AS LHV Varahaldus

Annual Report 2009

(Translation of the Estonian original)

Annual Report	**01.01.2009 - 31.12.2009**
Business Name	AS LHV Varahaldus
Commercial Registry No.	10572453
Legal address	Tartu mnt. 2, Tallinn 10145
Phone	(372) 6800400
Fax	(372) 6800402
Main activities	Fund management, EMTAK 66301 (Estonian version of NACE)
Management Board	Mihkel Oja
	Kerli Lõhmus
Supervisory Board	Andres Viisemann
	Rain Lõhmus
	Erki Kilu
	Charles Smith
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

AS LHV Varahaldus is a fund management company.

In 2009 the main business activity of the company was to provide fund management services to five mandatory pension funds, one supplementary pension fund and three equity Eurofunds (UCITSs).

Changes in the 2nd pillar fund family

In 2009, the Company decided to change the names of LHV's mandatory pension funds along with the changes in the funds' terms and conditions. The changes became effective at 01.01.2010. The words referring to investment strategies (e.g. bonds) were removed from the funds' names. The new names illustrate the risk level of funds ("L" is high, "M" is medium, "S" is low and "XL" is especially high and "XS" is especially low).

Previous name	New name
LHV New Markets PF	LHV Pension Fund XL
LHV World Equities PF	LHV Pension Fund L
LHV Balanced Strategy PF	LHV Pension Fund M
LHV Dynamic Bonds PF	LHV Pension Fund S
LHV Quality Bonds PF	LHV Pension Fund XS

From 2010, the entrance fees of LHV's mandatory pension funds were no longer charged and the management fees of two funds were lowered – the management fee of LHV Pension Fund M was lowered from 1.63% to 1.6% and the management fee of LHV Pension Fund XS was lowered from 1.2% to 0.9%.

In comparison of rates of return, LHV's 2nd pillar pension funds continued to be successful

Out of pension funds with progressive investment strategies (up to 50% of the assets are invested in equities) offered in Estonia, LHV Pension Fund XL and LHV Pension Fund L managed by the Company were the first and second best funds in terms of their rates of return.

Comparison of progressive pension *	NAV 31.12.2008	NAV 31.12.2009	Change in NAV
LHV Pension Fund XL	**11,4796**	**15,1800**	**32,23%**
LHV Pension Fund L	**13,6244**	**17,6633**	**29,64%**
ERGO Pension Fund 2P2	12,0184	15,2017	26,49%
Nordea Pension Fund A	10,2865	12,4288	20,83%
SEB Progressiivne	11,7618	13,4345	14,22%
Swedbank Pension Fund K3	11,9836	13,5047	12,69%
Sampo Pension 50	13,9048	15,4607	11,19%

Among pension funds with balanced investment strategies (up to 25% of the assets are invested in equities, LHV Pension Fund M under the Company's management ranked first in terms of their rates of return.

Comparison of balanced pension *	NAV 31.12.2008	NAV 31.12.2009	Change in NAV
LHV Pension Fund M	**11,3169**	**14,4498**	**27,68%**
SEB Optimaalne	10,0112	11,8413	18,28%
Nordea Pension Fund B	10,2246	12,0350	17,71%
Sampo Pension 25	12,5273	13,4769	7,58%
Swedbank Pension Fund K2	11,2411	12,0694	7,37%

Among the funds investing only in bonds, i.e. conservative funds, LHV Pension Fund X and LHV Pension Fund XS under the Company's management ranked first and second in terms of their rates of return.

Comparison of conservative pension	NAV 31.12.2008	NAV 31.12.2009	Change in NAV
LHV Pension Fund S	**12,7432**	**15,7555**	**23,64%**
LHV Pension Fund XS	**11,8363**	**14,4476**	**22,06%**
Nordea Pension Fund C	10,1850	11,5039	12,95%
ERGO Pension Fund 2P1	11,9340	12,9396	8,43%
SEB Konservatiivne	11,7428	12,6621	7,83%
Swedbank Pension Fund K1	10,6679	11,3239	6,15%
Sampo Pension Intress	11,7758	12,3819	5,15%

The percentage of people continuing to make their contributions to mandatory funded pension plans is the highest at LHV

In conjunction with a temporary change made to the contribution phase of the 2nd pillar, the holders of the 2nd pillar plans had to decide by the end of November whether to continue making voluntary contributions to the pension plan or not. Those who did not wish to file an application to continue making their contributions to mandatory funded pension plans, have no contributions to the 2nd pillar funds in 2010. The percentage of those who decided to file an application to continue making their contributions was the highest among the clients of LHV pension funds (active clients as at the beginning of 2010 have been considered).

Fund management company	The percentage of continuators
AS LHV Varahaldus	**55,73%**
Nordea Pensions Estonia AS	54,92%
AS SEB Varahaldus	44,90%
ERGO Funds AS	41,29%
Danske Capital AS	39,83%
Swedbank Investeerimisfondid AS	29,25%

3rd pillar

The supplementary funded pension fund plans offered in Estonia differ from each other in respect of the percentage invested in equities, therefore, it is more difficult to compare their rates of return. On average, LHV

Supplementary Pension Fund invests 75% in equities. In the financial year, the fund was the second in respect of its rate of return.

Comparison of supplementary pension funds *	NAV 31.12.2008	NAV 31.12.2009	Change in NAV
SEB Aktiivne PF (100)	8,7810	12,1769	38,67%
LHV Täiendav Pension Fund (75)	**12,1527**	**16,5779**	**36,41%**
Nordea PF Aktsiad 100 (100)	10,5022	14,0569	33,85%
Swedbank Pension Fund V3 (100)	10,9422	13,6904	25,12%
ERGO Pension Fund 3P3 (100)	10,2024	12,5665	23,17%
ERGO Pension Fund 3P2 (75)	10,2063	12,0732	18,29%
Sampo Pension 100 Pluss (100)	15,1956	17,6853	16,38%
Swedbank Pension Fund V2 (60)	10,3417	11,8963	15,03%
ERGO Pension Fund 3P1 (50)	10,2352	11,6266	13,59%
SEB Tasakaalukas PF (35)	14,3462	15,9028	10,85%
Swedbank Pension Fund V1 (30)	14,4915	15,9027	9,74%
Sampo Pension Intress Pluss (30)	10,0188	10,7374	7,17%

* All comparative net asset values in the tables above are disclosed based on the information of www.pensionikeskus.ee

The number in parentheses after the name of the fund shows the maximum allowed percentage of equities in the fund in accordance with the funds' prevailing terms and conditions.

Equity Funds

The Company manages three Eurofonds that invest in equities. All investment funds are publicly offered in Estonia, Latvia and Lithuania and LHV Persian Gulf Fund is also publicly offered in Sweden, Finland and Norway.

LHV Eurofonds	NAV 31.12.2008	NAV 31.12.2009	Change in NAV
LHV World Equities Fund	5,9907	7,8335	30,76%
LHV Persian Gulf Fund	5,5806	6,2300	11,64%
LHV Emerging Europe Alpha Fund	2,8045	3,8018	35,56%

Amount of assets managed

At the end of 2009, the total amount of assets managed by LHV Varahaldus was 834 million kroons. At the beginning of 2010, when the applications of the 2nd pillar clients who could transfer their amounts accumulated in other pension funds to LHV pension funds became effective, the volume of assets under management of LHV Varahaldus increased to EEK 1,072 million.

At the end of the first half year of 2009, the total amount of assets under management was 731 million kroons and at the end of 2008 559 million kroons. In 2010, the objective of the Company is to increase its market share in the mandatory pension market and increase the volume of assets under management in its equity funds through positive returns as well as attracting new investors.

As at 31.12.2009, the Company had 8 employees (31.12.2008: 9 employees). During the reporting period, the Company paid a total of 3 628 392 kroons in salaries (2008: 3 852 127 kroons), out of which 474 200 kroons were paid to the members of the Management Board (2008: 478 423 kroons). The members of the Supervisory Board did not receive any remuneration during the reporting period.

FINANCIAL STATEMENTS

Management Board's confirmation of the financial statements

The Management Board confirms the correctness and completeness of AS LHV Varahaldus 2009 financial statements as presented on pages 7-21.

The Management Board confirms that:

- the accounting policies used in preparing the financial statements are in compliance with the generally accepted accounting principles of Estonia;
- the financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company;
- AS LHV Varahaldus is a going concern.

Mihkel Oja / signed /
Member of the Board

Kerli Lõhmus / signed /
Member of the Board

Tallinn, 30.04.2010

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Initsiaalid/initials K. L
Kuupäev/date 30.04.10
PricewaterhouseCoopers, Tallinn

Balance Sheet

(in Estonian kroons)

Assets	Note	31.12.2009	31.12.2008
Current Assets			
Cash and bank	3	1 064 284	11 964 224
Short term financial investments	4	21 270 348	14 314 777
Loans granted	6	0	7 719 794
Other receivables	16	1 306 165	895 165
Accrued income		285 000	520 000
Other prepaid expenses		909 754	564 653
Total current assets		**24 835 551**	**35 978 613**
Non-current assets			
Units of managed pension funds	5	20 673 278	14 765 759
Units of managed investment funds	5	8 385 936	6 747 972
Tangible assets	7	386 319	546 104
Intangible assets	7	0	1 189 322
Total non-current assets		**29 445 533**	**23 249 157**
Total assets		**54 281 084**	**59 227 770**

Liabilities and equity			
Current liabilities			
Supplier payables	8, 16	2 350 425	602 823
Accrued expenses and other liabilities	9	849 165	825 892
Provisions	10	600 000	0
Current portion of long-term borrowings	7,11	642 312	408 796
Total current liabilities		**4 441 902**	**1 837 511**
Non-current liabilities			
Finance lease liabilities	7	231 376	325 329
Subordinated liabilities	11	9 387 960	12 517 280
Total non-current liabilities		**9 619 336**	**12 842 609**
Equity			
Share capital		63 000 000	63 000 000
Share premium		4 100 000	4 100 000
Accumulated losses		-22 552 350	-15 675 196
Net loss for financial year		-4 327 804	-6 877 154
Total equity	12	**40 219 846**	**44 547 650**
Total liabilities and equity		**54 281 084**	**59 227 770**

The Notes to the financial statements presented on pages 12-21 are an integral part of the Annual Report.

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Income statement

(in Estonian kroons)

	Note	2009	2008
Fee income	13,16	14 684 030	14 248 101
Other operating income	10	147 002	4 919 950
Total operating income		**14 831 032**	**19 168 051**
Operating expenses	14,16	-20 187 616	-11 391 574
Personnel expenses			
Wages and salaries		*-3 628 392*	*-3 854 127*
Social security costs		*-1 211 073*	*-1 205 212*
Unemployment insurance expense		*-25 181*	*-8 110*
Total personnel expenses		-4 864 646	-5 067 449
Depreciation and amortization	7	-165 408	-142 890
Impairment of goodwill	7	-1 183 699	0
Provision expense	10	-600 000	0
Other operating expenses		-21 033	-75 932
Total operating expenses		**-27 022 402**	**-16 677 845**
Operating profit/loss		**-12 191 370**	**2 490 206**
Financial income and expense			
Profit from revaluation of short-term securities		3 495 482	706 848
Profit from revaluation of units of managed funds	5,11	5 806 903	-10 038 629
Interest income	3,6	528 540	334 906
Interest expense	11,15	-1 957 777	-347 546
Foreign exchange losses		-9 582	-22 929
Total financial income and expense		**7 863 566**	**-9 367 360**
Net loss for the financial year		**-4 327 804**	**-6 877 154**

The Notes to the financial statements presented on pages 12-21 are an integral part of the Annual Report.

LHV

Cash flow statement

(in Estonian kroons)

	Note	2009	2008
Casf flow from operating activities			
Operating profit/loss		-12 191 370	2 490 206
Adjustments:			
Depreciation and amortization	7	165 408	142 890
Impairment of goodwill	7	1 183 699	0
Change in receivables and prepayments		-521 101	-441 730
Change in supplier payables		1 770 875	226 699
Change in provision	10	600 000	-4 880 000
Interests paid		-1 729 304	-27 660
Total change in working capital		**1 469 577**	**-4 979 801**
Total cash used in operating activities		**-10 721 793**	**-2 489 595**
Cash flow from investing activities			
Purchase of non-current assets	7	0	-97 410
Loans granted	6	-6 500 000	-7 700 000
Repayments of loans granted		14 200 000	0
Purchase of short-term financial investments	4	-16 699 038	-4 202 629
Sale of short-term financial investments	4	11 205 359	4 175 243
Purchase of long-term financial investments	5	-1 738 580	-4 693 980
Sale of long-term financial investments	5	0	11 121 769
Dividends and interest received		2 581 924	1 997 414
Total cash flow from investing activities		**3 049 665**	**600 407**
Cash flow from financing activities			
Finance lease payments	15	-88 910	-118 587
Issue of subordinated bonds	11	0	12 517 280
Redemption of subordinated bonds	11	-3 129 320	0
Total cash used in / cash flow from financing activities		**-3 218 230**	**12 398 693**
Total cash flow		**-10 890 358**	**10 509 505**
Cash and cash equivalents at beginning of the period	3	11 964 224	1 470 083
Change in cash and cash equivalents		**-10 890 358**	**10 509 505**
Effect of exchange rate differences [1]		-9 582	-15 364
Cash and cash equivalents at the end of the period	**3**	**1 064 284**	**11 964 224**

The Notes to the financial statements presented on pages 12-21 are an integral part of the Annual Report.

[1] In the account the effect of exchange rate differences of bank accounts is recorded

Statement of changes in equity

(inEstonian kroons)

	Share capital	Share premium	Accumulated loss	Total equity
Balance at 01.01.2008	**63 000 000**	**4 100 000**	**-15 675 196**	**51 424 804**
Net loss for financial year	0	0	-6 877 154	-6 877 154
Balance at 31.12.2008	**63 000 000**	**4 100 000**	**-22 552 350**	**44 547 650**
Balance at 01.01.2009	**63 000 000**	**4 100 000**	**-22 552 350**	**44 547 650**
Net loss for financial year	0	0	-4 327 804	-4 327 804
Balance at 31.12.2009	**63 000 000**	**4 100 000**	**-26 880 154**	**40 219 846**

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

The Notes to the financial statements presented on pages 12-21 are an integral part of the Annual Report.

Notes to the Financial Statements

Note 1 Accounting policies and measurement bases adopted in the preparation of the financial statements

1.1 General principles

The financial statements of AS LHV Varahaldus have been prepared in accordance with the accounting principles generally accepted in Estonia, whose main requirements are prescribed by the Accounting Act of the Republic of Estonia and that are supplemented by the guidelines issued by the Accounting Standards Board. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Estonian kroons.

1.2 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits held at call with banks, as well as term deposits with original maturities of three months or less.

1.3 Shares and other securities

Securities held for the purpose of trading are classified as short-term shares and other securities. Other long-term shares and securities include securities not expected to be sold within the next 12 months.

Short and long-term investments in shares and other equity instruments are subsequently carried at fair value, if their fair value can be measured reliably. Shares and other equity instruments which fair value cannot be measured reliably are recognised at cost (that is acquisition cost less any impairment, when the carrying amount of the investment is not recoverable). Fund units are measured at their redemption price. The fair value of listed securities (for which an active market exists) is their current bid price. For determining the fair value of investments that are not actively traded in the market, alternative methods such as the prices used in recent transactions (if they occur under active market conditions), the discounted cash flow model or the option pricing model are used.

The changes in fair value of shares and other securities acquired for the purpose of trading are reported as gains or losses in the income statement of the accounting period. Gains or losses from changes in fair value of long-term financial investments are reported in the income statement of the accounting period.

All financial investments in this annual report are accounted at fair value.

1.4 Trade receivables

All receivables (accrued income, loans granted and other short and long-term receivables), except for receivables acquired for the purpose of selling, are carried at amortised cost. The amortised cost of the short-term receivables normally equals their cost value (less any impairment); therefore short-term receivables are stated in the balance sheet in their redemption value. Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently interest income is calculated on the receivable using the effective interest rate method. Receivables acquired for selling purposes are measured at fair value.

Impairement of trade receivables is accounted in case there is objective evidence that the estimated collections do not correspond to initial terms of contract. Such situations, that indicate on possible downturn of value of trade receivables, are the buyers' bankruptcy or significant financial difficulties and inability to fulfil their obligations. Impairement of trade receivables (i.e. the need for allowance) is assessed individually of each specific debtor, on basis of estimated present value of future cash flows. The value of impairment loss of trade receivables is the difference between the carrying value of these receivables and present value of future cash flows, using effective interest rate method. The carrying value of trade receivables is reduced by the amount of imapairment loss of receivables and loss from impairment is charged to the income statement as operating expenses. If the receivable is assesed to be irrecoverable, it is removed from the balance sheet. The collection of previously recognised impairment loss is reversed by adjusting the allowance account.

1.5 Tangible assets

Tangible assets are assets used in the operations of the Company with a useful life of over one year. An item of tangible assets is initially recognised at its cost which consists of the purchase price (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. An item of tangible assets is carried in the balance sheet at its cost less any accumulated depreciation and any impairment losses. Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.

Items of tangible assets leased under the finance lease terms are accounted for similarly to acquired non-current assets.

Subsequent expenditures on tangible assets are accounted as non-current assets when it is probable that the company will gain future economic benefit from these assets and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at their occurrence.

Depreciation is calculated on the straight-line basis. The annual depreciation rate for software is 33% and 20% for the items leased under the finance lease terms. Depreciation is commenced at the time when the asset can be used for the purpose intended by management and is terminated when the residual value exceeds the carrying amount, until the final removal of the asset from use or upon reclassification into “non-current assets held for sale”. At each balance sheet date, the validity of depreciation rates, the depreciation method and the residual value is assessed. The accounting of an item of tangible assets is terminated when asset is sold or when no more economic benefits can be gained from use or sale of the asset. The gain or loss from disposal of non-current asset is recognised in income statement as other operating revenues or other operating expenses.

1.6 Intangible assets

An intangible asset is initially recognised at cost, comprising of its purchase price and any directly attributable expenditure. After initial recognition, an intangible asset is carried in the balance sheet at its cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with indefinite useful lives (goodwill which arose in a business combination) are not subject to amortisation, but an impairment test is carried out at each balance sheet date to review their value. The impairment test on intangible assets that are amortised is carried out when thre are indications, that the value of the assets may have impaired. If their recoverable amount turns out to be lower than their carrying amount, they are written down to their recoverable amount. The recoverable amount of the asset is the higher of the fair value less costs to sell or its value in use. For the purpose of assessing impairment, the recoverable amount is assessed either for each individual asset or the smallest group of assets for which it is possible to distinguish cash flow. The impairment loss of assets is reported as expenses in the accounting period.

The depreciation rate for intangible assets with definite useful lives is 33%.

1.7 Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the share of the net assets acquired, reflecting the part of acquisition cost which was paid for such assets of the acquired company which cannot be separated and accounted for separately. At the transaction date, goodwill is recognised in the balance sheet at its acquisition cost as an intangible asset. Goodwill is subsequently carried at its cost less any impairment losses. Goodwill is not amortised. Goodwill is not subject to amortisation, instead an impairment test is carried out at each balance sheet date (or more frequently when an event or change in circumstances indicates that the fair value of goodwill may have become impaired), an impairment test is performed and if necessary, goodwill is written down to its recoverable value if it is lower than its carrying amount.

1.8 Finance and operating leases

Leases of Tangible assets which transfer substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

Finance leases are recognised in the balance sheet as assets and liabilities at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charges (interest expense) and reduction of the outstanding liability. The finance cost (interest expense) is charged to the income statement over the lease period so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The assets acquired under finance lease are depreciated similarly to purchased assets over the shorter of the useful life of the asset and the lease term. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

Leases of Tangible assets where all significant risks and rewards of ownership are not transferred to the lessee are classified as operating lease. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

1.9 Financial liabilities

All financial liabilities (supplier payables, accrued expenses, and other short-term borrowings) are initially recorded at the acquisition cost that includes all transaction costs related to acquisition. After initial recognition, financial liabilities are measured at amortised cost. To calculate the amortised cost of financial liabilities, they are initially recorded at fair value of the proceeds received (less transaction costs), taking into consideration the interest expence in following periods using effective interest rate method. Financial liabilities are classified as short-term, when their payment date is within 12 months after the balance sheet date or the Company does not have an unconditional right to postpone the settlement of the liability for later than 12 months after the balance sheet date.

1.10 Provisions and contingent liabilities

Commitments arising from an obligating event before the balance sheet date, which realisation time or amount are not certain, are recognised as provisions in the balance sheet. The provisions are recognised based on the management´s estimates regarding the amount and timing of the expected ouflows. A provision is recognised in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party. Other possible or existing contingent obligations, for which it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

1.11 Foreign currency transactions and assets and liabilities denominated in a foreign currency

All currencies, except for the Estonian kroon (i.e. the functional currency of the Company) are considered as foreign currencies. Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia prevailing at the dates of the transactions. Monetary financial assets and liabilities and non-monetary financial assets and liabilities -measured at fair value - denominated in foreign currencies as at the balance sheet date are translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Profits and losses from foreign currency transactions are recognised in the income statement as income or expenses of that period.

Non-monetary assets and liabilities nominated in foreign currency (prepayments, non-current assets) are not revaluated on balance sheet date, but accounted continuously at the Estonian Cenral Bank rate as of transaction date.

1.12 Revenues and expenses

Revenue and expenses have been recognised under the accrual basis of accounting. Revenue is recognised when the sold service has been provided and the risks and benefits have been transferred to the buyer and AS LHV Varahaldus has the right for the receivable. The management fees related to activities of investment funds are accounted during the period of providing services. Revenue arising from interest and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the effective interest rate. Dividends are recognised when the right to receive payment is established.

1.13 Corporate income tax

According to income tax legislation currently in force the profit for financial year of a company is not a subject for taxation. Income tax is paid for dividends, fringe benefits, gifts, sponsorship, guest admission expenses, expenses not related to business and transfer pricing corrections. From 1.01.2009 the distribution of retained earnings is subject to a dividend tax of 21/79 (in 2008 the tax rate was also 21/79) of net dividend paid. In certain circumstances the dividends received can be distributed forward without additional income tax expense. The corporate income tax related to dividend payments is accounted as liability and tax expence in income statement the same period the dividend is announced, no matter for which period the dividend is announced or when the divident payment is actually carried out. The liability for income tax payment is on the 10 day of the next month of dividend payment.

Arising from individuality of taxation there are no differences related to tax calculations and book values of assets and derived from that also not deferred tax receivables or liabilities. Contingent tax liabilities, that would arise from dividend payments from retained earnings, are not accounted in balance sheet. The maximum tax liability, that would accompany with profit distribution as dividends, is presented in notes for the financial reports.

1.14 Starurory reserve capital

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

Note 2 Impacts of the economic crisis

Management has evaluated the effects of the global liquidity crisis and the related general economic crisis on the business activities of the Company. During 2009, the situation in the financial markets has noticeably improved, as a result of which the market values of managed funds have also increased. However, the market is illiquid for certain types of instruments or the volatility of these instruments is great, due to which the determination of their fair value is difficult.

Management believes that it has taken all necessary measures to ensure sustainability and growth of the Company in the current conditions.

Note 3 Cash and cash equivalents

	31.12.2009	31.12.2008
Bank accounts, except related parties	986 024	11 593 367
Account at LHV Pank (Note 16)	78 260	370 857
Total cash and cash equivalents	**1 064 284**	**11 964 224**

In 2009, the interests earned on bank accounts totals 144 045 kroons (2008: 262 118 kroons).

Note 4 Short-term financial investments

	31.12.2009	31.12.2008
Bonds	21 270 348	14 314 777
Total at fair value through profit or loss	**21 270 348**	**14 314 777**

For bonds whose market price based on transactions in the active market is difficult to determine, the discounted cash flow method is applied. The valuation method reflects the current situation and expected return at the valuation date and may not adequately reflect the market conditions both before and after the valuation date.

The Company has adjusted the return expectations that are used as an input in the discounted cash flow model due to higher interest rates and risk levels in the market. Of the total bond position, securities in the amount of 1 489 020 kroons (31.12.2008: 1 761 421 kroons) have been recognised at the market price that is based on quotes in an active market and in the amount of 6 881 328 kroons (31.12.2008: 12 553 356 kroons) using the discounted cash flow method.

Note 5 Non-current financial investments

	31.12.2009	31.12.2008
Units of pension funds	20 673 278	14 765 759
Units of investment funds	8 385 936	6 747 972
Total at fair value through profit or loss	**29 059 214**	**21 513 731**

In 2009, the units of pensions funds were acquired in the total amount of 1 738 580 kroons. In 2008, the units of pension funds were sold in the total amount of 11 121 769 kroons and the sold units were deleted from the register. The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is 13 738 581 kroons. The units of investment funds were purchased at their nominal value and the total acquisition cost of these fund units is 14 081 940 kroons (incl. 9 387 960 in 2007 and 4 693 980 kroons in 2008).

Note 6 Loans granted

At the end of 2008, loans were granted twice to AS Lõhmus, Haavel & Viisemann (LHV; another subsidiary of the parent) in the total amount of 7 700 000 kroons. At the beginning of 2009, an additional loan was granted in the amount of 6 500 000 kroons. It was an alternative to a demand deposit, until LHV Bank got the banking licence. The loans were granted at an interest rate of 7% and were repaid duly in 2009. In the income statement, interest income on loans granted is carried at the total amount of 384 495 kroons (2008: 72 878 kroons). As at 31.12.2009, there were no interest receivables. As at 31.12.2008, interest receivables made up 19 794 kroons.

Note 7 Tangible and intangible assets

	Tangible assets	Intangible assets	
	IT equipment	**Licences**	**Goodwill**
Balance at 31.12.2007			
Acquisition cost	**94 527**	**21 331**	**1 183 699**
Accumulated depriciation	-43 023	-8 454	0
Carrying value	**51 504**	**12 877**	**1 183 699**
Changes occurred in 2008			
Purchase of non-current assets	630 236	0	0
Depreciation/amortization charge	-135 636	-7 254	0
Balance at 31.12.2008			
Acquisition cost	724 763	21 331	1 183 699
Accumulated depriciation	-178 659	-15 708	0
Carrying value	**546 104**	**5 623**	**1 183 699**
Changes occurred in 2009			
Depreciation/amortization charge	-159 785	-5 623	0
Impairment of goodwill	0	0	-1 183 699
Balance at 31.12.2009			
Acquisition cost	724 763	21 331	1 183 699
Accumulated depreciation	-338 443	-21 331	-1 183 699
Carrying value	**386 319**	**0**	**0**

In 2008, the Company acquired a passenger car under the finance lease agreement for 532 826 kroons. The finance lease liability is recognised in the balance sheet as a current portion of non-current liabilities in the amount of 93 953 kroons (31.12.2008: 88 910 kroons) and as a non-current portion of non-current liabilities (up to 5 years) in the amount of 231 376 kroons (31.12.2008: 325 329 kroons), see also Note 15.
The balance sheet as at 31.12.2008 includes positive goodwill in the amount of 1 183 699 kroons under the line intangible assets which arose from the acquisition and merger of former fund manager AS Seesam Varahaldus.

As a part of the 9-month interim audit for 2009, an impairment test of goodwill was performed. Three former funds of Seesam Varahaldus have been designated as the cash-generating unit for the purpose of goodwill testing. Income from management of such funds and related allocated expenses were designated as cash flows. Calculation of the value is based on the following main assumptions:

- in forecasting the cash flows for the years 2010-2014, the Management Board has assessed that salaries will start to increase at the rate of 5% per annum, according to which the clients' investments into funds have been derived
- growth in the volume of the funds is proportionately modest as compared to other funds managed by the management company
- the estimated arverage rate of return for funds is 4 to 5% per annum
- the growth rate used for indirect expenses is 4%
- cash flow discount rate used is 13%
- when using the key assumptions, the Management Board relied on previous periods' experience and its best estimate regarding probable expectations.

Due to the low share of revenue of the tested three funds in the Company's total revenue and the higher cost base as a result of the share of costs allocated to the tested funds, the recoverable amount of goodwill determined in a test is lower than its carrying amount, therefore, the Management Board has written goodwill down in full.

Note 8 Accounts payable

	31.12.2009	31.12.2008
Accounts payable (except related parties)	2 153 419	231 966
Liabilities to related parties (note 16)	197 006	370 857
Total accounts payable	**2 350 425**	**602 823**

Note 9 Accrued expenses and other liabilities

	31.12.2009	31.12.2008
Payables to employees	557 383	552 365
Tax liabilities	328 782	273 527
incl. social security tax	191 454	169 315
incl. personal income tax withheld	108 110	92 358
incl. unemployment insurance premium	19 989	3 363
incl. contributions to mandatory pension	5 514	8 964
incl. corporate income tax	1 720	-1 826
incl. value added tax	1 995	1 353
Total	**886 165**	**825 892**

Note 10 Provisions

AS LHV Varahaldus has given DVD-players and gift cards to clients joining the pension funds in previous periods, which are treated as expenses related to business. There was an ongoing discussion with the Tax Board in earlier years as to whether to recognise these items as purely advertising costs to attract clients or gifts, as a result of which a short-term provision was formed in balance sheet to cover potential corporate income tax and interest liabilities. In 2008, as a result of consultations with the Tax Board, it was concluded that the amount of 4 880 000 kroons recognised as a provision in the balance sheet for 2007 can be released and income from such release of provision is recognised under other operating income in the income statement.

As at 31.12.2009 a provision has been made to cover potential selling costs.

Note 11 Subordinated liabilities

In 2008, the Company sustained a financial loss in the total amount of 10 038 629 kroons due to a decline in the market value of fund units under management of the Company. The mentioned loss led to a significant decrease of the Company's own funds. To comply with the minimum requirement for own funds (3 million euros or 46 939 800 kroons), the Company carried out three issues of subordinated bonds denominated in euros in the total amount of 12 517 280 kroons with an interest rate of 16% and a maturity term of 7 years. The bonds were purchased by the parent AS LHV Group. In 2009, bonds were redeemed in the amount of EEK 3 129 320 and as at 31.12.2009, the bonds are carried in the balance sheet in the amount of EEK 9 387 960.

Interest expenses on subordinated bonds in the amount of 1 936 653 kroons are recognised under interest expenses in the income statement (2008: 319 886 kroons). The non-current portion of non-current liabilities in the balance sheet is recognised in the amount of 548 359 kroons (31.12.2008: 319 886 kroons).

Note 12 Own funds

As at 31.12.2009 the company´s share capital is 63 000 000 kroons, which consits of 6 300 000 shares with nominal value of 10 kroons.

The Company`s own funds consist of:	**31.12.2009**	**31.12.2008**
Tier 1 own funds	**40 219 846**	**43 358 328**
Share capital, incl. share premium	67 100 000	67 100 000
Accumulated losses	-22 552 350	-15 675 196
Net loss for the financial year	-4 327 804	-6 877 154
Intangible assets	0	-1 189 322
Tier 2 own funds	**9 387 960**	**12 517 280**
Subordinated fixed-term liabilities	9 387 960	12 517 280
Total net own funds	**49 609 806**	**55 875 608**

Note 13 Fee income

	2009	**2008**
Pension fund management (note 16)	11 761 671	9 384 288
Investment fund management (note 16)	1 513 030	2 509 347
Fund issue and redemption fees	1 409 329	2 354 466
Total	**14 684 030**	**14 248 101**

In the financial year and in 2008, the Company's services were rendered only in Estonia.

Note 14 Operating expenses

	2009	2008
Marketing expenses	12 906 097	5 376 078
Advertising expenses	1 250 929	548 107
Other purchased services	1 671 391	1 573 756
Office expenses	1 028 723	1 093 815
Depository fees	1 020 807	808 571
Registration fees	779 619	576 625
Supervision and guarantee fees	504 662	331 628
Legal consultations and audit	399 340	324 972
Communication costs	303 292	381 971
Travel and training cots	112 452	269 926
Transport expenses	102 520	53 073
Bank services, management and transaction fees	30 010	31 565
IT expenses	77 774	21 487
Total operating expenses	**20 187 616**	**11 391 574**

A significant increase in marketing expenses in 2009 is related to more active sales activities targeted at attracting new customers to the funds managed by LHV Varahaldus. A total of 12 600 new customers invested in the 2nd pillar pension funds during the accession period at the beginning of 2010, thereby increasing the customer base by 40%.

Note 15 Finance and operating lease

The Company leases office space under the operating lease terms and a passenger car under the finance lease terms. In the reporting period, the rent for the office space in the total amount of 896 932 kroons was recognised under other operating expenses in the income statement. Interest expenses in the amount of 20 675 kroons arising from payment of financial lease instalments are recognised under interest expenses in the income statement. Principal payments of the finance lease total 88 910 kroons and are recognised as a deduction of financial lease liabilities. The finance lease agreement is entered into with an expiry date of 15.03.2013, interest rate 5.53% and the underlying currency of the contract is euro.

In 2008, the rent for the office space totalled 962 172 kroons. The principal rental payments for passenger cars totalled 118 587 kroons and the related interest expense was 18 537 kroons.

Note 16 Related party transactions

Related parties are owners, members of the Management Board and the Supervisory Board, companies related to them as well as funds managed by AS LHV Varahaldus.

The owners of AS Varahaldus are :	
AS LHV Group	71,48%
European Bank for Reconstruction and Development (EBRD)	9,52%
Seesam Life Insurance SE	19,00%

AS LHV Varahaldus conducted transactions with managed funds in the following amounts:

Management fees	Revenues 2009	Receivable as at 31.12.2009	Revenues 2008	Receivable as at 31.12.2008
Pension funds (note 13)	11 761 671	1 155 345	9 384 288	759 115
Investment funds (note 13)	1 513 030	150 820	2 509 347	98 872
Total	**13 274 701**	**1 306 165**	**11 893 635**	**857 987**

As at 31.12.2009, the investment account at LHV included deposits held at call in the total amount of 78 260 kroons (31.12.2008: 370 857 kroons), see also Note 3.

In 2009, the services from LHV for rent, marketing and administration were purchased for 1 861 483 kroons. The expenses have been accounted as part of operating expenses in the income statement. As at 31.12.2009 the liability to LHV is 197 006 kroons.

In 2008, services were purchased for 1 859 471 kroons. As at 31.12.2008, the liability to LHV is recognised in the amount of 30 992 kroons in the balance sheet and loans granted at 7 700 000 kroons in the balance sheet (see Note 6).

Subordinated liability to the parent AS LHV Group is recognised in the amount of 9 387 960 kroons in the balance sheet (31.12.2008: 12 517 280 kroons), see Note 11.

The Company has entered into contracts with the members of the Management Board upon termination of which no termination benefits have been stipulated. In matters not regulated by the contract, the parties abide by the procedure established in legislation of the Republic of Estonia.

During the reporting period, salaries were paid to the members of the Management Board in the amount of 474 200 kroons (2008: 478 423). No remuneration was paid to members of the Supervisory Board. The members of the Supervisory Board covered by employment contracts were paid remuneration of 312 000 kroons (2008: 312 000 kroons). As at 31.12.2009, liabilities to members of the Management Board totals 32 072 kroons (31.12.2008: 31 440 kroons). As at 31.12.2009, liabilities to members of the Supervisory Board totals 19 547 kroons (31.12.2008: 20 478 kroons).

During the reporting period the amount of remunerations paid to employees totalled 3 154 192 kroons (2008: 3 375 704 kroons) and the Company had 9 employees on average (2008: 8).

No impairment losses were recognised for receivables from related parties in 2009 and in 2008.

Note 17 Contingent liabilities

Tax authorities have the right to review to 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 Company's management estimates that there are not any circumstances which may lead tax authorities to impose additional taxes on the Company.

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS LHV Varahaldus

We have audited the accompanying financial statements of AS LHV Varahaldus (the Company) which comprise the balance sheet as of 31 December 2009 and the income statement, statement of changes in equity and 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 financial statements in accordance with accounting principles generally accepted in Estonia. 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 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.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.

/signed/

Tiit Raimla
AS PricewaterhouseCoopers

30 April 2010

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Proposal for covering net loss for financial year

The Management Board of AS LHV Varahaldus proposes to the General Meeting of Shareholders to add the loss for 2009 in the amount of 4 327 804 kroons to the accumulated losses from previous years.

Signatures of the Management Board and the Supervisory Board to the 2009 Annual Report

The Management Board has prepared the management report and the financial statements of AS LHV Varahaldus for the financial year ended on 31 December 2009.

The Suprevisory Board has reviewed the annual report, which consits of management report and financial statements, independent auditor´s report and the proposal of allocation of net loss for financial year and approved it for presentation at the General Meeting of Shareholders.

MANAGEMENT BOARD
30.04.2010

Members of the Management Board:

Mihkel Oja / signed /

Kerli Lõhmus / signed /

SUPERVISORY BOARD
__.__.2010

Chairman of the Supervisory Board

Andres Viisemann/ signed /

Members of the Supervisory Board:

Rain Lõhmus / signed /

Erki Kilu / signed /

Charles Smith / signed /

The revenue of AS LHV Varahaldus according to EMTAK

EMTAK	Field of activity	2009	2008
66301	Fund management	14 684 030	14 248 101
	Total	**14 684 030**	**14 248 101**