AS Lõhmus, Haavel & Viisemann

2006 Annual Report of the Group

(translation of the Estonian original)

Annual Report for 01.01.2006 – 31.12.2006

Business name	AS Lõhmus, Haavel & Viisemann
Commercial Registry no.	10539549
Legal address	Tartu mnt. 2, 10145 Tallinn
Phone	(372) 6800401
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Main activity	Investment banking and securities brokerage
Management Board	Liisi Ruus
	Andres Viisemann
Supervisory Board	Rain Lõhmus
	Jüri Heero
	Tiina Mõis
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT FOR 2006

LHV's 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.

A larger client base and expansion of the range of services and products have led to an increase of employees to 38 people. In the financial year, employee wages and salaries amounted to 9.2 million kroons or 68% more than in 2005 (5.5 million kroons). The remuneration of the Company's management totalled 0.8 million kroons (2005: 1.5 million kroons).

The Company's net profit for the financial year totalled 0.4 million kroons. The modest operating profit was due to higher payroll expenses and the costs related to the SEC lawsuit which was filed at 1 November 2005. This lawsuit has not been settled by the date of this report.

	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%

Restructuring of the Group

In the summer of 2004, the Group was restructured and after the transfer of the departments of corporate finance and investment products to the subsidiary AS LHV Financial Advisory Services, the parent company AS LHV Group was divided in August 2006. The latter was related to the different business logic of the business areas of investment products and financial advisory services.

The financial advisory services and management of hedge funds is an extremely person-centred and knowledge-intensive area as result of which it operates the best under the principle of partnership. On the other hand, the servicing of retail clients focuses on the wide market and presupposes a different business and management model.

The activity plan for the division was approved by the General Meeting of Shareholders of AS LHV Group. After the division, Rain Lõhmus and Andres Viisemann are the shareholders and besides AS Lõhmus, Haavel & Viisemann the following companies are part of the Group:

	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 LHV Varahaldus	Associate	31%	Estonia	Fund management

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

LHV's priorities for the year 2007

Our goal 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, pension funds, 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.

The core values and mission of LHV

- Innovative
  We are eager to learn and open for change
- Customer-centered
  We are a reliable, close and flexible ally who provides services closely matching one's expectations and needs as well as flexible support. We move quickly and efficiently, because we cannot stand foot-dragging and red tape.
- Results-oriented
  Customers have a right to get the best service from us.
- Transparent and straight-forward
  When we talk about investing, we keep it clear and simple. We are always honest and trustworthy.

LHV's mission is to improve the investment knowledge of its clients as well as potential investors, to bring the world's financial markets and their investment opportunities close to our customers and to provide friendly and personal service in the customer's mother tongue. The LHV team is filled with friendly, active, creative, and ambitious solution-finders who enjoy their work.

Long-term goals for 2007-2009

- Offer a rich variety of investment services in a Web-based environment, as well as through personal channels.
- Increase the pan-Baltic customer base and turnover through new target groups and cooperation projects and keep the existing customers satisfied.
- Grow into a strong and sustainable organisation where the best financial minds can realize their potential.
- Solidifying the LHV brand.

In order to implement the strategy of LHV, the management structure of LHV has been changed and strategy, investment, development and venture capital committees have been set up with the task of facilitating comprehensive development of the Company. From September 2006, Liisi Ruus became the Managing Director and Chairman of the Management Board. As at the date of the report, Andres Viisemann is the member of the Management Board. The auditor of KPMG, Triin Tiedemann acted as the internal auditor. In order to make the internal control system of the Company more efficient, a compliance officer was hired in addition to the internal auditor in October 2006. As at the date of the report, the members of the Supervisory Board are Tiina Mõis, Rain Lõhmus and Jüri Heero.

CONSOLIDATED FINANCIAL STATEMENTS

Management Board's declaration

The Management Board confirms the correctness and completeness of the consolidated 2006 financial statements of AS Lõhmus, Haavel & Viisemann presented on pages 7-43.

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 Lõhmus, Haavel & Viisemann and the companies belonging to its group for consolidation purposes are going concern.

Management Board		**Date**	**Signature**
Charirman of the Management Board	Liisi Ruus	28.02.2007	
Member of the Management Board	Andres Viisemann	28.02.2007	

Consolidated balance sheet

(In thousand Estonian kroons)

	Note	31.12.2006	31.12.2005
Assets			
Cash and bank	5	13 836	31 673
Derivatives	6	64	0
Other financial assets at fair value through profit or loss	7	278	1 712
Loans to customers	8	44 297	11 755
Receivables from customers	9	1 819	532
Finance lease receivables	10	4 582	10 848
Other assets	11	766	3 232
Property, plant and equipment and intangible assets	12	607	1 090
Total assets		**66 249**	**60 842**
Liabilities			
Derivatives	6	30	117
Loans received	13	33 202	14 052
Other financial liabilities	14	0	10 507
Accrued expenses and other liabilities	15.16	3 271	3 627
Bonds issued	17	6 426	11 931
Provisions	18	4 880	5 430
Total liabilities		**47 809**	**45 664**
Shareholders' equity			
Share capital	19	12 600	12 600
Reserves		1 518	1 518
Retained earnings		4 322	1 060
Total shareholders' equity		**18 440**	**15 178**
Total liabilities and shareholders' equity		**66 249**	**60 842**

The notes on pages 12 to 43 are an integral part of these financial statements.

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Kuupäev/date 28.02.07.
PricewaterhouseCoopers, Tallinn

Consolidated income statement

(In thousand Estonian kroons)

	Note	2006	2005
Fee and commission income	23	27 768	38 594
Fee and commission expense	23	-5 952	-20 765
Net fee and commission income		**21 816**	**17 829**
Interest income	24	4 407	3 985
Interest expense	24	-1 122	-1 026
Net interest income		**3 285**	**2 959**
Net profit/loss from trading	25	1 496	1 327
Net profit/loss from investment securities	25	0	763
Dividend income	25	83	30
Net profit/loss from securities		**1 579**	**2 120**
Operating expenses	26	-28 735	-27 964
Other income	27	2 423	1 770
Profit before income tax		**368**	**-3 286**
Income tax expense	28	0	-1 251
Profit for the year		**368**	**-4 537**

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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		-5 952	-20 765
Operating and other expenses paid		-27 512	-21 196
Finance lease receivables aquired		0	-18 529
Finance lease receivables paid by customers		6 258	7 654
Interest received		4 029	4 032
Interest paid		-579	-117
Settlement of foreign currency forward contracts		-152	-81
Net acquisition/disposal of trading portfolio		415	-642
Change in loans granted		-32 157	-3 155
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	28	0	-1 251
Freezing of cash and bank accounts	5	0	-27 774
Released previously frozen bank accounts	5	26 913	0
Net cash generated from operating activities		**-4 524**	**-28 870**
Cash flows from investing activities			
Non-current assets acquired	12	-381	-318
Purchase of investment securities		0	-473
Proceeds from sale of investment securities		828	7 916
Paid for the acquisition (in 2004) of associates		0	-8 229
Proceeds from sale (in 2004) of associates		0	7 480
Proceeds from sale of investments related to restructuring (in 2004)		0	26 015
Dividends received from investment securities	25	83	23
Net cash used in investing activities		**530**	**32 414**
Cash flows from financing activities			
Treasury shares purchased	19	0	-27 554
Guarantee payment received		0	141
Issued bonds		0	18 529
Redeemed bonds		-5 440	-6 736
Loans received		56 176	19 000
Loan repayments		-37 102	-5 400
Intrerest paid		-564	-694
Dividends paid	28	0	-3 962
Net cash used in financing activities		**13 070**	**-2 714**
Net increase/decrease in cash and cash equivalents		**9 076**	**-3 132**
Cash and cash equivalents at beginning of the year	5	3 899	7 031
Cash and cash equivalents at end of the year	**5**	**12 975**	**3 899**

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Consolidated statement of changes in shareholders' equity

(In thousand Estonian kroons)

	Share capital	Share premium	Treasury shares	Statutory reserve	Retained earnings	Total
Balance as at 01.01.2005	**30 000**	**454**	**-1 880**	**1 046**	**16 065**	**45 685**
Transfer to statutory reserve	0	0	0	472	-472	0
Dividends paid	0	0	0	0	-3 962	-3 962
Treasury shares repurchased	0	0	-27 554	0	0	-27 554
Cancellation of treasury shares and decreasing of share capital	-17 400	-454	29 434	0	-11 580	0
Contribution by shareholders	0	0	0	0	5 546	5 546
Net profit for 2005	**0**	**0**	0	0	-4 537	-4 537
Balance as at 31.12.2005	**12 600**	**0**	**0**	**1 518**	**1 060**	**15 178**
Balance as at 01.01.2006	**12 600**	**0**	**0**	**1 518**	**1 060**	**15 178**
Contribution by shareholders	**0**	**0**	0	0	2 894	2 894
Net profit for 2006	**0**	**0**	0	0	368	368
Balance as at 31.12.2006	**12 600**	**0**	**0**	**1 518**	**4 322**	**18 440**

More detailed information is provided in Note 19.

The notes on pages 12 to 43 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General information

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

LHV 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 28 February 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.

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 3.

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:

IFRS 8 – Operating Segments – effective January 2008.

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).

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 Lõhmus, Haavel & Viisemann (parent company) and its subsidiary Ilmarise Kinnisvaraportfelli OÜ (Estonia–100% owned).

<u>Parent company separate financial statements – primary statements presented as additional disclosure to these consolidated financial statements</u>

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 32), the investments into the shares of subsidiaries are accounted for at cost less any impairment recognized.

2.3 Foreign currency translation

(a) Functional and presentation currency

The Group's functional and presentation currency is the Estonian kroon.

(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.

2.4 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.

2.5 Financial assets

LHV 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 2.7),
- 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 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).

2.6 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".

2.7 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. 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.

2.8 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 2.6.

2.9 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.

2.10 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.

2.11 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.

2.12 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".

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 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".

2.19Taxation 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.

2.20 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.

2.21 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.

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 Contributions by shareholders

The company has an investment contract with two shareholders of the parent company (see note 19). In the financial statements of 2005 the contributions by these investors under the investment contract in amount of 5 546 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, these payments have been reclassified from income statement to be direct contributions to owners' equity. As a result of that restatement the profit for 2005 has been reduced by this amount and the contributions by shareholders are shown as direct payments to equity on a separate line in the statement of changes in shareholders' equity.

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 2.9, 2.10 and 12) 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	12 975	3 899
Total cash and cash equivalents	**12 975**	**3 899**
Other receivables from financial institutions (Note 18)	861	27 774
Total cash and bank	**13 836**	**31 673**

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	828
Total financial assets	**278**	**1 712**

* all investments previously classified as „designeted at fair value through profit or loss at inception" were disposed of in 2006. Respective gains/losses are stated in Note 25. 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	7 945	Note 31	6,5%-11,25%
incl. related parties (Note 20)	*0*	*350*	*Note 31*	*4,7%*
Loans to private persons	13 573	3 460	Note 31	6,5%-11,25%
Allowances for loans	-51	0		
Total loans	**44 297**	**11 755**		

According to regions:	31.12.2006	31.12.2005
Estonia	14 733	7 053
Lithuania	29 564	4 702
Total loans	**44 297**	**11 755**

Distribution of loans to customers by currency is presented in Note 31 on page 36.

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 during the loan period.

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	251
incl. related parties	*0*	*251*
Total	**1 819**	**532**

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 parent company, 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 24.)

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
Other prepayments *	294	281
Total	**766**	**3 232**

* 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. Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets	Total
Balance as at 31.12.2005			
Cost	2 890	841	3 731
Accumulated depreciation	-1 846	-795	-2 641
Net book amount	**1 044**	**46**	**1 090**
Changes occurred in 2006			
Purchase of property, plant and equipment	336	45	381
Depreciation charge	-828	-36	-864
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	2 597	816	3 413
Accumulated depreciation	-1 047	-764	-1 811
Net book amount	**1 550**	**52**	**1 602**
Changes occurred in 2005			
Purchase of property, plant and equipment	293	25	318
Depreciation charge	-799	-31	-830
Balance as at 31.12.2005			
Cost	2 890	841	3 731
Accumulated depreciation	-1 846	-795	-2 641
Net book amount	**1 044**	**46**	**1 090**

Note 13. Loans received

	Loan balance 31.12.2006	Loan balance 31.12.2005	Nominal interest
Loans from parent company (Note 20)	2 984	0	5%
Loans from group companies (Note 20)	4 295	5 552	3-5%
Loans from shareholders and companies related to them (Note 20)	981	8 500	0-5%
Loans from financial institutions	4 862	0	6,25%
Other loans	20 080	0	5-7%
Total	**33 202**	**14 052**	

The loans received are denominated in Estonian kroons and Euros. The due dates are presented in Note 31, in tables summarising liquidity risks, and foreign currency positions in page 36.

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 14. Other financial liabilities

	31.12.2006	31.12.2005
Liabilities arising from investment contract (Note 19,20)	0	174
Quarantee deposit received from companies related to shareholders (Note 20)	0	1 432
Other payables to companies related to shareholders (Note 20)	0	3 819
Other payables to customers	0	5 082
Total	**0**	**10 507**

Note 15. Accrued expenses

	31.12.2006	31.12.2005
Supplier payables	690	1 914
Tax liabilities (Note 16)	1 151	836
Payables to employees	1 430	877
Total	**3 271**	**3 627**

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.

Note 16. Tax liabilities

	31.12.2006	31.12.2005
Personal income tax	409	163
Social security tax	640	272
Unemployment and pension insurance payments	45	23
Corporate income tax on fringe benefits	14	4
Value added tax	43	374
Total	**1 151**	**836**

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. Shareholders' equity

The sole shareholder of the Group is AS LHV Group, an Estonian registered company. The ultimate controlling party is Rain Lõhmus with a share of 57% in the voting rights of LHV Group. Significant influence is with 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)*	12 600	12 600
Number of shares	1 260 000	1 260 000
Par value of a share *(in kroons)*	10	10

According to the Company's articles of association, the minimum share capital is 12 000 000 and the maximum share capital is 48 000 000 kroons. The share capital has been fully paid in cash.

As at 31.12.2004, the Company has a share capital of 3 000 000 shares and 170 000 of them were held as treasury shares. In 2005, a total of 1 570 000 treasury shares were repurchased from the parent company AS LHV Group amounting to 27 554 thousand kroons. In June 2005, a resolution was adopted to cancel all the 1 740 000 treasury shares and decrease share capital to 12 600 thousand kroons. The decrease of shares was registered in the Estonian Central Depository of Securities at 25 October 2005 and in the Commercial Registry at 5 January 2006.

In 2001, AS LHV 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 10.7 million kroons. 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. In 2006, contributions according to the investment contract were recognised in the statement of changes in shareholders´ equity in the amount of 2 894 thousand kroons and in 2005 in amount of 5 546 thousand kroons (Note 20).

As at 31.12.2006 there are no more liabilities of AS LHV arising from the investment contracts to its shareholders [2005: 174 thousand kroons] (Notes 14 and 20).

In 2005, dividends in the amount of 3 962 thousand kroons were declared and paid to the shareholders, respective tax expense being 1 251 thousand kroons (Note 28). In 2006 no dividend payments were made.

As at 31.12.2006, the Group's retained earnings amounted to 4 322 thousand kroons (31.12.2005: 1 060 thousand kroons). 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. Thus, as at the balance sheet date, it is possible to pay out dividends to the shareholders out of retained earnings amounting to 3 371 thousand kroons and accompanying income tax on dividends would amount to 951 thousand kroons. As at 31.12.2005, it would have been possible to pay out 816 thousand kroons, and the accompanying income tax would have amounted to 244 thousand kroons (Note 28).

Note 20. Transactions with related parties

In preparing the consolidated financial statements of AS LHV, 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 the parent company, 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	350
Loans granted as at the year-end (Note 8)	**0**	**350**
Parent company	2 984	0
Group companies	4 295	0
Former group companies	0	5 552
Shareholders and the related companies	981	8 500
Loans received as at the year-end (Note 13)	**8 260**	**14 052**

Transactions	**2006**	**2005**
Interest revenues from related parties (Note 24)	2	30
Interest expenses to related parties (Note 24)	346	161
Net interest income/expense	**-344**	**-131**
Shareholders and related companies	550	1 434
Former group companies	0	633
Total fee and commission income (Note 23)	**550**	**2 067**
Former group companies	180	8 324
Total fee and commission expense (Note 23)	**180**	**8 324**
Parent company	98	0
Former group companies	739	677
Total operating expenses (Note 26)	**837**	**677**
Parent company	0	141
Group companies	700	481
Former group companies	1 004	881
Total other income (Note 27)	**1 704**	**1 503**
Former group companies	340	-20
Profit/(loss) from forward transactions	**340**	**-20**
Contributions by shareholders	2 894	5 546
Total contributions to shareholders ´equity (Note 19)	**2 894**	**5 546**

Other balances	**31.12.2006**	**31.12.2005**
Parent company	0	47
Group companies	0	168
Shareholders and related companies	0	36
Receivables as at the year-end (Note 9)	**0**	**251**
Shareholders and related companies	0	5 425
Liabilities as at the year-end (Note 14)	**0**	**5 425**

The 100% parent company of AS LHV is AS LHV Group, which in turn 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 AS LHV 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 15). 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 22.

Note 21. 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 26)	**1 652**	**1 766**

Note 22. Contingencies and commitments

AS LHV, operating as an account manager for its customers, has custody of or intermediates the following customer assets:

	31.12.2006	**31.12.2005**
Cash balance of customers	**225 423**	**347 749**
incl. group companies	0	10 835
incl. shareholders and related companies	266	141 750
Securities of customers	**1 622 587**	**1 399 756**
incl. parent company	33 354	42 999
incl. group companies	0	20 350
incl. shareholders and related companies	76 856	75 469
Total	**1 848 010**	**1 747 505**

Management fees for the management of these assets has been in the range of 0,015 - 0,025 % (See respective income in Note 23).

Note 23. Net fee and commission income

	2006	**2005**
Fee and commission income		
Financial advisory services	2 120	4 162
Securities brokerage and commissions	21 489	28 600
incl. related companies	*530*	*1 773*
Assets management and similar fees	4 159	5 832
incl. related companies	*20*	*294*
Total	**27 768**	**38 594**
Fee and commission expense		
Financial advisory and other similar services purchased	-1 463	-13 820
incl. related companies	*180*	*8 324*
Securities brokerage and commissions paid	-4 489	-6 945
Total	**-5 952**	**-20 765**
Net fee and commission income	**21 816**	**17 829**

Note 24. Net interest income

	2006	2005
Interest income from		
Cash and bank accounts	1 062	1 163
Fixed income securities	0	8
Finance lease (Note 10)	552	960
Margin loans and lending of securities (Note 8)	2 662	1 242
Loans (Note 8)	131	612
incl. loans to related parties (Note 20)	*2*	*30*
Total	**4 407**	**3 985**
Interest expense		
Bonds issued (Note 17)	-500	-832
Loans received (Note 13)	-622	-194
incl. loans from related parties (Note 20)	*- 346*	*- 161*
Total	**-1 122**	**-1 026**
Net interest income	**3 285**	**2 959**

Note 25. 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 securities		
Profit/loss from revaluation and sale of bonds	0	143
Profit/loss from revaluation and sale of equity shares and fund shares	0	620
Total	**0**	**763**
Dividend income		
Investments held for trading	83	7
Investments designated at fair value through profit or loss at inception	0	23
Total	**83**	**30**
Net profit/loss from securities	**1 579**	**2 120**

Note 26. 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
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		2 863	2 435
Depreciation	12	864	830
Operating lease payments	21	1 652	1 766
Other operating expenses		312	5 727
Total operating expenses		**28 735**	**27 964**

Note 27. 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 28. 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 at rate of 22/78 (until 31.12.2005: 23/77) of net dividend paid. In 2006, no dividend payments were made to the shareholders. In 2005, dividends were paid to the shareholders in the amount of 3 962 thousand kroons, on which corporate income tax amounted to 1 251 thousand kroons.

Note 29. 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 30. 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 31. Risk management

Risk management policy

The principles of identification, management and control of risks at LHV are set out in the policies and procedures approved by the Supervisory Board of the parent company AS LHV Group. 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 LHV are:

- market risk,
- credit 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, LHV 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 LHV'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, LHV 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	4 393	3 899
USA	9 421	27 774
Other	22	0
Total	**13 836**	**31 673**

Financial assets at fair value through profit or loss	**31.12.2006**	**31.12.2005**
Shares and bonds		
Estonia	0	341
Lithuania	0	131
Europe	44	0
USA	10	62
Total	**54**	**534**
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	12 932	15	1	2	0	882	4	**13 836**
Financial assets at fair value through profit or loss	0	131	0	0	52	77	18	**278**
Loans to customers	12 821	3 370	21 194	423	1 875	3 827	687	**44 297**
Receivables from customers	931	0	0	0	0	672	216	**1 819**
Other assets	524	0	82	89	0	71	0	**766**
Total assets bearing currency risk	**27 208**	**3 516**	**21 377**	**514**	**1 927**	**5 529**	**925**	**60 996**
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 *	**32 397**	**3 516**	**21 377**	**514**	**1 927**	**5 529**	**925**	**66 185**
Contingencies at contractual amounts (Note 6)	**4 658**	**0**	**0**	**0**	**0**	**0**	**0**	**4 658**
Liabilities bearing currency risk								
Loans received	27 827	3 484	1 911	0	0	0	0	**33 202**
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	**30 549**	**3 517**	**2 373**	**34**	**0**	**4 880**	**0**	**41 353**
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 *	**36 975**	**3 517**	**2 373**	**34**	**0**	**4 880**	**0**	**47 779**
Commitments at contractual amounts (Note 6)	**0**	**0**	**0**	**0**	**2 248**	**2 376**	**0**	**4 624**
Shareholder´s equity	18 440	0	0	0	0	0	0	18 440
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.

As at 31.12.2005

Assets bearing currency risk	EEK	EUR	LTL	LVL	SEK	USD	Other	Total
Cash and bank	3 899	0	0	0	0	27 774	0	**31 673**
Financial assets at fair value through profit or loss	341	1 016	131	0	15	198	11	**1 712**
Loans to clients	3 707	735	4 423	90	526	2 274	0	**11 755**
Receivables from customers	246	110	0	0	0	26	150	**532**
Other assets	1 828	0	82	0	0	1 322	0	**3 232**
Total assets bearing currency risk	**10 021**	**1 861**	**4 636**	**90**	**541**	**31 594**	**161**	**48 904**
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	1 090	0	0	0	0	0	0	**1 090**
Total assets not bearing any currency risk	**11 938**	**0**	**0**	**0**	**0**	**0**	**0**	**11 938**
Total assets	**21 959**	**1 861**	**4 636**	**90**	**541**	**31 594**	**161**	**60 842**
Contingencies at contractual amounts (Note 6)	**27 082**	**0**	**0**	**0**	**0**	**0**	**0**	**27 082**
Liabilities bearing currency risk								
Loans received	14 052	0	0	0	0	0	0	**14 052**
Other financial liabilities	5 425	0	0	0	0	5 082	0	**10 507**
Accrued expenses	2 350	16	14	31	0	1 216	0	**3 627**
Provisions	0	0	0	0	0	5 430	0	**5 430**
Total liabilities bearing currency risk	**21 827**	**16**	**14**	**31**	**0**	**11 728**	**0**	**33 616**
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	**33 758**	**16**	**14**	**31**	**0**	**11 728**	**0**	**45 547**
Commitments at contractual amounts (Note 6)	**0**	**0**	**5438**	**0**	**168**	**21 593**	**0**	**27 199**
Shareholders' equity	15 178	0	0	0	0	0	0	15 178
Open foreign currency position	**105**	**1 845**	**-816**	**59**	**373**	**-1 726**	**161**	**0**

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Liquidity risk

Liquidity risk relates to the solvency of LHV to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. The CEO of LHV 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	12 975	861	0	0	**13 836**
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	82	81	676	3 745	**4 582**
Property, plant and equipment and intanbible assets	0	0	607	0	**607**
Other assets	0	537	229	0	**766**
Total assets	**58 898**	**2 094**	**1 512**	**3 745**	**66 249**
Liabilities					
Derivatives	22	8	0	0	**30**
Loans received	30 218	2 984	0	0	**33 202**
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	**35 357**	**7 983**	**683**	**3 786**	**47 809**
Liquidity gap	**23 513**	**-5 909**	**836**	**-41**	**18 440**
Total equity					***18 440***

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As at 31.12.2005

Assets	up to 3 months	3-12 months	1-5 years	over 5 years	Total
Cash and bank	27 082	4 591	0	0	**31 673**
Financial assets at fair value through profit or loss	884	828	0	0	**1 712**
Loans to clients	10 801	500	454	0	**11 755**
Receivables from customers	532	0	0	0	**532**
Finance lease receivables	297	273	1 265	9 013	**10 848**
Property, plant and equipment and intangible assets	0	0	1 090	0	**1 090**
Other assets	0	1 800	1 432	0	**3 232**
Total assets	**39 596**	**7 992**	**4 241**	**9 013**	**60 842**
Liabilities					
Derivatives	117	0	0	0	**117**
Loans received	8 500	5 552	0	0	**14 052**
Other financial liabilities	10 333	174	0	0	**10 507**
Accrued expenses and other liabilities	3 627	0	0	0	**3 627**
Bonds issued	1 214	389	1 276	9 052	**11 981**
Provisions	0	5 430	0	0	**5 430**
Total liabilities	**23 791**	**11 545**	**1 276**	**9 052**	**45 664**
Liquidity gap	**15 805**	**-3 553**	**2 965**	**-39**	**15 178**
Total equity					***15 178***

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 LHV 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 LHV'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 LHV and internal audit have a helping, controlling and summarising function.

Note 32. 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	11 951	30 497
Financial assets at fair value through profit or loss	278	1 712
Derivatives	64	0
Loans to cutomers	44 297	11 755
Receivables from customers	1 819	532
Other assets	766	3 232
Investments in subsidiaries	40	40
Property, plant and equipment and intangible assets	607	1 090
Total assets	**59 822**	**48 858**
Liabilities		
Derivatives	30	117
Loans received	33 202	14 052
Other financial liabilities	0	10 507
Accrued expenses and other liabilities	3 271	3 627
Provisions	4 880	5 430
Total liabilities	**41 383**	**33 733**
Shareholders´ equity		
Share capital	12 600	12 600
Reserves	1 518	1 518
Retained earnings	4 321	1 007
Total shareholders´ equity	**18 439**	**15 125**
Total liabilities and shareholders´equity	**59 822**	**48 858**

Income statement of the parent company

(In thousand Estonian kroons)

	2006	2005
Fee and commission income	27 768	38 594
Fee and commission expence	-5 952	-20 765
Net fee and commission income	**21 816**	**17 829**
Interest income	3 854	3 022
Interest expence	-622	-194
Net interest income	**3 232**	**2 828**
Net profit/loss from trading	1 496	1 327
Net profit/loss from investment securities	0	763
Dividend income	83	30
Net profit/loss from securities	**1 579**	**2 120**
Operating expenses	-28 630	-27 886
Other income	2 423	1 770
Profit before income tax	**420**	**-3 338**
Income tax expence	0	-1 251
Profit/loss for the year	**420**	**-4 590**

Cash flow statement of the parent company

(In thousand Estonian kroons)

	2006	2005
Cash flows from operating activities		
Fee and commission income received	30 590	40 333
Fee and commission, operating and other expenses paid	-33 359	-41 884
Interest received	3 469	3 184
Interest paid	-579	-117
Settlement of foreign currency forward contracts	-152	-81
Net acquisition/disposal of trading portfolio	415	-642
Change in loans granted	-32 157	-3 155
Change in other liabilities	-7 581	13 731
Increasing of the stock exchange security deposit	1 204	-1 110
Corporate income taxpaid on dividends	0	-1 251
Freezing of cash and bank accounts	0	-27 774
Released previously frozen bank accounts	26 913	0
Net cash generated from operating activities	**-11 237**	**-18 766**
Cash flows from investing activities		
Non-current assets acquired	-381	-318
Purchase of investment securities	0	-473
Sale of investment securities	828	7 916
Paid for the acquisition of associates in 2004	0	-8 229
Proceeds from sale of associates in 2004	0	7 480
Proceeds from sale of investments related to restructuring in 2004	0	26 015
Dividends received from investment securities	83	23
Net cash used in investing activities	**530**	**32 414**
Cash flows from financing activities		
Treasury shares purchased	0	-27 554
Loans received	51 891	19 000
Loan repayments	-37 102	-5 440
Received collateral loans	4 285	0
Dividends paid	0	-3 962
Net cash used in financing activities	**19 074**	**-17 956**
Net increase/decrease in cash and cash equivalents	**8 367**	**-4 308**
Cash and cash equivalents at beginning of the year	2 723	7 031
Cash and cash equivalents at end of the year	**11 090**	**2 723**

Statement of changes in shareholders' equity

(In thousand Estonian kroons)

	Share capital	Share premium	Treasury shares	Statutory reserve	Retained earnings	Total
Balance as at 01.01.2005	**30 000**	**454**	**-1 880**	**1 046**	**16 065**	**45 685**
Transfer to statutory reserve	0	0	0	472	-472	0
Dividends paid	0	0	0	0	-3 962	-3 962
Treasury shares repurchased	0	0	-27 554	0	0	-27 554
Cancellation of treasury shares and decreasing of share capital	-17 400	-454	29 434	0	-11 580	0
Contribution by shareholders	**0**	**0**	0	0	5 546	5 546
Net profit for 2005	0	0	0	0	-4 590	-4 590
Balance as at 31.12.2005	**12 600**	**0**	**0**	**1 518**	**1 007**	**15 125**
Carrying amount of holdings under control and significant influenses	0	0	0	0	-40	-40
Carrying amount of holdings under control and significant influence under equity method	0	0	0	0	93	93
Adjusted consolidated equity at 31.12.2005	**12 600**	**0**	**0**	**1 518**	**1 060**	**15 178**
Balance as at 01.01.2006	**12 600**	**0**	**0**	**1 518**	**1 007**	**15 125**
Contribution by shareholders	0	0	0	0	2 894	2 894
Net profit for 2006	0	0	0	0	420	420
Balance as at 31.12.2006	**12 600**	**0**	**0**	**1 518**	**4 321**	**18 439**
Carrying amount of holdings under control and significant influenses	0	0	0	0	-40	-40
Carrying amount of holdings under control and significant influence under equity method	0	0	0	0	41	41
Adjusted consolidated equity at 31.12.2006	**12 600**	**0**	**0**	**1 518**	**4 322**	**18 440**

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)

To the Shareholder of AS Lõhmus, Haavel & Viisemann

We have audited the accompanying consolidated financial statements of AS Lõhmus, Haavel & Viisemann and its subsidiary (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

28 February 2007

Proposal for profit allocation

The Management Board of AS LHV proposes to the General Meeting of Shareholders to add the net profit of 2006 in the amount of 368 thousand kroons to retained earnings.

Signatures of the Management Board and the Supervisory Board of AS Lõhmus, Haavel & Viisemann 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 auditor's report and the proposal for the profit allocation and approved it for presentation at the General Meeting of Shareholders.

	Name	Date	Signature
Management Board:			
Chariman of the Management Board	Liisi Ruus	28.02.2007	....
Member of the Management Board	Andres Viisemann	28.02.2007	....
Supervisory Board:			
Member of the Supervisory Board	Rain Lõhmus	28.02.2007	....
Member of the Supervisory Board	Jüri Heero	01.03.2007	....
Member of the Supervisory Board	Tiina Mõis	07.03.2007	....