclosure.

New International Financial Reporting Standards, amendments to existing standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

Certain new International Financial Reporting Standards, amendments to existing standards and the interpretations of the standards have been published by the time of compiling these consolidated financial statements which became mandatory for the Group's accounting periods beginning on or after 1 January 2007. The overview of these standards and the Group management estimate of the potential impact of applying the new standards and interpretations is given below:

IAS 1 (Amendment) - Presentation of Financial Statements: Capital Disclosures which is effective from 1 January 2007. The standard requires additional disclosures in the financial statements and presents additional requirements for the parent company's capital and capital management.

IFRS 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 these risks). This replaces standard IAS 30, Disclosures in the Financial Statements and Other Financial

Institutions and adds to the requirements in 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 Group´s management is of opinion that the amendments to and interpretations of the following standards do not have a significant effect on the consolidated financial statements of the Group:

IAS 23 (revised) Borrowing costs- is effective from 1 January 2009. Revised standard requires capitalisation of borrowing costs.

IFRS 8 – Operating Segments – effective January 2009.

IFRIC 7 – Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Environments (effective 1 March 2006)

IFRIC 8 – Share-based Compensations as defined in IFRS 2 (effective 1 May 2006)

IFRIC 9 – Reassessment of Embedded Derivatives (effective 1 June 2006)

IFRIC 10 – Interim Financial Reporting and Impairment (effective 1 November 2006)

IFRIC 11 – IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007)

IFRIC 12 – Service Concession Arrangements (effective 1 January 2009).

Standard IFRS 8, IAS 23 (revised) and interpretations IFRIC 10, IFRIC 11 and IFRIC 12 have not yet been endorsed by European Union.

The application of the following new standards, amendments and interpretations effective to the reporting periods beginning on or after 1 January 2006 did not have a material impact on the Group consolidated financial statements or existing accounting policies in the period of initial application:

IAS 19 (amendment) – Employee Benefits

IAS 21 (amendment) – The Effects of Changes in Foreign Exchange Rates

IAS 39 (amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions

IAS 39 (amendment) – Fair Value Option

IAS 39 and IFRS 4 (amendment) – Financial Guarantee Contracts

IFRS 1 (Amendment) – First-time Adoption of International Financial Reporting Standards

IFRS 6 – Exploration for and Evaluation of Mineral Resources

IFRIC 4 – Determining Whether an Arrangement Contains a Lease

IFRIC 5 – Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IFRIC 6 – Liabilities arising from Participating a Specific Market – Waste Electric and Electronic Equipment

Amendments in IAS 19, IAS 21, IFRS 1, new standard of IFRS 6 and interpretations in IFRIC 4, IFRIC 5 and IFRIC 6 are not relevant to the Group's operating activities and therefore have no substantial effect on the Group's accounting policies. Amendments to IAS 39 are relevant to the Group's operating activities, but they did not affect the accounting policies used by the Group that already comply with the requirements established.

2.2 Consolidation

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). The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. According to the purchase method, the identifiable assets and liabilities of the acquired subsidiary are recognised at their fair values at the acquisition date, irrespective of the extent of any minority interest, and the excess of the cost of acquisition over the fair value of the identified net assets of the acquired subsidiary is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net assets acquired at the date of acquisition, reflecting the part of the acquisition cost that was paid for the assets that are not separately identifiable for the balance sheet purposes. Goodwill acquired from acquisition of a subsidiary is recorded in balance sheet as an intangible asset on a separate line. Goodwill is not amortised, but an annual impairment test is performed for goodwill. The impairment test is performed by comparing the carrying amount of the goodwill to its recoverable amount. Goodwill is allocated to cash-generating units for the purpose of impairment testing and the recoverable amount is determined by discounting the expected cash flows of the relevant cash generating unit. An impairment loss is recognized for the amount by which the carrying amount of the goodwill exceeds its recoverable amount.

In the consolidated financial statements, the financial information of all subsidiaries under the control of the parent company 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 as well as unrealised gains on these transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. 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.

Revenues and expenses of the subsidiaries acquired within the financial year are consolidated into the group income statement starting from the date of acquisition to the end of the financial year. Result of operations of subsidiaries disposed of during the year is consolidated into group income statement from the beginning of the financial year until the date of disposal.

Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The 2006 consolidated financial statements include the financial statements of AS LHV Group (parent company) and its subsidiaries AS Lõhmus, Haavel & Viisemann (Estonia – 100% owned) and Ilmarise Kinnisvaraportfelli OÜ (Estonia–100% owned).

Parent company separate financial statements – primary statements presented as additional disclosure to these consolidated financial statements

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27 "Consolidated and Separate Financial Statements".

In the parent separate primary financial statements, disclosed to these consolidated financial statements (see Note 33), the investments into the shares of subsidiaries are accounted for at cost less any impairment recognized.

2.3 Joint ventures

A joint venture is based on a joint ownership and management control according to which two parties carry out their jointly controlled economic activities. The Group's interests in jointly controlled entities are accounted for by equity method. Investments in joint ventures are initially recognised at cost and subsequently adjusted with the changes that have occurred in the venturer's interest in the net assets of the jointly controlled entity after the acquisition. The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the income statement, the venturer accounts for its interest in the operating results, financial income and financial expenses in the jointly controlled entity on a separate line "share of profit/loss from joint venture". Dividends received are adjusted against the carring amount of the investment. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Estonian kroons, which is the parent company´s functional and presentation currency.

(b) Foreign currency transactions and balances

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia (central Bank) prevailing at the dates of the transactions. Monetary assets and liabilities and non-monetary financial assets and liabilities measured at fair value denominated in foreign currencies are translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Gains and losses on translation form monetary assets and liabilities are recorded in the income statement under the line "net profit/loss from trading". Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss as "net profit/loss from investment securities", and other changes in the carrying amount are recognised in fair value reserve in equity. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss on line "net profit/loss from trading". Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2.5 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, that are available for use without any significant restrictions.

2.6 Financial assets

Group classifies its financial assets into the following categories:

- at fair value through profit or loss
- available-for-sale
- loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss include

- financial assets held for trading (incl. derivatives, see note 2.8),
- financial assets designated at fair value through profit or loss at inception

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Regular way purchases and sales of financial investments are recognised on the settlement date in the balance sheet. Financial assets at fair value through profit or loss are initially recognised at fair value net of transaction costs, which is the fair value of the consideration received from or paid for the financial investment. 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 under "net profit/loss from trading".

In case of listed securities (i.e. the securities which have active market), the current purchase (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), the discounted cash flow method or option valuation models are used. As at the year-end, the Company did not carry any such investments in its balance sheet whose valuation would have required the usage of alternative valuation methods.

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

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies
- certain investments, such as debt or equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

In the current reporting period the Group did not designate any financial assets as at fair value through profit or loss at inception.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available for sale financial assets are recorded at fair value plus transaction costs on their settlement date. Subsequently they are carried at fair value. In these extremely rare cases where the assessment of fair value of equity instruments is not reliable, these equity instruments ies will be presented at amortized cost (i.e. original acquisition cost less possible write-downs for impairment). The gains and losses arising from changes in the fair value of available for sale financial assets are recognized directly in equity under "revaluation reserve".

When the financial asset is derecognized the cumulative gain previously recognized in equity on that specific instrument is to the extent reversed from equity and the remaining portion is recognized in income statement under "profit/loss from investment securities".

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized in the balance sheet when the cash is paid to the customer and are initially recognized at fair value plus transaction costs and are derecognized only when they are repaid or written-off, regardless of the fact that part of them may be recognized as costs through providing allowances for loans. After initial recognition, the Group recognises loans and receivables at amortised cost (less principal payments and any potential impairments, if necessary) and calculates interest income on the receivable in subsequent periods using the effective interest rate method.

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

2.7 Impairment of financial assets

The Group assesses at least at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For valuation of loans and receivables several risks are prudently considered. The collection of each specific receivable is assessed on an individual basis, taking into consideration all known information on the solvency of the debtor. The Group assesses whether objective evidence of impairment exists considering such situations as: the buyers' financial difficulties, bankruptcy or inability to fulfil their obligations to the Group. For assessment of loan losses, the probability of collecting the loan and interest payments over the coming periods are considered, as well as discounted present value of estimated collections, discounted at the financial asset's original effective interest rate, and anticipated proceeds from the realization of collateral (if the loan is secured, excluding future credit losses that have not been incurred), which together help to assess the amount of loss incurred of the loan. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. For these assessed incurred loan losses, the relevant allowance has been established. Any impairment losses are charged to the income statement. Doubtful receivables are written down in the balance sheet to the collectible amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. Irrecoverable receivables are removed from the balance sheet against the related allowance for loan impairment.

Interest income on loans is presented on the income statement under "Interest income".

2.8 Derivative financial instruments

Derivative financial instruments (futures, forward, swap and option contracts) are initially recognised in the balance sheet at the fair value net of transaction costs at the settlement date and are subsequently valued at fair value through profit or loss. If derivatives are quoted on an active market, market value is used as a fair value. If not, the valuation techniques are used to find the fair value (alternative similar instruments, cash flow models). Profits and losses from derivatives are recognised as income or expense of the period in the income statement under "net profit/loss from trading". These transactions are booked in balance sheet as assets, if their fair value is positive and as liabilities, if the fair value is negative. The fair values of derivative assets and liabilities recorded in balance sheet are not netted. The Company does not use hedge accounting to account for its derivative financial instruments.

2.9 Finance lease receivables

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are immediately transferred from the Group to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. Receivables arising from finance lease agreements are recognised at the net present value of the minimum lease payments receivable. Each lease payment received from the lessee is allocated between principal payments of the finance lease receivable and financial income. Financial income is allocated over the lease term under the assumption that the lessor's periodic rate of return is constant in respect of the outstanding net investment of the finance lease. In case initial service fees are collected at issuance, these are included into the calculation of effective interest rate and lessor's net investment.

The basis for assessing receivables is the timely fulfilment of contractual obligations, the estimated market price of the leased object and excess collateral, the financial position and trustworthiness of the customer. Impairment of receivables is shown as a negative amount within the respective asset category. Impairment of lease receivables is assessed similarly to the principles described above in note 2.7.

2.10 Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the Group 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. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to operating expenses during the financial period in which they are incurred.

An item of property, plant and equipment is carried in the balance sheet at its cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis. The annual depreciation rate for computers is 33%, for office furniture and for fixtures it is 33% and for improvements of rental space it is the lower of 15% and the lease term. Depreciation is calculated starting from the month of acquisition until the carrying value reaches the residual value of the asset. In case the residual value becomes to be greater than the carrying value of the asset, no further depreciation expense is calculated.

The appropriateness of the assets´ residual values, depreciation methods used and useful lives are reviewed, and adjusted if that has become appropriate, at each balance sheet date. 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 recognising impairment loss in income statement for the period.
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in operating expenses /other income in the income statement for the period.

2.11 Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance and currently comprise of acquired software licences. An intangible asset is initially measured at cost, comprising of its purchase price and any directly attributable expenditure on preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis. The annual amortisation rate for purchased licenses is 33%. At each balance sheet date the appropriateness of amortization rates, methods and residual values are assessed. The Group reviews intangible assets for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use.

2.12 Financial liabilities

All financial liabilities (supplier payables, borrowings, accrued expenses and other borrowings) are initially recognised at fair value which also includes all transaction costs incurred. After initial recognition, financial liabilities are measured at amortised cost using effective interest rate method. Borrowing costs are included to the effective interest rate calculations. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the instrument using effective interest rate. Interest expenses are recorded in the income statement under "Interest expenses".
The amortised cost of long-term liabilities is calculated using the effective interest rate method.

2.13 Issued bonds

Issued bonds are initially recognised at their acquisition cost which is the fair value of the consideration received for the financial liability. The initial cost also includes costs directly related to the issue. After initial recognition, issued bonds are carried at amortised cost using the effective interest rate method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the instrument using effective interest rate. Interest expenses are recorded in the income statement under "Interest expenses”.

2.14 Payables to employees

Payables to employees include vacation pay accrual calculated in accordance with employment contracts and the laws of the Republic of Estonia in force as at the balance sheet date. The liability related to the payment of vacation pay accrual 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.

2.15 Provisions and contingent liabilities

Commitments arising from an obligating event before the balance sheet date that have either a legal or contractual basis or that have arisen from the Company’s current operating practice (legal or constructive obligation) that require the giving up of assets, whose realisation is probable (it is more likely than not that an outflow of resources will be required to settle the obligation) 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 the meeting of the obligation arising from the provision or transfer to the third party. The provision expense and expense from change in carrying value of provisions is included within expenses in the accounting period. Provisions are not set up to cover future losses.
When it is a probable that the provision is expected to realise later than 12 months after the balance sheet date it is recorded at discounted value (present value of expected outflows), unless the discounting effect is immaterial.

The Group has set up 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.

Other potential or existing liabilities whose realisation is less probable than non-realisation or whose accompanying costs cannot be determined reliably, are disclosed in the notes to the financial statements as contingent liabilities. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

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.

2.16 Distinction between short- and long-term financial assets and liabilities

Any financial assets from which the resources are expected to flow to the Group within 12 months are recognised as current assets. Assets with expected inflows also after 12 months period after the balance sheet date are recognised as long-term assets in the part to be received after the 12 months period.

Financial liabilities are classified as current when they are due within twelve months after the balance sheet date or if the Group does not have an unconditional right to defer the payment for later than 12 months after the balance sheet date. Loans 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. Loans that the lender has the right recall at the balance sheet date due to violation of contractual terms are also classified as current.

For all long-term financial assets and liabilities the long-term part is separately disclosed in respetive disclosure to these consolidated financial statements.

2.17 Revenue and expenses

Revenue and expenses are accounted for using the accrual basis of accounting. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Expenses are recognised when the company has committed to the expense and/or received the goods or services, if the latter is earlier.

Fee and commission income (incl. custody and portfolio management fees) are usually recognised on accrual basis when the service has been provided and the Group has a right of claim to the receivable. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Other transaction fee income and other income are recognized on accrual basis at the moment of executing the respective transactions.

Interest income and expense is recognized in income statement for all interest-bearing financial instruments carried at amortized cost using the effective interest rate method. Interest income includes also similar income on interest bearing financial instruments classified at fair value through profit or loss (i.e. traded bonds, derivatives, etc).

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

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

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

Fee and commission expenses are recognised after the service has been provided and the liability has arisen.

2.18 Asset management – fiduciary activities

The Group is engaged in providing 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 included in the balance sheet. Service fees are derived from management of such assets and no associated credit and market risks arise for the Group.

2.19 Finance and operating leases - a group is the lessee

Leases of property, plant and equipment where the Group acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the repayment of a liability and finance charges (interest expense). The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period (effective interest rate method). Tangible non-current assets acquired under finance leases are depreciated similarly to acquired assets over the shorter of the useful life of the asset or the lease term.In the financial year, the Company did not have any finance lease agreements.

Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term. The Group uses mainly operating lease for renting the premises, cars and computer equipment. Rental expense is recognized in income statement as "operating expenses".

2.20 Taxation and 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 net profit, dividends payable out of retained earnings are subject to taxation. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

2.21 Offsetting

Offsetting between financial assets and liabilities are performed only when there is a legal right for it and these amounts are designed to be settled simultaneously or on a net basis.

2.22 Statutory reserve

Statutory reserve 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 the statutory reserve, until reserve reaches one-tenth of share capital. Statutory reserve may be used to cover a loss, or to increase share capital. Payments to shareholders from statutory reserve are not allowed.

2.23 Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geografical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continying operations with comparatives being re-presented.

Note 3. Restatments

3.1 Cash and cash equivalents

In the financial statements of the company for 2005 a part of the frozen bank account balances held by US broker related to SEC investigation (see Note 18) were classified as cash and cash equivalents in the cash flow statement, because by the time of signing the financial statements of the company for 2005, these resources were released and the release was within 3 months period from the balance sheet date of 31.12.2005. The part not released within 3 months from balance sheet date were classified as *cash and bank* in the balance sheet, but were excluded from the cash equivalents for cash flow statement purposes. Considering that these resources subsequently made available within 3 months from the balance sheet date were still not freely available for use by the company as at 31.12.2005, it was not correct to show them as cash and cash equivalents in the cash flow statement in the financial statements of the company for 2005. Therefore these balances have been restated both in the cash flow statement and Note 5. The cash equvalents as at 31.12.2005 have been reduced by 23 183 thousand kroons.

3.2 Liabilities to shareholders

The company AS Lõhmus, Haavel & Viisemann has an investment contract with two shareholders of AS LHV Group (see note 15). In the financial statements of 2005 the contributions by these investors under the investment contract in amount of 3 674 thousand kroons were recognized as liability to shareholders and 2 046 thousand kroons were recognized in the income statement as other revenues. Since according to the contract the essence of these contributions was direct participation in the company as a shareholder and in fulfilment of all terms of the cotract these investors will become direct shareholders of the company, the profit for 2005 has been reduced by 2 046 thousand kroons and this amount presented as liability to shareholders. Additionally contributions under the investment contract from previous periods in amount of 2 221 thousand kroons are shown as contributions to shareholders on a separate line in the statement of changes in shareholders' equity and by this amount increased liabilities to shareholders. The total decrease of equity and increase of liabilities is 4 267 thousand kroons.

3.3 Discontinued operations

The assets and liabilities of discontinued operations as of 31.12.2005 presented in the notes to the financial statements for 31.12.2005 and 30.09.2006. Detailed information of assets and liabilites of discontinued operations is presented in note 19. Information about cash-flows from discontinued operations in is presented in net amounts of operating, investing and financing activities in cash-flow statement. Profit for the year from discontinued operations is presented in total amount on a separate line in income statement.

Note 4. Significant management decisions and estimates

In accordance with IFRS, several financial figures presented in the consolidated financial statements are based on critical accounting estimates and assumptions by the management, which will affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities presented in the financial statements at the balance sheet date and the reported amounts of revenues and expenses for the reporting period during the next financial years. Although these estimates have been made to the best of management's knowledge and their judgement of current events and actions, the actual outcome and the results ultimately may not coincide and may significantly differ from those estimates.

Management's estimates have primarily been applied to:

- recognising impairment losses of loans, receivables and investments (being insignificant in financial year 2006),
- fair valuation of investments using valuation techniques (not relevant for 2006 as all investments have been valued with reference to observable market value);
- determining useful lives of non-current assets (see Note 2.10, 2.11 and 13) and
- assessing provisions and contingent assets / liabilities.

In the current financial year, the most important of them and critical to these consolidated financial statements was the valuation of a provision relating to the court proceedings started by the US Securities and Exchange Commission in 2005. Detailed information on this case is provided in Note 18.

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

Note 5. Cash and bank

	31.12.2006	31.12.2005
Cash and cash equivalents		
Demand deposits	14 119	20 029
Term deposits (up to 3 months)	0	8 218
Money market fund units	0	141
Total cash and cash equivalents	**14 119**	**28 388**
Other receivables from financial institutions (Note 18)	861	27 774
Total cash and bank	**14 980**	**56 162**

The interest rate of term deposits was between 2.2% – 2.35% in 2005.

Note 6. Derivatives

	Receivable / liability (fair value)	Contingent assets (contract amount)	Commitments (contract amount)
As at 31.12.2006			
Foreign currency forward contracts (USD)	64	2 440	2 376
Foreign currency forward contracts (SEK)	-30	2 218	2 248
Total derivatives	**34**	**4 658**	**4 624**
As at 31.12.2005			
Foreign currency forward contracts (SEK, USD, LTL)	-117	27 082	27 199
Total derivatives	**-117**	**27 082**	**27 199**

The foreign currency forward contracts of AS LHV have been concluded in US dollars and Swedish kroons in order to hedge the foreign currency risk of fixed loans, receivables and securities. The due dates of contracts are between 2 and 5 months after the balance sheet date (2005: 1-4 months; US dollars, Lithuanian litas and Swedish kroons).

Note 7. Other financial assets at fair value through profit or loss

	31.12.2006	31.12.2005
Shares held for trading	54	534
Fund shares held for trading	224	350
Fund shares designated at fair value at inception *	0	13 219
Total financial assets	**278**	**14 103**

* all investments previously classified as „designated at fair value through profit or loss at inception" were disposed of in 2006. Respective gains/losses are stated in Note 26. No transfers to any other classes of investments.

Note 8. Loans to customers

Borrower	**Loan balance 31.12.2006**	**Loan balance 31.12.2005**	**Due date**	**Nominal interest rate**
Loans to companies	30 775	12 450	Note 32	6,5%-11,25%
incl. related parties (Note 21)	*0*	*1 964*	*Note 32*	*4,7%*
Loans to private persons	13 573	3 460	Note 32	6,5%-11,25%
Allowances for loans	-51	-160		
Total loans	**44 297**	**15 750**		

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According to regions:	31.12.2006	31.12.2005
Estonia	14 733	11 048
Lithuania	29 564	4 702
Total loans	**44 297**	**15 750**

Distribution of loans to customers by currency is presented in Note 32.

Nominal interest for most of the loans granted is equal to their effective interest rates as there have been no significant other fees received at issuance and the market rate of interest for similar loans has not changed significantly since issue of the loans. Interest rates used by the Group for loans in different currencies as of 31.12.2006:

EEK	9,75%	LVL	10,50%	GBP	11,25%
EUR	9,75%	HRK	10,75%	SEK	8,75%
LTL	9,25%	USD	11,25%	JPY	6,50%

Note 9. Receivables from customers

	31.12.2006	31.12.2005
Securities brokerage fees from intermediaries	1 070	230
Asset management fees from clients	310	51
Other fees for providing services to customers	439	6 624
incl. related parties (Note 21)	*0*	*204*
Total	**1 819**	**6 905**

All fees are receivable within 12 months of the balance sheet date, and therefore should be considered current assets.

Note 10. Finance lease receivables

	31.12.2006	31.12.2005
Net investment by due dates		
Up to 1 year	161	570
Between 1 and 5 years	676	1 265
Over 5 years	3 745	9 013
Total net investment	**4 582**	**10 848**
Future interest income by due dates		
Up to 1 year	284	735
Between 1 and 5 years	1 039	2 380
Over 5 years	1 998	5 183
Total future interest income	**3 321**	**8 298**
Grossinvestment by due dates		
Up to 1 year	445	1 305
Between 1 and 5 years	1 715	3 645
Over 5 years	5 743	14 196
Total gross investment	**7 903**	**19 146**

At 21.01.2005, a subsidiary to the Group, LHV Ilmarise Kinnisvaraportfelli OÜ acquired from a third party OÜ Ilmarise Kvartal the portfolio of lease receivables arising from finance lease agreements against finance lessees concerning finance lease payments in the amount of 18 529 thousand kroons (principal payments according to contracts). The underlying currency of finance lease agreements is the Estonian kroon. The annual interest rate on the finance lease agreement is between 6% and

8%. Interest rate is fixed. In addition OÜ ilmarise Kvartal made an irrevocable payment of 141 thousand kroons to cover the credit risks associated with these lease receivables and the clients in these lease contracts. This is effectively accounted for as part of the acquisition cost of these lease receivables and deducted from the payment to reach the effective interest rate for these lease receivables. The average effective interest rate of the portfolio is 6,3%. (See for interest income Note 25.)

These lease contracts are on leasing of apartments by the lessees and upon payment of all lease payments according to the contract the lessees will become owners of these apartments. They additionally have right upon early payment of the full amount of net investment of the lease contract to acquire the apartment before the end of the lease term. In 2006 ownerships of 8 apartments were transferred (purchased out by lessees) for the total amount of 5 827 thousand kroons and additionally principal payments were made for the apartments not yet transferred in the amount of 432 thousand kroons. In 2005 ownerships of 8 apartments were transferred for the total amount of 6 287 thousand kroons and principal payments were made in the amount of 1 367 thousand kroons.

All finance lease receivables have been pledged to secure issued bonds. AS Sampo Pank acts as a guarantee agent and custodian of pledged assets. See Note 17.

Note 11. Other assets

	31.12.2006	31.12.2005
Guarantee deposits of Baltic stock exchanges	229	1 433
Prepayments to lawyers in USA	71	1 322
Prepayments to financial supervision authority	172	196
Prepaid taxes	0	687
Other prepayments *	294	809
Total	**766**	**4 447**

* Prepayments are for office rent, insurance, periodic newspapers.

Prepayments are expected to be received or used within 12 months of the balance sheet date, and therefore should be considered current assets. Guarantee deposits at the Baltic Stock Exchanges are held to guarantee securities trading activity in Tallinn, Riga and Vilnius stock exchanges, and should therefore be considered as long-term asset. Decrease in guarantee deposits has been caused by change in Tallinn stock exchange regulations.

Note 12. Joint Ventures

AS of 31.12.2006 AS LHV Group has one holding in joint venture – **AS LHV Varahaldus**.

AS LHV Varahaldus has been accounted for as joint venture based on the shareholders agreement which effecitvely regulates the jonit control by all shareholders.

Ownership % at beginning of 2005	21,58%
Book value at beginning of 2005	8 510
Profit from equity method	217
Ownership % at end of 2005	21,58%
Book value at end of 2005	**8 727**
Ownership % at beginning of 2006	21,58%
Book value at beginning of 2006	8 727
Acquisition cost of holding obtained	11 414
Loss from equity method	-1 977
Ownership % at end of 2006	30,74%
Book value at end of 2006	**18 164**

At the end of 2006 there was share capital increse of AS LHV Varahaldus by issuing new shares, according to which AS LHV Group purchased shares for 7 439 thousand kroons and increased its participation by 4,96%. Additionally AS LHV Group obtained participation of 4,20% by purchase of shares from AS Seesam Elukindlustus for 3 975 thousand kroons. By these transactions ownership of the Group increased from 21,58% to 30,74%. Goodwill arose in the acquisition proces of AS LHV Varahaldus shares in amount of 2 243 thousand kroons.

As of 31.12.2006, an impairment test for goodwill was performed. Cash generating unit for goodwill is considered AS LHV Varahaldus. Calculation of value in use is based on the following assumptions:

1) 2007- 2013 cash flow projections are based on the business plan approved by the Management Board, where the annual average growth rate of 8% for revenue and 10% for expenses;
2) cash flow discount rate used is 7%;
3) key assumption are based on the past experience.

According to impairment test the recoverable value exceeds substantially carrying value of goodwill, therefore no impairment has been identified.

Purchase analysis

15.12.2006 purchase of AS LHV Varahaldus shares at nominal value 10 kroons per share

	30.11.2006	Increase of share capital	Fair value after increase of share capital
Cash and bank accounts	5 089		5 089
Receivables	544		544
Financial investments	30 101		30 101
Non-current assets	1 235		1 235
Liabilites	2 973		2 973
Equity	33 996	20 000	53 996
	21,58%		26,54%
Ownership	7 336		14 329
Net assets aquired			6 993
Cost			**7 439**
Goodwill			446

28.12.2006 purchase of AS LHV Varahaldus shares from Seesam Elukindlustus at 15 kroons per share	31.12.2006
Cash and bank accounts	19 157
Receivables	5 827
Financial investments	30 930
Non-current assets	1 233
Liabilites	5 359
Equity	51 788
Ownership aquired	4,20%
Net assets aquired	2 178
Cost	**3 975**
Goodwill	1 797

Financial information	31.12.2006	31.12.2005
Assets	57 147	41 257
Liabilities	5 359	814
Equity	51 788	40 442
Income	6 026	11 018
Net profit/loss for the financial year	-6 154	1 006

Joint ventures and associates as at 31.12.2005 disposed during the de-merger process:

Joint venture

AS GILD 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.

	PAM
% of holding acquired in 2005	50%
Acquisition cost of holding obtained	20
Profit from equity method	1 138
Ownership % at end of 2005	50%
Book value at end of 2005	**1 158**

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

Associates	EE REIT	GILD Arbitrage	GILD Global Opportunity	Total associates
Ownership % at end of 2004	0%	100%	100%	
Book value at end of 2004	**0**	**400**	**400**	**800**
% of holding aquired in 2005	50%	-	-	
Acquisition cost of holding obtained in 2005	200	0	0	200
Ownership % at end of 2005	50%	100%	100%	
Book value at end of 2005	**200**	**400**	**400**	**1 000**

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 Investment Trust 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 Investment Trust as a company neither earns any profits nor incurs any losses. In accordance with the investment advisory contract entered into between AS GILD Property Asset Management and AS Eastern Europe Real Estate Investment Trust, 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**

AS GILD Arbitrage

AS GILD 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 GILD Arbitrage equals at any given time the value of net assets of AS GILD 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 GILD Arbitrage as a company neither earns any profits nor incurs any losses. In accordance with the asset management contract entered into between AS GILD Financial Advisory Services (GILD FAS) and AS GILD Arbitrage, the latter pays a monthly management fee to AS GILD 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**
Cash and bank	4 877
Loans and other receivables	131 980
Short and long-term financial investments	105 141
Investment property	41 632
Total assets	**283 630**
Issued bonds	131 626
Other liabilities	151 604
Share capital	400
Total liabilities and equity	**283 630**

AS GILD Global Opportunity

AS GILD 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 GILD Global Opportunity equals at any given time the value of net assets of AS GILD 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 GILD Global Opportunity as a company neither earns any profits nor incurs any losses. In accordance with the asset management contract entered into between GILD FAS and AS GILD Global Opportunity, the latter pays a monthly management fee to GILD 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**
Cash and bank	6 930
Shares and other securities	95 355
Other investments and receivables	120 270
Total assets	**222 555**
Issued bonds	209 953
Other liabilities	12 202
Share capital	400
Total liabilities and equity	**222 555**

Note 13. Property, plant and equipment and intangible assets

	Property, plant and equipment	**Intangible assets**	**Total**
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**
Changes occurred in 2006			
Purchase of property, plant and equipment	336	45	381
Depreciation charge	-828	-36	-864
Property, plant and equipment of discontinued operations	-2 681	-141	-2 822
Balance as at 31.12.2006			
Cost	3 040	441	3 481
Accumulated depreciation	-2 488	-386	-2 874
Net book amount	**552**	**55**	**607**

During the financial year PPE with acquisition cost of 186 th kroons and intangible assets with acquisition cost of 445 th kroons were disposed of. The carrying value of the disposed assets was nil. No profit or loss was recognised on disposal.

No indications of impairment of PPE or intangible assets has been recognised in 2006 or 2005.

	Property, plant and equipment	Intangible assets	Total
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**
Changes occurred in 2005			
Purchase of property, plant and equipment	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**

Note 14. Loans received

	Loan balance 31.12.2006	Loan balance 31.12.2005	Nominal interest
Loans from group companies (Note 21)	4 295	7 552	3-5%
Loans from shareholders and companies related to them (Note 21)	981	8 500	0-5%
Loans from financial institutions	4 862	0	6,25%
Other loans	20 080	0	5-7%
Total	**30 218**	**16 052**	

The loans received are denominated in Estonian kroons and Euros. The due dates are presented in Note 32, in tables summarising liquidity risks, and foreign currency positions in page 42.

Nominal interest for most of the loans is equal to their effective interest rates as there have been no significant other fees paid and the market rate of interest for similar loans has not changed significantly during the loan period. The loans from the shareholders received at 0% of interest at the end of 2005 amounted to 8 500 th kroons and were paid back 03.02.2006. Since it was a short-term liquidity loan, the discounting effect to the consolidated financial statement was not material.

Note 15. Other financial liabilities

	31.12.2006	31.12.2005
Call option to the shareholders (Note 21)	10 661	7 941
Quarantee deposit received from companies related to shareholders (Note 21)	0	1 432
Other payables to companies related to shareholders (Note 21)	0	3 819
Other payables to customers	0	5 082
Payables for treasury shares (Note 20)	0	1 382
Total	**10 661**	**19 656**

Call option to the shareholders of the Group:

In 2001, AS LHV, subsidiary of the Group, concluded a supplementary investment contract with two shareholders of the parent company LHV Group for financing the department of investment services and sharing its losses and profits. Under this contract, the shareholders participated both in the department's profits and losses, whereby the payments were recognised as contribution to the owner´s equity of AS Lõhmus, Haavel & Viisemann.

At the end of 2005, this contract was supplemented, according to which the additional investment of AS Lõhmus Holdings and AS Viisemann Holdings was agreed in the amount of 10 661 thousand kroons, which is recognized as liability of the Group as of 31.12.2006 [31.12.2005: 7 941]. Upon reaching certain conditions, the parent company AS LHV Group has an obligation to transfer a 42.4% ownership in AS Lõhmus, Haavel & Viisemann to the above mentioned companies which are controlled by the shareholders of LHV Group. Some of the conditions are not fulfilled and it is not certain if and when these will be fulfilled. Therefore the disposal of shareholding is not recognised and the call option written is recorded as a liability in the current consolidated financial statements.

Note 16. Accrued expenses and other liabilities

	31.12.2006	**31.12.2005**
Supplier payables	690	2 652
Payables to employees	1 430	3 073
Tax liabilities	1 151	1 700
incl. personal income tax (withholdings)	*409*	*305*
social security tax (expense of the company)	*640*	*502*
unemployment and pension insurance payments (withholdings)	*45*	*42*
corporate income tax on fringe benefits	*14*	*5*
value added tax	*43*	*846*
Total	**3 271**	**7 425**

Supplier payables are expected to be paid within 12 months of the balance sheet date, and therefore should be considered current liabilities. Payables to employees consist of unpaid salaries for the accounting period, bonus accruals and vacation pay accrual.

Tax liabilities on salaries and VAT payable are recognized as other liablilities in the balance sheet. All tax liabilities are expected to be paid within 12 months of the balance sheet date, and therefore should be considered current liabilities.

Note 17. Bonds issued

Maturities of liabilities	**31.12.2006**	**31.12.2005**
Up to 1 year	1 957	1 603
Between 1 and 5 years	683	1 276
Over 5 years	3 786	9 052
Total issued bonds	**6 426**	**11 931**

At 19 January 2005, AS LHV carried out a placement of securitised bonds backed with finance lease agreements in the amount of 18 529 thousand kroons, disclosed in Note 10.

Bonds carry a coupon of 5.8% per annum, which is also considered to be the effective interest rate of these bonds. The redemption payments of bonds and the interest payments to bond holders take place on a quarterly basis in the month following the end of the quarter.

By the time of signing the Annual Report, the following principal and interest payments have been made to bond holders:

Date	Number of bonds	Amount of principal payment	Cumulative principal payment	Amount of interest payment	Cumulative interest payment
19.04.2005	23 875	2 387	2 387	269	269
19.07.2005	30 128	3 013	5 400	236	505
19.10.2005	13 359	1 336	6 736	190	695
Total redeemed in 2005	**67 362**	**6 736**	**6 736**	**695**	**695**
19.01.2006	9 491	949	7 685	171	866
19.04.2006	22 767	2 277	9 962	157	1 023
19.07.2006	8 558	856	10 818	124	1 147
19.10.2006	13 586	1 359	12 177	112	1 259
Total redeemed in 2006	**54 402**	**5 440**	**12 176**	**564**	**1 259**
19.01.2007	17 435	1 743	13 920	92	1 351
Total	**139 199**	**13 920**	**13 920**	**1 351**	**1 351**

Note 18. Litigation provisions

At 1 November 2005, the US Securities and Exchange Commission (US SEC) filed a court action charging AS LHV and two of its employees with electronic fraud and illegal profit making. All accounts opened in the USA under the name of AS LHV, which contained almost exclusively the funds of LHV customers, were frozen. At 8 November 2005, a preliminary agreement was reached with the US SEC and the case was continued to be resolved outside the court. Due to close cooperation with the US SEC, the assets of uninvolved investors were all unfrozen by 29 January 2006 (in total of 23 183 thousand kroons). Assets belonging to the persons that the US SEC suspects may have misused insider information continue to be frozen. As at 31.12.2005, the claim of AS LHV against a broker in the USA amounted to 27 774 thousand kroons (Note 5). In 2006, most of the frozen LHV own accounts were released. As at 31.12.2006 the claim of AS LHV against the broker amounted to 861 thousand kroons (Note 5).

Based on the results of preliminary negotiations, the fine is expected not to exceed 400 thousand US dollars. Based on judgements of the lawyers used by the Group in USA to handle the case, the settlement amount may remain between 150 to 800 thousand US dollars which will consist net fee and commission income from the deals under suspicion and potential fine. A provision has been set up approximately 400 thousand USD in the financial statements for 2005. As at 31.12.2006 the provision has been revaluated according to Estonain bank foreign exchange rate to 4 880 thousand Estonian kroons [31.12.2005: 5 430 thousand Estonian kroons].

As the negotiations with US SEC are developing faster now, there will probably be a result soon. Yet by the time of signing these consolidated financial statements is still early to say what the resolution will be. Therefore the provision remains the best estimate of possible cash outflow.

Note 19. Assets and liabilities of discontinued operations

Assets	30.09.2006	31.12.2005
Cash and bank accounts	20 738	23 501
Loans to clients	0	9 367
Receivables from clients	4 682	6 552
Available-for-sale financial assets	0	544
Other assets	0	1 211
Investments in joint ventures	4 737	1 158
Investments in associates	1 000	1 000
Tangible and non-tangible assets	1 540	2 822
Total assets	**32 697**	**46 155**
Liabilities		
Loans received	0	80
Other financial liabilities	0	5
Finance lease liabilities	0	960
Accrued expenses	2 370	4 537
Deferred tax liabilities	0	41
Total liabilities	**2 370**	**5 623**
Revenues	42 186	58 626
Expenses	-19 114	-29 922
Profit from discontinued operations	**23 072**	**28 704**

In september 2006 the general meeting of shareholders approved dividing the Group in two different business lines. AS LHV Group handed over to a new company AS GILD Professional Services all shares of AS GILD Financial Advisory Services (100% owned) and AS GILD Latvia (100% owned). Also cash from AS LHV Group bank accounts in amount of 5 716 thousand kroons and loans to clients in amount 2 057 thousand kroons were handed over to AS GILD Professional Services. Availabe-for-sale financial assets were given to AS GILD Holdings.

Assets handed out by the Group in the process of de-merger	2006
Bank accounts	5 716
Loans to clients	2 057
Available-for-sale financial assets	20 187
Investments in subsidiaries	7 580
Net assets handed out in the process of de-merger	**35 461**
Retained earnings	43 334
Total assets handed out in the process of de-merger	**78 795**

Note 20. Equity

The ultimate controlling party of AS LHV Group is Rain Lõhmus with a share of 57% in the voting rights. Significant influence is exercised by Andres Viisemann with a share of 43% in the voting rights of LHV Group as at 31.12.2006.

The ultimate controlling party of the Group has changed in 2006. As at 31.12.2005 there was no ultimate controlling party as AS LHV Group was severally owned by 11 different investors with no one able to control or exercise significant influence over the Group.

	31.12.2006	31.12.2005
Share capital *(in thousand Estonian kroons)*	40 300	28 300
Number of shares	403 000	283 000
Par value of a share *(in kroons)*	10	10

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. The contribution to share capital was non-monetary with the shares of AS LHV 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 of which 2 145 thousand kroons was paid in cash and 1 382 tohusand kroons was payable in 2006 final price depending on AS LHV Group NAV in certain period of 2006. 5 000 shares were sold for 721 thousand kroons. As at 31.12.2005 LHV Group had 8 000 treasury shares worth 2 806 thousand kroons, the payable for which amounted to 1 382 thousand kroons (Note 15). In 2006 total of 5 000 shares were repurchased in the amount of 1 263 thousand kroons. Also payable for treasury shares repurchased in 2005 was paid in cash consideration of 1 596 thousand kroons (price changed from 1 382 to 1 596 touhsand kroons due to changes in NAV).
As at 31.12.2006, AS LHV Group had 13 000 treasury shares worth 4 283 thousand kroons.

At the end of 2006 increase of share capital was carried out and the new share capital is 40 300 thousand kroons. Increase of share capital was registered in business register at 19.03.2007. 120 000 new shares at par value of 100 kroons was issued. Shares were issued at 104.43 per/share. In total 12 532 thousand kroons was paid in cash.

In 2005, dividends form continuing operations were declared and paid to the shareholders in the amount of 3 962 thousand kroons and from discontinued operations in amount of 5 695 thousand kroons. In 2006 no dividend payments were made from continuing operations. From discontinued operations 11 310 thousand kroons were paid to holders of common shares and 8 543 thousand kroons were paid to the holders of preference shares (Note 29).

Upon the payment of dividends, from 1 January 2007, the corporate income tax on dividends amounts to 22/78 (until 31. 12.2006: 23/77) of net dividend paid. In accordance with the Commercial Code, it is possible to pay out that portion of net profit as dividends which exceeds the amount of the share capital of the parent company and the reserves. No dividend payments can be made from results of 2006.

Note 21. Transactions with related parties

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

- owners (parent company and owners of the parent company);
- undertakings in the consolidation group (incl. fellow subsidiaries and associates);
- management and supervisory board members;
- close relatives of the persons mentioned above and the companies related to them;
- upto the demerger of LHV Group, the related parties were considered also the other owners of the LHV Group and all the entities that belonged to the consolidation group of LHV Group, now demerged to GILD Group and GILD Holding. Transactions with these entities entered into before the demerger have also been disclosed here as transactions with related parties.

Balances of loans	31.12.2006	31.12.2005
Shareholders and related companies	0	1 964
Loans granted as at the year-end (Note 8)	**0**	**1 964**
Group companies	4 295	0
Shareholders and the related companies	981	8 500
Loans received as at the year-end (Note 14)	**5 276**	**8 500**

Transactions	2006	2005
Interest revenues from related parties (Note 25)	2	30
Interest expenses to related parties (Note 25)	182	159
Net interest income/expense	**-180**	**-129**
Shareholders and related companies	550	1 434
Former group companies	0	633
Total fee and commission income (Note 24)	**550**	**2 067**
Former group companies	180	8 324
Total fee and commission expense (Note 24)	**180**	**8 324**
Former group companies	739	677
Total operating expenses (Note 27)	**739**	**677**
Group companies	700	481
Former group companies	1 004	881
Total other income (Note 28)	**1 704**	**1 362**
Former group companies	340	-20
Profit/(loss) from forward transactions	**340**	**-20**

Other balances	31.12.2006	31.12.2005
Group companies	0	168
Shareholders and related companies	0	36
Receivables as at the year-end (Note 9)	**0**	**204**
Shareholders and related companies	0	5 251
Call option to the shareholders	10 661	7 941
Liabilities as at the year-end (Note 15)	**10 661**	**13 192**

AS LHV Group belongs to private persons who as partners are actively engaged in the daily management of the companies. In 2006, salaries and other compensations paid to the key management of the group totalled 786 thousand kroons [2005: 1 532 thousand kroons]. As at 31.12.2006, remuneration for December and accrued holiday pay in the amount of 87 thousand kroons has been reported as a payable to the management [as at 31.12.2005: 20 thousand kroons] within balance of payable to emploees (Note 16). The Company did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31.12.2006 and 31.12.2005 (such as pension liabilities, termination benefits, etc.).

Information on assets of related parties held by the Company as an account manager is presented in Note 23.

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Note 22. Finance and operating lease

The Company leases cars, office space and 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 3 679 thousand kroons [2005: 3 229 thousand kroons], the current portion of which amounts to 1 149 thousand [2005: 1 204 thousand kroons] and the non-current portion amounts to 2 530 thousand kroons [2005: 2 025 thousand kroons].

Operating lease payments recognised in operating expense:	**2006**	**2005**
Office space	1 484	1 547
Cars	123	201
Computers	45	18
Total (Note 27)	**1 652**	**1 766**

Note 23. Contingencies and commitments

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

	31.12.2006	**31.12.2005**
Cash balance of customers	**225 423**	**347 749**
incl. associates	0	10 835
incl. shareholders and related companies	266	141 750
Securities of customers	**1 589 233**	**1 356 757**
incl. associates	8 682	20 350
incl. shareholders and related companies	68 174	75 469
Total	**1 814 656**	**1 704 506**

Management fees for the management of these assets has been in the range of 0,015 - 0,025 % (See respective income in Note 24).

Note 24. Net fee and commission income

	2006	**2005**
Fee and commission income		
Financial advisory services	2 120	4 021
Securities brokerage and commissions	21 489	28 600
incl. related companies (Note 21)	*530*	*1 773*
Assets management and similar fees	4 159	5 832
incl. related companies (Note 21)	*20*	*294*
Total	**27 768**	**38 453**
Fee and commission expense		
Financial advisory and other similar services purchased	-1 365	-13 679
incl. related companies (Note 21)	*-180*	*-8 324*
Securities brokerage and commissions paid	-4 489	-6 945
Total	**-5 854**	**-20 624**
Net fee and commission income	**21 914**	**17 829**

Note 25. Net interest income

	2006	2005
Interest income from		
Cash and bank accounts	1 097	1 175
Fixed income securities	49	8
Finance lease (Note 10)	552	960
Margin loans and lending of securities (Note 8)	2 662	1 242
Loans (Note 8)	390	729
incl. loans to related parties (Note 21)	*2*	*30*
Total	**4 750**	**4 114**
Interest expense		
Bonds issued (Note 17)	-500	-832
Loans received (Note 14)	-719	-242
incl. loans from related parties (Note 21)	*- 182*	*- 159*
Total	**-1 219**	**-1 074**
Net interest income	**3 531**	**3 040**

Note 26. Profit/loss from securities

	2006	2005
Net profit/loss from trading		
Foreign exchange:	1 687	1 167
- translation gains less losses	432	344
- transactions gains less losses	1 255	823
Profit/loss from revaluation and sales of equity shares and fund shares	-191	160
Total	**1 496**	**1 327**
Net profit/loss from investment designated at fair value through profit or loss at inception		
Profit/loss from revaluation and sale of bonds	0	488
Profit/loss from revaluation and sale of equity shares and fund shares	1 291	11 563
Total	**1 291**	**12 051**
Dividend income		
Investments held for trading	83	10
Investments designated at fair value through profit or loss at inception	0	418
Total	**83**	**428**
Net profit/loss from securities	**2 870**	**13 806**

Note 27. Operating expenses

	Note	2006	2005
Staff costs			
Wages, salaries and bonuses		9 297	5 461
Social security and other taxes		2 788	1 637
Total		**12 085**	**7 098**
Legal advise fees		4 229	4 409
IT expenses		1 659	1 343
Information services and bank services		1 540	1 274
Marketing expenses		944	1 344
Office expenses		866	603
Transportation and communication costs		853	833
Training and travelling expenses of employees		868	301
Other administrative expenses		3 245	2 835
Depreciation	13	864	830
Operating lease payments	22	1 652	1 766
Other operating expenses		312	5 727
Total operating expenses		**29 117**	**28 364**

Note 28. Other income

	2006	2005
Accounting services rendered	1 992	1 559
Other income (investment seminars to clients etc)	431	211
Total other income	**2 423**	**1 770**

Note 29. Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia. Instead of taxing the net profit, the distribution of retained earnings is subject to taxation of net dividend paid. In 2006, dividend payments to the shareholders were made from discontinued operations in amount of 19 853 thousand kroons, on which corporate income tax amounted to 5 665 thousand kroons. In 2005, dividend payments to the shareholders from continuing operations were made in amount of 3 962 thousand kroons, on which corporate income tax amounted to 1 251 thousand kroons, and dividend payments from discontinued operations in amount of 5 695 thousand kroons, on which corporate income tax amounted to 1 798 thousand kroons.

Note 30. Contingent liabilities

Tax authorities have the right to review the Company'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 at the Company during 2005 - 2006. The Company's management estimates that there are not any circumstances which may lead the tax authorities to impose significant additional taxes on the Company.

Note 31. Fair value of financial assets and financial liabilities

The Group estimates that the fair values of the assets and liabilities denominated in the balance sheet at amortised cost do not differ significantly from their carrying values presented in the Group's consolidated balance sheet as at 31.12.2006 and 31.12.2005. Loans to customers that have been issued with fixed interest rates are sufficiently short-term and issued at the market terms, so that the fair market rate and respectively the fair value of the loan does not differ significantly during the loan term. Also loans received bear fixed interest rates, but similarly to the given loans, these are of very short maturity and therefore the fair value does not change significantly during the loan term. The liquidity information has been presented just above.

Both lease receivables and bonds issued are with significantly longer maturity and here the fair value of these expected cash flows at the current market rates might differ from the carrying values of the lease receivables and bonds issued. However as the lease holders have the right to exit the contracts at effectively any time during the lease period and as this has been very actively used, it would not be appropriate to consider these cash flows from the currently in-force contracts as fixed and expected. Bonds have been redeemed in direct relation to the volume of lease contracts purchased out. Therefore the management has assessed and concluded that there is no significant difference in net fair value of lease receivables and bonds issued compared to their current net carrying value.

Note 32. Risk management

Risk management policy

The principles of identification, management and control of risks at AS LHV Group are set out in the policies and procedures approved by the Supervisory Board. The purpose of risk management is to identify, assess, manage and control all risks related to the activities of LHV in order to ensure LHV's reliability, stability and profitability. The risk management system of AS LHV 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 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 its obligations to LHV Group. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, but mostly credit exposures to customers, including outstanding loans and receivables and committed transactions. In order to hedge credit risk, Group analyses the operations and financial position both of its customers as well as business partners. 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 collateral and the utilisation of credit limits are regularly monitored The Management Board of LHV is responsible for managing credit risk and the finance department is engaged in control.

Market risk

Market risk arises from Group's trading and investment activities in the markets of interest rate products and foreign exchange 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 exchange positions have been set which are monitored by the finance department.

To reduce the interest rate risk, Group primarily uses fixed interest rates both for taking loans as well as granting them. In 2006, the fixed interest rate on loans was between 6.5-11.25% (2005: 9-12%). The interest rates on loans received were up to 7% (2005: 4%). The floating interest rate of the deposit in Estonian kroons was between 2.6- 3.3% and that of the deposit in USD was up to 4.8%.

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

	31.12.2006	31.12.2005
Cash and bank accounts (by location)		
Estonia	5 537	20 580
USA	9 421	27 774
Lithuania	0	6 079
Latvia	0	1 729
Other	22	0
Total	**14 980**	**56 162**

Financial assets at fair value through profit or loss	**31.12.2006**	**31.12.2005**
Shares and bonds		
Estonia	0	12 732
Lithuania	0	131
Europe	44	0
USA	10	62
Total	**54**	**12 925**
Fund (by investment strategy)		
Europe	8	0
Investments with fixed rates of return	0	828
Global and other strategies	216	350
Total	**224**	**1 178**

LHV Ilmarise Kinnisvaraportfelli OÜ finance lease receivables and issued bonds are with fixed interest rates of 6-8% and 5.8%, respectively. The redemption of bonds is performed in accordance with a scheduled collection of finance lease receivables. If customers wish to terminate finance lease agreements before maturity date then the Group has the right to redeem the issued bonds in the additionally collected amount. Due to this, the Group lacks significant interest risk.

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 among contingencies and commitmets.

As at 31.12.2006

Assets bearing currency risk	EEK	EUR	LTL	LVL	SEK	USD	Other	**Total**
Cash and bank	14 076	15	1	2	0	882	4	**14 980**
Financial assets at fair value through profit or loss	0	131	0	0	52	77	18	**278**
Loans to customers	12 821	3 370	21 294	423	1 875	3 827	687	**44 297**
Receivables from customers	931	0	0	0	0	672	216	**1 819**
Investments in joint ventures	18 164	0	0	0	0	0	0	**18 164**
Other assets	524	0	82	89	0	71	0	**766**
Total assets bearing currency risk	**46 516**	**3 516**	**21 377**	**514**	**1 927**	**5 529**	**925**	**80 304**
Assets not bearing any currency risk								
Finance lease receivables	4 582	0	0	0	0	0	0	**4 582**
Property, plant and equipment and intangible assets	607	0	0	0	0	0	0	**607**
Total assets not bearing currency risk	**5 189**	**0**	**0**	**0**	**0**	**0**	**0**	**5 189**
Total assets *	**51 705**	**3 516**	**21 377**	**514**	**1 927**	**5 529**	**925**	**85 493**
Contingencies at contractual amounts (Note 6)	**4 658**	**0**	**0**	**0**	**0**	**0**	**0**	**4 658**
Liabilities bearing currency risk								
Loans received	24 823	3 484	1 911	0	0	0	0	**30 218**
Other financial liabilities	10 661	0	0	0	0	0	0	**10 661**
Accrued expenses	2 742	33	462	34	0	0	0	**3 271**
Provisions	0	0	0	0	0	4 880	0	**4 880**
Total liabilities bearing currency risk	**38 226**	**3 517**	**2 373**	**34**	**0**	**4 880**	**0**	**49 030**
Liabilities not bearing any currency risk								
Bonds issued	6 426	0	0	0	0	0	0	**6 426**
Total liabilities not bearing any currency risk	**6 426**	**0**	**0**	**0**	**0**	**0**	**0**	**6 426**
Total liabilities *	**44 652**	**3 517**	**2 373**	**34**	**0**	**4 880**	**0**	**55 456**
Commitments at contractual amounts (Note 6)	**0**	**0**	**0**	**0**	**2 248**	**2 376**	**0**	**4 624**
Shareholder´s equity	30 071	0	0	0	0	0	0	30 071
Open foreign currency position	**-18 360**	**-1**	**19 004**	**480**	**-321**	**-1 727**	**925**	**0**

* the balances of total assets and total liabilities differes from the balance sheet values by the fair value of the derivatives, which have been shown here at their full contractual amount.

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PricewaterhouseCoopers, Tallinn

As at 31.12.2005

Assets bearing currency risk	EEK	EUR	LTL	LVL	SEK	USD	Other	Total
Cash and bank	17 246	9 731	1 019	392	0	27 774	0	**56 162**
Financial assets at fair value through profit or loss	12 732	1 016	131	0	15	198	11	**14 103**
Loans to clients	7 560	735	4 549	106	526	2 274	0	**15 750**
Receivables from customers	5 219	921	391	198	0	26	150	**6 905**
Investments in joint ventures	9 885	0	0	0	0	0	0	**9 885**
Investments in associates	1 000	0	0	0	0	0	0	**1 000**
Available-for-sale assets	107	6 125	544	0	0	234	0	**7 010**
Other assets	2 089	0	205	831	0	1 322	0	**4 447**
Total assets bearing currency risk	**55 838**	**18 528**	**6 839**	**1 527**	**541**	**31 828**	**161**	**115 262**
Assets not bearing any currency risk								
Finance lease receivables	10 848	0	0	0	0	0	0	**10 848**
Property, plant and equipment and intangible assets	2 231	0	1 067	614	0	0	0	**3 912**
Total assets not bearing any currency risk	**13 079**	**0**	**1 067**	**614**	**0**	**0**	**0**	**14 760**
Total assets	**68 917**	**18 528**	**7 906**	**2 141**	**541**	**31 828**	**161**	**130 022**
Contingencies at contractual amounts (Note 6)	**27 082**	**0**	**0**	**0**	**0**	**0**	**0**	**27 082**
Liabilities bearing currency risk								
Loans received	8 580	0	0	0	0	0	0	**8 580**
Finance lease liabilities	0	0	641	319	0	0	0	**960**
Other financial liabilities	14 569	5	0	0	0	5 082	0	**19 656**
Corporate income tax liabilities	0	0	779	41	0	0	0	**820**
Accrued expenses	5 415	153	480	161	0	1 216	0	**7 425**
Provisions	0	0	0	0	0	5 430	0	**5 430**
Total liabilities bearing currency risk	**28 564**	**158**	**1 900**	**521**	**0**	**11 728**	**0**	**42 871**
Liabilities not bearing any currency risk								
Bonds issued	11 931	0	0	0	0	0	0	**11 931**
Total liabilities not bearing any currency risk	**11 931**	**0**	**0**	**0**	**0**	**0**	**0**	**11 931**
Total liabilities	**40 495**	**158**	**1 900**	**521**	**0**	**11 728**	**0**	**54 802**
Commitments at contractual amounts (Note 6)	**0**	**0**	**5 438**	**0**	**168**	**21 593**	**0**	**27 199**
Shareholders' equity	75 103	0	0	0	0	0	0	75 103
Open foreign currency position	**-19 599**	**18 370**	**568**	**1 620**	**373**	**-1 493**	**161**	**0**

Liquidity risk

Liquidity risk relates to the solvency of the Group to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. The CEO of the Group is responsible for the management of liquidity risk. In order to hedge liquidity risk, a regular monitoring of the probable net position of receivables and liabilities by maturities is carried out and adequate amount of liquid assets are kept in each time period.

As at 31.12.2006

Assets	Up to 3 months	3-12 months	1-5 years	over 5 years	Total
Cash and bank	14 119	861	0	0	**14 980**
Financial assets at fair value through profit or loss	278	0	0	0	**278**
Derivatives	64	0	0	0	**64**
Loans to clients	43 682	615	0	0	**44 297**
Receivables from customers	1 819	0	0	0	**1 819**
Finance lease receivables	80	81	676	3 745	**4 582**
Investments in associates	0	0	0	18 164	**18 164**
Property, plant and equipment and intanbible assets	0	0	607	0	**607**
Other assets	0	537	229	0	**766**
Total assets	**60 042**	**2 094**	**1 512**	**21 909**	**85 557**
Liabilities					
Derivatives	22	8	0	0	**30**
Loans received	27 234	2 984	0	0	**30 218**
Other financial liabilities	0	10 661	0	0	**10 661**
Accrued expenses and other liabilities	3 271	0	0	0	**3 271**
Bonds issued	1 846	111	683	3 786	**6 426**
Provisions	0	4 880	0	0	**4 880**
Total liabilities	**32 373**	**18 644**	**683**	**3 786**	**55 486**
Liquidity gap	**27 669**	**-16 550**	**829**	**18 123**	**30 071**
Total equity					***30 071***

As at 31.12.2005

Assets	up to 3 months	3-12 months	1-5 years	over 5 years	Total
Cash and bank	51 571	4 591	0	0	**56 162**
Financial assets at fair value through profit or loss	13 275	828	0	0	**14 103**
Loans to clients	14 796	500	454	0	**15 750**
Receivables from customers	6 898	7	0	0	**6 905**
Finance lease receivables	297	273	1 265	9 013	**10 848**
Available-for-sale assets	0	0	7 010	0	**7 010**
Investments in joint ventures	0	0	0	9 885	**9 885**
Investments in associates	0	0	0	1 000	**1 000**
Property, plant and equipment and intangible assets	0	0	3 912	0	**3 912**
Other assets	200	2 118	2 085	44	**4 447**
Total assets	**87 037**	**8 317**	**14 726**	**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**
Other financial liabilities	10 709	8 494	453	0	**19 656**
Corporate income tax liabilities	0	779	41	0	**820**
Accrued expenses and other liabilities	6 922	503	0	0	**7 425**
Bonds issued	1 214	389	1 276	9 052	**11 931**
Provisions	0	5 430	0	0	**5 430**
Total liabilities	**27 490**	**15 921**	**2 456**	**9 052**	**54 919**
Liquidity gap	**59 547**	**-7 604**	**12 270**	**10 890**	**75 103**
Total equity					***75 103***

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, transactions limits and competence systems are used to minimize potential losses and the principle of duality is used in the Group´s working procedures, according to which there should be an approval by at least two employees independent of each other or the unit for carrying out the transaction or procedure. The Custody & Risk Management department is directly responsible for minimizing operating risk. The CEO of the Group and internal audit have a helping, controlling and summarising function.

Note 33. Financial information on the parent company

In accordance with the Estonian Accounting Act, information on the separate primary financial statements of a consolidating entity shall be disclosed in the notes to the financial statements.

Balance sheet of the parent company

(In thousand Estonian kroons)

	31.12.2006	31.12.2005
Assets		
Cash and bank	1 144	989
Financial assets at fair value through profit or loss	0	12 392
Loans to customers	2 985	2 002
Available-for-sale financial assets	0	6 481
Investments in subsidiaries	18 906	27 860
Investments in joint ventures	20 734	9 320
Total assets	**43 769**	**59 044**
Liabilities		
Loans received	0	2 000
Other financial liabilities	1 694	3 076
Accrued expenses and other liabilities	0	50
Total liabilities	**1 694**	**5 126**
Equity		
Share capital	40 300	28 300
Share premium	18 691	18 159
Statutory reserves	2 830	871
(Accumulated deficit) / Retained earnings	-15 463	9 394
Treasury shares	-4 283	-2 806
Total equity	**42 075**	**53 918**
Total liabilities and equity	**43 769**	**59 044**

Income statement of the parent company

(In thousand Estonian kroons)

	01.01.2006 – 31.12.2006	26.08.2004 – 31.12.2005
Interest income	343	129
Interest expence	-97	-48
Net interest income	**246**	**81**
Net gains less losses from trading	457	0
Net gains less losses investment securities	834	12 389
Dividend income	11 310	4 360
Net gains less losses from securities	**12 601**	**16 749**
Operating expenses	-382	-531
Other operating income	98	0
Profit before income tax	**12 563**	**15 922**
Other financial expenses	0	-1 694
Profit for the year	**12 563**	**14 228**

Cash flow statement of the parent company

(In thousand Estonian kroons)

	2006	2005
Cash flows from operating activities		
Fee and commission income received	98	0
Fee and commission, operating and other expenses paid	-382	-377
Interest received	268	119
Interest paid	-97	-53
Loans granted	-3 000	-2000
Net cash used in operating activities	**-3 113**	**-2 311**
Cash flows from investing activities		
Purchase of investment securities	0	-3 476
Proceeds form sale of investment securities	0	5 760
Purchase of shares of subsidiaries	-385	0
Sale of shares of subsidiaries	1 800	42
Purchase of shares of joint ventures	-11 414	0
Dividends received	11 310	4 360
Cash handed out in the process of de-merger of discontinued operations	-5 716	0
Net cash used in / generated from kinvesting activities	**-4 405**	**6 686**
Cash flows from financing activities		
Share capital increase	12 532	0
Treasury shares purchased	-2 859	-2 145
Treasury shares sold	0	721
Loans received	3 370	8 700
Loan repayments	-5 370	-6 700
Dividends paid	0	-3 962
Net cash generated from / used in financing activities	**7 673**	**-3 386**
Net increase/decrease in cash and cash equivalents	**155**	**989**
Cash and cash equivalents at beginning of the year	989	0
Cash and cash equivalents at end of the year	**1 144**	**989**

Statement of changes in shareholders' equity

(In thousand Estonian kroons)

	Share capital	Share premium	Treasury shares	Statutory reserve	(Accumulated deficit) / Retained earnings	Total
Contributions to share capital	28 300	18 159	0	0	0	46 459
Net profit for 2005	0	0	0	0	14 228	14 228
Transfer to statutory reserve	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 influenses	0	0	0	0	-37 180	-37 180
Carrying amount of holdings under control and significant influence under equity method	0	0	0	0	55 607	55 607
Adjusted unconsolidated equity at 31.12.2005	**28 300**	**18 159**	**-2 806**	**871**	**27 821**	**72 345**
Balance as at 01.01.2006	**28 300**	**18 159**	**-2 806**	**871**	**9 394**	**53 918**
Share capital increase	12 000	532	0	0	0	12 532
Transfer to statutory reserve	0	0	0	1 959	-1 959	0
Treasury shares repurchased	0	0	-1 477	0	0	-1 477
Net profit for 2006	0	0	0	0	12 563	12 563
Discontinued operations	0	0	0	0	-35 461	-35 461
Balance as at 31.12.2006	**40 300**	**18 691**	**-4 283**	**2 830**	**-15 463**	**42 075**
Carrying amount of holdings under control and significant influenses	0	0	0	0	-39 640	-39 640
Carrying amount of holdings under control and significant influence under equity method	0	0	0	0	27 636	27 636
Adjusted unconsolidated equity at 31.12.2006	**40 300**	**18 691**	**-4 283**	**2 830**	**-27 467**	**30 071**

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia

Telephone +372 614 1800
Facsimile +372 614 1900
www.pwc.ee

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)

To the Shareholders of AS LHV Group

We have audited the accompanying consolidated financial statements of AS LHV Group and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

Relika Mell
Authorised Auditor

11 May 2007

Proposal for covering loss

The Management Board of AS LHV Group proposes to the General Meeting of Shareholders to cover the net loss of 2006 in the amount of 356 thousand kroons with retained earnings.

Signatures of the Management Board and the Supervisory Board of AS LHV Group to the 2006 Annual Report

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

	Name	Date	Signature
Management Board:			
Chariman of the Management Board	Rain Lõhmus	11.05.2007	....
Supervisory Board:			
Member of the Supervisory Board	Andres Viisemann	07.06.2007	....
Member of the Supervisory Board	Tiina Mõis	07.06.2007	....
Member of the Supervisory Board	Tarmo Sild	07.06.2007	....