AS Lõhmus, Haavel & Viisemann

Annual Report of the Group 2007

(translation of the Estonian original)

Consolidated Annual Report	**01.01.2007 – 31.12.2007**
Business Name	AS Lõhmus, Haavel & Viisemann
Commercial Registry no.	10539549
Legal address	Tartu mnt. 2, 10145 Tallinn
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Main activities	Security brokerage, EMTAK 66121
	Financial advisory, EMTAK 66191
Management Board	Liisi Ruus
	Kerli Lõhmus
	Jüri Heero
	Erki Kert
	Mihkel Oja
Supervisory Board	Rain Lõhmus
	Tiina Mõis
	Andres Viisemann
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

Short introduction to LHV

AS Lõhmus, Haavel & Viisemann (LHV) is an internet-based Baltic investment bank, founded in 1999, that offers professional securities brokerage services, pension funds, personal advisory and asset management services to private customers and corporate bodies. For institutional investors LHV offers brokerage services on Baltic markets. LHV is the editor of Estonia´s most popular portal of financial news www.lhv.ee.

LHV belongs to parent company AS LHV Group, that is based on Estonian capital. LHV Group also owns participation in AS LHV Varahaldus, that is engaged in pension fund and investment fund management.

LHV's activity is focused on investing. Due to long experiences and very good specialists LHV offers more innovative and convenient investment products to its clients:

- LHV Trader account – global trading platform to professional traders of options, stocks, futures and bonds on more than 60 markets over the world.
- Investment account – trading medium for Baltic stocks and options with real time price information in Powertrader.
- Unique analysis environment LHV PRO.
- Wide choice of investment funds from international fund managers and collection products.

Core values and mission of LHV

LHV's vision

We are an investment bank, that is known as trustworthy and innovative partner, who always gives valuable advise. Continuous development, flexibility and extreme thoroughness are very important to us.

LHV's mission

Our mission is to help people to increase their assets. To complete our vision, we have set high standards to company credibility, effectivness and customer service. We always offer convenient and up-to-date solutions.

LHV's core values

- Everything we do, we do sedulously and by imposing our abilities maximally.
- We are always there for the client and talk about investing in a simple, clear, open and honest way.
- We only deal with our area – investing – and do it as well as possible.

LHV business environment and economic results

Business environment

During 2007 Baltic stock markets were affected by sharp movements in global stock markets and faster than expected cooling of local economies. During the first half of the year Estonian, Latvian and Lithuanian stock markets were moving sideways, but US induced credit problems put negative pressure on global liquidity and investors risk tolerance thus leaving a mark on Baltic stock markets along with slowing economic growth and domestic consumption. Tallinn and Riga indexes ended the year lower, Vilnius higher than the beginning of the year.

Returns during the 2007 in US stock markets were modest. The year started optimistically and most of the year continued that way, but the ending of the year was quite negative for investors. Problems, which began from US real estate market, caused global credit and liquidity crisis and most of the banks had to write down loans massively. Problems have weakened also growth outlook for companies and economy as a whole. Consumer confidence has also been affected. Several global and American companies have switched themselves to “sleep mode” cutting their investments and adjusting to demands of slowing economic growth environment.

Best return among US biggest indexes was generated by Nasdaq 100 driven by technology companies Apple and Google. Nasdaq return during 2007 was about 15% and SP500 rose less than 5%. Russell 2000, index for small companies, ended the year on the negative side being the most affected by economic slowdown. During the fourth quarter of 2007 US GDP rose only 0.6% and expectations for the growth in 2008 are also low. All this has it’s effect on companies profits as corporate margins are historically high. In 2008 US corporate margins are expected to shrink and capital expenditures to come down which puts negative pressure on employment and consumption.

One major problem during 2007 was inflation induced by rise in commodity and agriculture product prices. Oil price penetrated the magic $100 per barrel level putting “extra tax” on consumer meaning lower expenditures. Metal and oil prices are expected to come down a bit in light of global slowdown potentially easing the pressure on consumer and giving central banks more maneuvering space.

US recession has it’s effect on the rest of the world. Europe and Asia have tight economic ties with USA and therefore global slowdown is more and more likely. Slowdown in USA has made Federal Reserve to lower interest rates to stimulate consumption and lessen pressure on those who suffer under mortgage payment problems. It is possible that European central banks have to lower interest rates considering that Central Bank of England has already done that. Financial markets could be affected by US presidential campaign in 2008. Presidential campaign has historically put positive pressure on stock markets and considering also FEDs’ potentially aggressive monetary policy the symbiosis of these two could offer positive surprises.

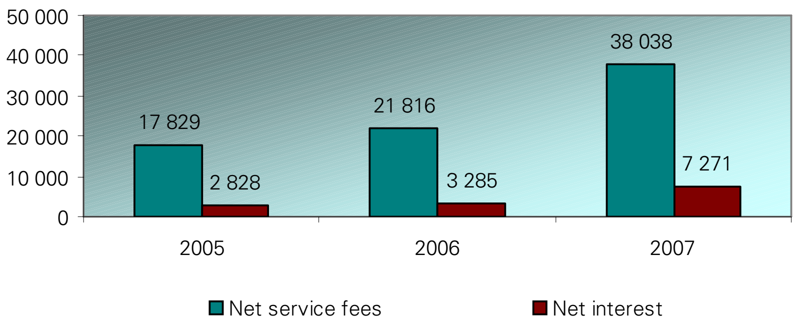
Expectations for returns in 2008 in US and European stock markets are low considering aforementioned problems but volatility is expected to be high. More important will be regional allocation and more precise vision about sectors and companies. In our opinion opportunities for investors lay in some Asian markets as price level is reasonable. Also Russia and Persian gulf region.

Economic results

The year 2007 was very successful to LHV – gross revenues grew 77% comparing to revenues of 2006. The biggest percentage of growth was shown by interest revenues, that are connected to collateral loans, whilst the majority of LHV´s turnover is still compiled by service revenues from securities brokerage.

	2007	2006	Growth
Net service fee income	38 038	21 816	74%
Net interest income	7 272	3 285	121%
Volume of collateral loans	57 538	44 297	30%

Overview of the growth of LHV's net revenues in past three years is given by the following graph:



The most important region in service fee income is Estonia – in 2007 a total of 84% of respective revenues were earned in Estonia. The next by significance is Lithuanian market with 14 percent, which is followed by at the moment rather inessential Latvia with 2 percent. The Latvian and Lithuanian participation in service fee revenues is expected to grow in next few years, as the local markets are a little bit behind in their development, but we expect the development levels to equalize in the next 5 years. Last year the fastest growth was shown by Latvian market, where the revenues increased more than 20 times. In addition to the general fast development of the market, the growth was also caused by reputation of LHV and low base of revenues in 2006. Lithuanian service fee revenues were more than doubled and Estonian revenue growth was about 60%.

The most significant region in interest revenues is Lithuania, where 53% of total interest revenues were earned in 2007. Estonian market follows with 45% and Latvia with inessential 2% participation at the moment. The situation was quite the opposite in 2006, when Estonian region gave almost three-fourth of interest revenues (the rest by Lithuania). Lithuania got ahead of Estonia with its fast growth of 334% (Estonian growth amounted to 33%). The fast growth in Lithuanian market is mostly due to good saleswork. The total capacity of collateral loans given by LHV in three Baltic states increased by 30% last year up to 44 million kroons.

A lot of new interested parties have found their way to LHV through seminars, financial portal www.lhv.ee and other channels. The total increase in LHV´s client numbers in 2007 was 29% (9 573 clients) and increase in the number of financial portal users was 24% (14 831 users). Especially fast addition of clients has been in Lithuania, where the client number has doubled. The total capacity of assets in custody of LHV grew by 10%, including assets of Lithuanian clients, that grew by 21%.

Along with growth in client base, assets under management and popularity of investing, the volume of trades made through LHV has risen every year. In 2007 a total of 3 453 clients made their securities trades through LHV, which represents a growth of 38% comparing to previous year.

Organisation and management

LHV´s personnel strategy has been since the foundation to find talented young people, interested in financial markets and investing, and offering them educational and self-development possibilities, including summer practice in LHV. 14 new members joined LHV´s team in 2007.

LHV employs more than 40 people in Estonia, Latvia and Lithuania. The management board widened by four new members in 2007. The new management board consists of chief executive officer (CEO) Liisi Ruus, chief technology officer Jüri Heero, CEO of LHV Asset Management Mihkel Oja, chief accountant Kerli Lõhmus and head of Baltic research team Erki Kert. The former management board member Andres Viisemann is now a member of supervisory board. The supervisory board of LHV consist of 3 people – Andres Viisemann, Tiina Mõis and Rain Lõhmus.

In the financial year, employee wages and salaries amounted to 15,7 million kroons or 70% more than in 2006 (9,2 million kroons). The remuneration of the Company's management totalled 1,8 million kroons (2006: 0,8 million kroons).

In december 2007 Investment Centre of LHV moved to bigger space on the 1st floor City Plaza; also LHV broadened to City Plaza 17th floor in addition to 18th floor.

Advancing the investment account, LHV came out with a new service called Personal Advisory, that helps clients to use the knowledge and skills of LHV´s specialists in process of increasing their assets. In frames of Personal Advisory service we have created an analysis medium of Baltic shares called LHV Baltic PRO and the next step is to open up LHV Fund PRO to introduce complete set of funds offered by LHV. The main innovation last year was the addition of Middle and East European markets. Russian stock market has become the most popular new market.

The priorities of LHV in 2008 are widening the choice of investment products and client base; improving IT and risk management systems.

LHV is dedicated to following the high standards of company management. As LHV is not an emitent, the standards of Corporate Governance are followed based on parts, that apply for LHV. The goal of LHV is to be transparent in economic affairs, publicizing information and relations with shareholders (the sole shareholder being AS LHV Group at the moment).

LHV management board is doing its best to secure that LHV and all the companies in the Group followed the regulatory acts in their activities. The management board also guarantees the functioning of appropriate risk management and internal audit system. The task of supervisory board is regular control of activities of management board. The supervisory board is participating in the process of making important decisions about LHV´s operations. The members of management board and supervisory board are following the best interests of LHV and its shareholder in their activities.

LHV publicises its financial reports according to the law – annual report once a year, that has been verified by the auditor, who is approved by supervisory board; and interim reports during the financial year.

LHV´s role in society

In summer of 2007 LHV supported yachting by purchasing 40 "Optimist"-class yachts and subletting them to young yachtsmen.

In autumn LHV subsidized young people´s literary contest "Future and career". On trade fair *Teeviit* the marketing manager of LHV Andres Kask gave over the main prize of the contest in name of LHV to the winner Laura Väli from Saaremaa Ühisgümnaasium – Apple´ laptop. The participating essays can be read at www.innove.ee.

Since October 2007 LHV is issuing a magazine ***Investeeri!,*** where saving and investment themes are discussed. This economy magazine is issued three times a year. Well-known people give interviews in ***Investeeri!*** talking about their experiences and opinions in relation to investing.

Giving investment education is crucial for LHV – we have grown together with our current clients and wish to pass our experiences over to all the other people interested in investing. LHV has provided knowledge about investing on seminars since 2001. In autumn 2007 we centralized our seminars to one Investment School. The School is for everyone, who has interest in investing and stock markets. Investment School continues its activities with two cources – for beginners and advanced – on spring season 2008.

CONSOLIDATED FINANCIAL STATEMENTS

Management Board´s declaration

The Management Board confirms the correctness and completeness of the consolidated 2007 financial statements of AS Lõhmus, Haavel & Viisemann presented on pages 9-44.

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 are going concern.

Liisi Ruus
Charirman of the Management Board

Kerli Lõhmus
Member of the Management Board

Jüri Heero
Member of the Management Board

Erki Kert
Member of the Management Board

Mihkel Oja
Member of the Management Board

Tallinn, 29.02.2008

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Initsiaalid/initials M.M
Kuupäev/date 29.02.08
PricewaterhouseCoopers, Tallinn

Consolidated income statement

(In thousand Estonian kroons)

	Note	2007	2006
Fee and commission income	5	46 944	27 768
Fee and commission expense	5	-8 906	-5 952
Net fee and commission income		**38 038**	**21 816**
Interest income	6	9 608	4 407
Interest expense	6	-2 337	-1 122
Net interest income		**7 271**	**3 285**
Net profit from trading	7	2 632	1 496
Dividend income	7	3	83
Net profit from financial assets		**2 635**	**1 579**
Other income	8	16 698	2 423
Operating expenses	9	-45 490	-28 735
Profit for the year		**19 152**	**368**

The notes on pages 14 to 44 are an integral part of these financial statements.

Consolidated balance sheet

(In thousand Estonian kroons)

	Note	31.12.2007	31.12.2006
Assets			
Cash and bank	11	5 060	13 836
Derivatives	12	53	64
Other financial assets at fair value through profit or loss	13	4 440	278
Loans to customers	14	57 538	44 297
Receivables from customers	15	1 769	1 819
Finance lease receivables	16	4 410	4 582
Other assets	17	2 091	766
Property, plant and equipment and intangible assets	18	5 888	607
Total assets		**81 249**	**66 249**
Liabilities			
Derivatives	12	0	30
Loans received	19	29 797	33 202
Accrued expenses and other liabilities	20	9 375	3 271
Bonds issued	21	4 485	6 426
Provisions	22	0	4 880
Total liabilities		**43 657**	**47 809**
Shareholders' equity			
Share capital	23	12 600	12 600
Reserves		1 518	1 518
Retained earnings		23 474	4 322
Total shareholders' equity		**37 592**	**18 440**
Total liabilities and shareholders' equity		**81 249**	**66 249**

The notes on pages 14 to 44 are an integral part of these financial statements.

Consolidated cash flow statement

(In thousand Estonian kroons)

	Lisa	2007	2006
Cash flows from operating activities			
Fee and commission income received		66 422	30 590
Fee and commission expence		-8 906	-5 952
Operating and other expenses paid		-45 493	-27 512
Finance lease receivables paid by customers		188	6 258
Interest received		9 436	4 029
Settlement of foreign currency forward contracts		-19	-152
Net acquisition/disposal of trading portfolio		-4 307	415
Change in loans granted		-13 069	-32 157
Change in other liabilities		544	-7 581
Change in the stock exchange security deposit		-49	1 204
Release of previously frozen bank accounts	11	861	26 913
Net cash generated from / used in operating activities		**5 608**	**-3 945**
Cash flows from investing activities			
Non-current assets acquired	18	-5 858	-381
Purchase of investment securities		16	0
Proceeds from sale of investment securities		0	828
Dividends received from investment securities	7	3	83
Net cash used in / generated from investing activities		**-5 839**	**530**
Cash flows from financing activities			
Redeemed bonds		-1 919	-5 440
Loans received		91 237	56 176
Loan repayments		-94 855	-37 102
Intrerest paid		-2 147	-1 143
Net cash used in / generated from financing activities		**-7 684**	**12 491**
Net increase/decrease in cash and cash equivalents		**-7 915**	**9 076**
Cash and cash equivalents at beginning of the year	11	12 975	3 899
Cash and cash equivalents at end of the year	**11**	**5 060**	**12 975**

The notes on pages 14 to 44 are an integral part of these financial statements.

Consolidated statement of changes in shareholders' equity

(In thousand Estonian kroons)

	Share capital	Statutory reserve	Retained earnings	Total
Balance as at 01.01.2006	**12 600**	**1 518**	**1 060**	**15 178**
Contribution by shareholders	**0**	0	2 894	2 894
Net profit for 2006	**0**	0	368	368
Balance as at 31.12.2006	**12 600**	**1 518**	**4 322**	**18 440**
Balance as at 01.01.2007	**12 600**	**1 518**	**4 322**	**18 440**
Net profit for 2007	**0**	0	19 152	19 152
Balance as at 31.12.2007	**12 600**	**1 518**	**23 474**	**37 592**

More detailed information is provided in Note 23.

The notes on pages 14 to 44 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 (EMTAK 66121) in Estonia, Latvia and Lithuania; also financial consultancy services (EMTAK 66191). Subsidiary of LHV – Ilmarise Kinnisvaraportfelli OÜ (100% ownership; situated in Estonia, Tallinn) offers financial lease services (EMTAK 64911). As at 31.12.2007 LHV employed 43 people.

LHV as 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 29 February 2008.

NOTE 2 Summary of significant accounting policies

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.

2.1 Basis of preparation

The consolidated financial statements of the Group for the financial year 2007 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 preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The financial year started at 1 January 2007 and ended at 31 December 2007. The financial figures have been presented in thousands of Estonian kroons unless specifically referred differently in specific disclosure.

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 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.

(a) International Financial Reporting Standards, published amendments to existing standards and interpretations by International Financial Reporting Standars Committee (IFRIC), that became effective in 2007 and have significant influence the financial statements of the Group

IAS 1 (amendment) – *Presentation of Financial Statements:* Capital Disclosures

The standard requires additional disclosures in the financial statements and presents additional requirements for the parent company's capital and capital management. IAS 1 adoption did not have any impact on accounting policies. The Group made certain changes in presentation and new disclosures are made in these financial statements (comparatives provided).

IFRS 7 *– Financial Instruments: Disclosures and supplementary annex IAS 1, Presentation of Financial Statements*

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. IFRS 7 adoption did not have any impact on accounting policies. The Group made certain changes in presentation and new disclosures are made in these financial statements (comparatives provided).

(b) Published standards, amendments and interpretations to existing standards, that are mandatory for the Group´s accounting periods beginning on or after January 2008

IAS 1 (amendment) *– Presentation of Financial Statements (effective from 1 January 2009)*

The amendments introduced relate mainly to the presentation of changes in equity and are intended to improve the ability of the users of financial statements to analyse and compare the information included in the financial statements. The Company shall apply the amended IAS 1 from January 2009.

IAS 27 (amended) *– Consolidated and separate financial statements(effective from 1 January 2009)*

The standard requires that the effects of transactions with minority shareholders be recognized directly in equity, on the condition that control over the entity is retained by the parent company. In addition, the Standard elaborates on the accounting treatment of the loss of control over a subsidiary, i.e. it requires that the remaining shares be restated to fair value, with the resulting difference recognized in the income statement. The Group shall apply the amended IAS 1 from January 2009.

(c) The Group´s management is of opinion that the amendments to and revisions of the following standards and interpretations that became effective for Group´s financial statements in 2007 and have been adopted for the first time in these financial statements did not have a significant effect on the financial statements of the Group.

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 March 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)

(d) The following standards, amendments and interpretations to existing standards are not effective and are not relevant for the Group's operations

IAS 23 (amendment) – Borrowing costs (effective from January 2009)

IAS 1, IAS 32 (amendment) - Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009).

IFRS 2 (amended) – Vesting Conditions and Cancellations - IFRS 2 „ Share-based Payment " (effective from 1 January 2009)

IFRS 3 (amended) – Business Combinations (effective from 1 January 2009)

IFRS 8 – Operating Segments (effective from 1 January 2009)

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

IFRIC 13 – Customer Loyalty Programmes (effective from July 2008)

IFRIC 14, IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008)

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.

The 2007 consolidated financial statements include the financial statements of AS Lõhmus, Haavel & Viisemann (parent company) and its subsidiary Ilmarise Kinnisvaraportfelli OÜ (Estonia–100% owned).

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 28), 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

Group classifies its financial assets into the following categories:

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

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

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

Financial assets at fair value through profit or loss include

- financial assets held for trading (incl. derivatives)
- 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) 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, see 2.6).

(c) 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.

In the current reporting period the Group does not have any available-for-sale financial assets.

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 cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis. The annual depreciation rate for computers, furniture and fixtures is 33%, for improvements of rental space either 20% or amortization throughout the rental period, depending on which is shorter. Earlier the rate of 15% has been used for rental space improvements. Because as at 01.01.2007 there were no capitalized improvements, the management board is of opinion that the change of rate does not have any influence on balance sheet or profit and loss statement. 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

Borrowings and issued bonds are initially recognised at fair value which also includes all transaction costs incurred (received money less transaction costs). Other financial liabilities (supplier payables, accrued expenses and other liabilities) are initially recognised at their acquisition cost, that includes all transaction costs related to acquisition. 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".

2.12 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.

2.13 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.

Other potential or existing liabilities (promises, guarantees and other commitments) whose realisation is less probable than non-realisation or whose accompanying costs cannot be determined reliably, that in certain circumstances may become obligations, 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).

2.14 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.

2.15 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 (purchase or sale of businesses, acquisitions etc) are recognised on completion of the underlying transaction. Portfolio management, other consultation fees and management fees related to investment funds are recognized according to agreement, usually 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 recognized when the performance criteria are fulfilled. Other one-time service revenues and other revenues are recognized on accrual basis at the moment of executing the respective transactions.

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

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.

2.16 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.

2.17 Finance and operating leases - Group as the lessee

Leases of property, plant and equipment where the lessee 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 Group 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".

2.18 Taxation and deferred income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of net profit, dividends payable out of retained earnings are subject to taxation at rate of 21/79 (until 31.12.2007 taxation rate of 22/78 was applied). 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.

2.19 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.

2.20 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 Risk management

3.1 MANAGEMENT OF FINANCIAL RISKS

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 rules and procedures of risk management are constantly revised and updated in case of need.

The main financial risks arising from the activities of LHV are:

- ✓ credit risk,
- ✓ market risk,
- ✓ liquidity risk,

3.1.1 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, finance lease receivables, other receivables and other committed transactions. In order to hedge credit risk, LHV analyses the operations and financial position both of its customers as well as business partners. The Management Board of LHV is responsible for managing credit risk and the finance department is engaged in monitoring.

LHV gives margin loans backed with securities to its clients, i.e. financial leverage. The maximum amount of the loan depends on market value of the assets held as collateral on investment account and on general limit set by LHV, which at the moment is 1 million kroons (or the equivalent in foreign currency) per client through LHV website. The margin loan can be up to 50% of the securities accepted as collateral. The list of accepted financial instruments and the levels of required collateral are published on LHV website www.lhv.ee. The credit risk involved with financial leverage is mitigated by constant monitoring of the market values of the highly liquid securities required as collateral.

The main instruments, that LHV accepts as collateral are:

- money on account
- local and international fund units
- securities quoted on Baltic, US and other stock exchanges

The brokerage unit is monitoring daily the collateral values. In case of values falling below 50%, according to special conditions for leveraged trades broker has the right to:

- demand the client to transfer additional collateral to the account
- to refund the loan on client´s account without prior client´s order by expropriating the collateral.

The legal title of leased proprerty by LHV Ilmarise Kinnisvaraportfelli OÜ remains to the Company until lease receivables have been collected in full. Therefore the Company does not have any significant credit risk assuming that prices do not decrease that significantly in the real estate market due to which the value of collateral would fall below the nominal value of the amount of all receivables. According to the assessment reports of apartments from 2004, the collaterals are adequate to cover the finance lease receivables. The prices on real estate market have significantly risen in past three years, on account of which there are no risks invoived with the collateral.

Credit quality analysis is presented in the following table:

	31.12.2007			**31.12.2006**		
	Finance lease receivables	Loans	Total	Finance lease receivables	Loans	Total
Current and not impaired	4 393	57 361	61 754	4 571	44 147	48 718
Past due but not impaired	17	217	234	11	201	212
Gross	**4 410**	**57 578**	**61 988**	**4 582**	**44 348**	**48 930**
Individually impaired	0	-40	-40	0	-51	-51
Net	**4 410**	**57 538**	**61 948**	**4 582**	**44 297**	**48 879**

As at 31.12.2007 the maximum exposure to credit risk without considering collaterals would be the balance sheet value from the loans and finance lease receivables, i.e. 61 948 thousand kroons (31.12.2006: 48 879 thousand kroons).

The maximum exposure to credit risk from derivatives is their fair value, which is 53 thousand kroons as of 31.12.2007 (31.12.2006: 64 thousand kroons).

The maximum exposure to credit rist from other financial assets designated at fair value through profit or loss is their balance sheet value, which is 4 440 thousand kroons as at 31.12.2007 (31.12.2006: 278 thousand kroons).

The maximum exposure to credit risk from other receivables from clients is also their balance sheet value: 1 769 thousand kroons as at 31.12.2007 (31.12.2006: 1 819 thousand kroons).

3.1.2 Market risk

Market risk arises from LHV's trading and investment activities in the financial markets from interest rate products, foreign exchange and stocks. Market risk is a potential loss which may arise from unfavourable changes in foreign exchange rates, prices of securities or interest rates. In order to mitigate market risk, conservative limits have been established for the trading portfolio and open foreign exchange positions. These limits are monitored by the finance department.

- ✓ ***Foreign exchange rate risk***

Foreign exchange risk may arise from acquisition of securities mostly denominated in foreign currencies or foreign currency receivables and liabilities. The custody and risk management department of LHV is responsible for daily monitoring of the open foreign currency positions. If the open foreign currency position exceeds the limits set in regulatory acts, the measures are implemented immediately to reduce such positions (hedging the risk with relevant instruments, like foreign currency forwards or futures). Foreign exchange rate risks are managed under the following limits:

- OECD member states currency positions can not exceed 15% of net assets owned
- Open position in any other currency (excl. euro, lat, litas) can not exceed 5% of net assets owned
- Open positions for Estonian kroon, Latvian lat and Lithuanian litas are without limits, as these currencies are tied with euro.

Information about assets and liabilities bearing currency risk is given in tables on pages 25-26. The main currencies, in which LHV has open positions, are USD, SEK and LVL. Open positions have not significantly changed throughout 2007 in comparison with the balance sheet date.

Sensitivity analysis has been carried out for open currency positions and their reasonably possible effect on income statement as of 31.12.2007. If USD had strengthened by 10% against Estonian kroon with all other variables held constant, additional profit of 4 thousand kroons would be possible, mainly as a result of foreign exchange gains on translation of USD denominated loans and receivables, compensated with result from currency forward. If LVL had strengthened 0,5% against Estonian kroon, additional profit as a result of LVL denominated loans would be 13 thousand kroons. If SEK had strengthened by 6% against Estonian kroon, the loss as a result of SEK denominated loans and somewhat bigger SEK sales forward would be 8 thousand kroons. The whole effect from foreign currency exhange rates strengthening would be additional revenue of 9 thousand kroons. If the corresponding currencies had weakened against Estonian kroon, the potential loss would be 9 thousand kroons.

Open currency positions

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, according to exchange rate at the balance sheet date. Derivatives reported at fair value in the balance sheet have been included within contractual amounts among contingencies and commitmets. Open currency positions and the volume of financial assets and liabilities of the Group on balance sheet date do not differ significantly from the average positions during the year.

As at 31.12.2007

Assets bearing currency risk	EEK	LTL	LVL	EUR	SEK	USD	Other	**Kokku**
Cash and cash equivalents	4 042	1	2	15	0	232	768	**5 060**
Financial assets at fair value through profit or loss	0	0	0	4 327	22	87	4	**4 440**
Loans to customers	15 165	25 950	2 610	3 275	2 570	7 057	911	**57 538**
Receivables from customers	776	0	0	24	103	691	175	**1 769**
Other assets	1 175	18	0	898	0	0	0	**2 091**
Total assets bearing currency risk	**21 158**	**25 969**	**2 612**	**8 539**	**2 695**	**8 067**	**1 858**	**70 897**
Assets not bearing currency risk								
Finance lease receivables	4 410	0	0	0	0	0	0	**4 410**
Property, plant and equipment and intangible assets	5 888	0	0	0	0	0	0	**5 888**
Total assets not bearing currency risk	**10 298**	**0**	**0**	**0**	**0**	**0**	**0**	**10 298**
Total assets *	**31 456**	**25 969**	**2 612**	**8 539**	**2 695**	**8 067**	**1 858**	**81 195**
Contingencies at contractual amounts (Note 12)	**10 711**	**0**	**0**	**0**	**0**	**0**	**0**	**10 711**
Liabilities bearing currency risk								
Loans received	18 677	0	0	10 929	0	0	0	**29 797**
Accrued expenses	8 396	694	243	35	0	7	0	**9 375**
Total liabilities bearing currency risk	**27 073**	**694**	**243**	**10 964**	**0**	**198**	**0**	**39 172**

Liabilities not bearing currency risk								
Bonds issued	4 485	0	0	0	0	0	0	**4 485**
Total liabilities not bearing currency risk	**4 485**	**0**	**0**	**0**	**0**	**0**	**0**	**4 485**
Total liabilities *	**31 558**	**694**	**243**	**10 964**	**0**	**198**	**0**	**43 657**
Commitments at contractual amounts (Note 12)	**0**	**0**	**0**	**0**	**2 825**	**7 833**	**0**	**10 658**
Shareholder´s equity	37 592	0	0	0	0	0	0	37 592
Open foreign currency position	**-26 983**	**25 275**	**2 369**	**-2 425**	**-130**	**36**	**1 858**	**0**

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

As at 31.12.2006

Assets bearing currency risk	EEK	LTL	LVL	EUR	SEK	USD	Other	**Kokku**
Cash and bank	12 932	1	2	15	0	882	4	**13 836**
Financial assets at fair value through profit or loss	0	0	0	131	52	77	18	**278**
Loans to customers	12 821	21 294	423	3 370	1 875	3 827	687	**44 297**
Receivables from customers	931	0	0	0	0	672	216	**1 819**
Other assets	524	82	89	0	0	71	0	**766**
Total assets bearing currency risk	**27 208**	**21 377**	**514**	**3 516**	**1 927**	**5 529**	**925**	**60 996**
Assets not bearing 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**	**21 377**	**514**	**3 516**	**1 927**	**5 529**	**925**	**66 185**
Contingencies at contractual amounts (Note 12)	**4 658**	**0**	**0**	**0**	**0**	**0**	**0**	**4 658**
Liabilities bearing currency risk								
Loans received	27 807	1 911	0	3 484	0	0	0	**33 202**
Accrued expenses	2 742	462	34	33	0	0	0	**3 271**
Provisions	0	0	0	0	0	4 880	0	**4 880**
Total liabilities bearing currency risk	**30 549**	**2 373**	**34**	**3 517**	**0**	**4 880**	**0**	**41 353**
Liabilities not bearing currency risk								
Bonds issued	6 426	0	0	0	0	0	0	**6 426**
Total liabilities not bearing currency risk	**6 426**	**0**	**0**	**0**	**0**	**0**	**0**	**6 426**
Total liabilities *	**36 975**	**2 373**	**34**	**3 517**	**0**	**4 880**	**0**	**47 779**
Commitments at contractual amounts (Note 12)	**0**	**0**	**0**	**0**	**2 248**	**2 376**	**0**	**4 624**
Shareholders' equity	18 440	0	0	0	0	0	0	18 440
Open foreign currency position	**-18 360**	**19 004**	**480**	**-1**	**-321**	**-1 727**	**925**	**0**

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

✓ ***Other price risk***

Financial instruments bearing other price risk in LHV are securities held for trading. The limits are set for size of trading portfolio in LHV. The trading portfolio management is done by the head of brokerage team and following the rules is monitored by the custody and risk management department.

The management board of LHV is on an opinion that possible average change in prices of stocks in trading portfolio during the next 12 months is around 20% and the possible average change in prices of fund units is around 10%. If the prices increased respectively 20% and 10% with other variables held constant, the possible profit from this change would amount to 38 thousand kroons. If the stock prices would fall by 20% and fund prices by 10%, the potential loss would amount to 38 thousand kroons.

✓ ***Interest rate risk***

To reduce the cash flow risk arising from possible change in interest rates LHV primarily uses fixed interest rates both for taking loans as well as granting them. In 2007, the fixed interest rate on loans granted was between 7.75-12.75% (2006: 6.5-11.25%). Interest rates for loans granted are changed once a month according to fluctuations of market interest rates. When taking loans, the relation between the weighed average interest rate on loans granted and loans received is followed. Interest rates on loans received in 2007 were up to 8% (2006: 7%). Interest rate risk is also reduced by framing up the loans due dates – loans are taken mostly with short, but extendable due dates. The limit are set for giving loans as presented in credit risk note – up to 1 million kroons per client through LHV website. Prior to granting bigger loans the liquidity analysis is carried out and the decision for giving such loans is made by management board.

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 the 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 does not bear significant interest rate risk.

The floating interest rate of the deposit in Estonian kroons was between 3.3-5.25 (2006: 2.6-3.3%) and that of the deposit in USD was up to 5%. As the portfolio of loans granted and loans received is short-term by its nature, the change in market interest rates does not have significant influence on fair value of these loans.

3.1.3 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 financial department 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. The sources for financing are supplemented constantly, in case of due dates or clients taking additional loans. In case of diminishing volume of loans granted, the financing sources are reduced accordingly, as the loans received are all short-term. As of 31.12.2007 and 31.12.2006 the Group does not have any debts past due.

Undiscounted cash flows of issued bonds up to 1 year are in amount of 404 thousand kroons, between 1-5 years 1 629 thousand kroons and over 5 years 5 332 thousand kroons. Corresponding undiscounted cash flows from finance lease receivables up to 1 year are in amount of 436 thousand kroons, between 1-5 years 1 651 thousand kroons and over 5 years 5 303 thousand kroons.

The following tables present the division of financial assets and liabilities by due dates. The balance sheet values are used in analyses, except for derivatives, for which the contractual amounts are used. Explanation about the fair value of these financial assets and liabilities is in note 3.2.

As at 31.12.2007

Financial assets	up to 3 month	3-12 months	1-5 years	over 5 years	Total
Cash and bank	5 060	0	0	0	**5 060**
Financial assets at fair value through profit or loss	4 440	0	0	0	**4 440**
Derivatives	2 033	845	0	0	**2 878**
Loans to customers	55 130	2 408	0	0	**57 538**
Receivables from customers	1 075	694	0	0	**1 769**
Finance lease receivables	41	125	669	3 575	**4 410**
Other receivables and assets	0	1 055	1 036	0	**2 091**
Total	**67 779**	**4 072**	**669**	**3 575**	**76 095**

Financial liabilities					
Derivatives	1 994	831	0	0	**2 825**
Loans received	29 797	0	0	0	**29 797**
Accrued expenses and other liabilities	8 137	1 238	0	0	**9 375**
Bonds issued	35	173	674	3 603	**4 485**
Total	**39 963**	**2 242**	**674**	**3 603**	**46 482**

As at 31.12.2006

Financial assets	up to 3 month	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	3 974	684	0	0	**4 658**
Loans to customers	43 682	615	0	0	**44 297**
Receivables from customers	1 819	0	0	0	**1 819**
Finance lease receivables	80	81	676	3 745	**4 582**
Total	**62 808**	**2 241**	**905**	**3 745**	**69 470**

Financial liabilities					
Derivatives	3 932	692	0	0	**4 624**
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**
Total	**39 267**	**3 787**	**683**	**3 786**	**47 523**

3.2 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 as at 31.12.2007 and 31.12.2006. 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.

Receivables from clients, accrued expenses and other liabilities have arised in operating activities and are payable shortly, on account of which the management board is of opinion that their fair value does not differ significantly from their carrying value. These receivables and liabilities do not carry any interest.

Both finance 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 expected cash flows according to the schedules. 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 finance lease receivables and bonds issued taken in combination compared to their current net carrying value. The bonds are quoted on Tallinn Stock Exchange. There have been no secondary market transactions with the bonds of LHV Ilmarise Kinnisvaraportfelli OÜ since their first quotation on stock exchange on 13.10.2005 until 31.12.2007, thus there is no information on price movements. As there have been no transactions with these bonds on secondary market, the fair value of bonds is not reliably determinable, which is why this value is not presented here. The management board is on an opinion that there are no indications for this value to be significantly different from carrying value. During the period from concluding the finance lease agreements to the balance sheet date 6 month Euribor has moved from 2,253% to 4,707%, which gives a general indication of change in variable market rates during that period.

3.3 CAPITAL MANAGEMENT

The Group´s objective when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- ✓ to comply with the capital requirements set by the regulators;
- ✓ to ensure the Group´s ability to continue as a going concern and providing returns for shareholders;
- ✓ to maintain a strong capital base which supports the development of business.

Capital adequacy and the use of regulatory capital are monitored by financial department. The required information is filed with the Authority on monthly basis by the custody and risk management department. There are specific requirements set for capital of investment company to cover the risks involved. In 2007 there have been no problems related to meeting the demands of capital adequacy.

The regulatory capital of the investment company have to be at least or exceed the minimum requirement for share capital set in Securities Market Act (730 thousand euros i.e. 11 422 thousand kroons) and 25 percent of the company´s permanent general expenses. The regulatory capital includes three levels of capital. LHV does not have second or third level capital (subordinated loans, preference shares). Tier 1 capital includes paid in share capital, reserves, retained earnings and audited profit or unaudited loss for current accounting period. The consolidated Tier 1 capital of LHV as of 31.12.2007 was 34 524 thousand kroons (31.12.2006: 15 123 thousand kroons).

	31.12.2007	**31.12.2006**
Share capital paid in	12 600	12 600
Staturory reserve capital	1 518	1 518
Retained earnings	4 322	1 060
Profit for financial year	16 201	0
Intangible assets (subtracted)	-117	-55
Total Tier 1 capital	**34 524**	**15 123**

The loan capital is managed by internal rules, followed from principles explained in credit risk, liquidity risk and interest rate risk notes.

3.4 OPERATING RISK

Operating risk is a potential loss caused by human, process or information system flaws. 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 or units for carrying out the transaction or procedure.

The information received from monitoring operating risk helps to gather initial information to secure capital adequacy of LHV and to evaluate capital requirements. The analysis on cases gathered into database enables LHV to identify the flaws in rules of procedures, avoid making mistakes in the future and mitigate possible risks or define the terms of their acceptance. The heads of units are responsible for collecting information and management board is dealing with the analysis and implementing necessary measures.

Compliance control and internal audit have an important role in valuating, monitoring and mitigating the operating risk. The main task for compliance control specialist is, followed from the Securities Market Act, to define incompliance risks in activities of LHV to legislation, recommended guides of Financial Supervisory Authority and rules of procedure of LHV, reckoning with the nature, range and complexity of business and services rendered, and arrangement of mitigating or avoiding those risks. Internal audit is independent and objective, assuring and consulting activity, that is targeted to improvement of company performance and value addition. Internal audit helps achieving the goals of company, using systematic and disciplined approach to improve risk management, control and organizational management process.

NOTE 4 Significant management estimates and assumptions

In accordance with IFRS, several financial figures presented in the consolidated financial statements are based on critical accounting estimates and assumptions made 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;
- fair valuation of investments using valuation techniques;
- determining useful lives of non-current assets (see Note 2.9, 2.10 ja 18);
- assessing provisions and contingent assets / liabilities;
- evaluating company´s risks.

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. In the current financial statements there are no significant positions, which carrying value would be influenced by specific judgements of management board.

NOTE 5 Net fee and commission income

According to Estonian version of NACE (EMTAK)definitions gross revenues of 2007 are divided: financial advisory revenues 1 995 thousand kroons and security brokerage revenues 44 949 thousand kroons. In 2006: 2 120 and 25 648 thousand kroons.

	2007	2006
Fee and commission income		
Financial advisory services	1 995	2 120
Security brokerage and commissions *	40 519	21 489
incl. related parties (note 27)	*2 180*	*530*
Assets management and similar fees	4 430	4 159
incl. related parties (note 27)	*3*	*20*
Total	**46 944**	**27 768**

LHV

Fee and commission expense		
Financial advisory and other similar services purchased	-1 744	-1 463
incl. related parties (note 27)	*0*	*180*
Security brokerage and commissions paid	-7 162	-4 489
Total	**-8 906**	**-5 952**
Net fee and commission income	**38 038**	**21 816**

* The client base of LHV has been thriving in 2007 and a lot of new traders have been joined in. In addition to growing activeness of clients, the growth of fee revenues have been influenced by increased volatility in the markets.

Fee and commission income by client location:	**2007**	**2006**
Estonia	39 457	24 627
Latvia	887	38
Lithuania	6 600	3 103
Total	**46 944**	**27 768**

NOTE 6 Net interest income

	2007	**2006**
Interest income from		
Cash and bank accounts	2 091	1 062
Finance lease (Note 16)	280	552
Margin loans and lending of securities (Note 14) *	6 994	2 662
Other loans (Note 14)	243	131
incl. loans to related parties (Note 27)	*0*	*2*
Total	**9 608**	**4 407**
Interest expense		
Bonds issued (Note 21)	-268	-500
Loans received (Note 19)	-2 069	-622
incl. loans from related parties (Note 27)	*-359*	*- 346*
Total	**-2 337**	**-1 122**
Interest expense	**7 271**	**3 285**

* Related to growing number of trades in 2007 using financial leverage has increased. Especially fast activeness has been shown by Lithuanian clients. At the end of financial year, the volume of collateral loans amounted to 57 million kroons, while in summer 2007 the volume amounted even to 75 million kroons, on account of which the interest revenues have grown considerably.

Interest revenues by client location:	**2007**	**2006**
Estonia	4 300	3 227
Latvia	192	1
Lithuania	5 116	1 179
Total	**9 608**	**4 407**

NOTE 7 Revenues from financial assets

	2007	2006
Net profit/loss from financial assets		
Foreign exchange:	2 748	1 687
- translation gains less losses	73	432
- transactions gains less losses from clients trades	2 675	1 255
Profit/loss from revaluation and sales of equity shares and fund shares	-116	-191
Net profit from trading	**2 632**	**1 496**
Dividend income from trading portfolio securities	3	83
Net profit from financial assets	**2 635**	**1 579**

NOTE 8 Other revenues

	2007	2006
Accounting services rendered	679	1 292
Other income (investment seminars to clients etc)	368	431
Received fines and penalties	25	0
Revenues from transactions with related parties (Note 27)	8 371	700
Revenues from transactions with other parties	7 255	0
Total other revenues	**16 698**	**2 423**

NOTE 9 Operating expenses

	Note	2007	2006
Staff costs			
Wages, salaries and bonuses		15 716	9 297
Social security and other taxes		4 981	2 788
Total		**20 697**	**12 085**
IT expenses		1 843	1 659
Information services and bank services		1 904	1 540
Marketing expenses		3 206	944
Office expenses		1 546	866
Transportation and communication costs		975	853
Training and travelling expenses of employees		1 203	868
Other purchased services		4 195	6 056
Other administrative expenses		1 302	1 036
Depreciation	18	561	864
Operating lease payments	24	2 922	1 652
Provision expence	22	2 782	0
Other operating expenses		2 354	312
Total operating expenses		**45 490**	**28 735**

The keywords in operating expenses in 2007 are recruitment and development of staff, active marketing and shaping new appearance. For better services for clients there is a new investment centre established at the end of 2007 and additional office space has been rented for creating working places to newly employed.

NOTE 10 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 21/79 (until 31.12.2006: 22/78) of net dividend paid. In 2007 or 2006, no dividend payments were made to the shareholders.

NOTE 11 Cash and cash equivalents

	31.12.2007	31.12.2006
Demand deposits	5 060	12 975
Total cash and cash equivalents	**5 060**	**12 975**
Other receivables from financial institutions (Note 22)	0	861
Total cash and bank	**5 060**	**13 836**

NOTE 12 Derivatives

	Receivable / liability (fair value)	Contingent assets (contract amount)	Commitments (contract amount)
As at 31.12.2007			
Foreign currency future contracts (USD)	0	7 833	7 833
Foreign currency forward contracts (SEK)	53	2 878	2 825
Total derivatives	**53**	**10 711**	**10 658**
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**

The foreign currency forward and/or future contracts have been concluded in Swedish kroons and/or US dollars and in order to hedge the foreign currency risk of fixed loans, receivables and securities. Foreign currency future is traded on the market, therefore the daily profit or loss is transferred to LHV bank account and the balance sheer value of that contract is 0. The due dates of contracts are between 1 and 5 months after the balance sheet date (2006: 2-5 months).

NOTE 13 Other financial assets at fair value through profit or loss

Securities held for trading:	**31.12.2007**	**31.12.2006**
Shares	38	54
Fund units	388	224
Bonds	4 044	0
Total financial assets	**4 470**	**278**

The fair value of quoted securities is their bid price. For all the investments presented here the valuation could be done based on active market bid prices and company does not have such investments on balance sheet, that would require using of alternative valuation methods.

NOTE 14 Loans to customers

	Loan balance 31.12.2007	Loan balance 31.12.2006	Interest rate
Loans to companies	6 058	30 775	7,75%-12,75%
Loans to private persons	51 520	13 573	7,75%-12,75%
Allowances for loans	-40	-51	
Total loans	**57 538**	**44 297**	

Distribution of loans to customers by currency is presented in Note 3 on pages 24-25 and by due dates in Note 3 on pages 27-28. Loans granted are backed with securities and can be terminated by the client any time. Information about positions open to credit risk, securities accepted as collateral and loans past due is presented in Note 3 on pages 23-24.

According to customer location:	**31.12.2007**	**31.12.2006**
Estonia	12 223	14 733
Latvia	1 664	0
Lithuania	43 651	29 564
Total loans	**57 538**	**44 297**

Interest rates used by the Group for loans in different currencies as of 31.12.2007:

EEK	11,00%	LVL	11,00%	GBP	12,75%
EUR	11,00%	HRK	12,50%	SEK	10,50%
LTL	11,00%	USD	12,25%	JPY	7,75%

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.

NOTE 15 Receivables from customers

	31.12.2007	**31.12.2006**
Securities brokerage fees from intermediaries	1 094	1 070
Asset management fees from clients	418	310
Other fees for providing services to customers	257	439
incl. related parties(Note 27)	*90*	*0*
Total	**1 769**	**1 819**

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

NOTE 16 Finance lease receivables

	31.12.2007	**31.12.2006**
Net investment by due dates		
Up to 1 year	166	161
Between 1 and 5 years	669	676
Over 5 years	3 575	3 745
Total net investment	**4 410**	**4 582**

Future interest income by due dates		
Up to 1 year	270	284
Between 1 and 5 years	982	1 039
Over 5 years	1 727	1 998
Total future interest income	**2 979**	**3 321**

Grossinvestment by due dates		
Up to 1 year	436	445
Between 1 and 5 years	1 651	1 715
Over 5 years	5 302	5 743
Total gross investment	**7 389**	**7 903**

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 rates on the finance lease agreements are between 6% and 8%. Interest rates are 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 (see interest expence in Note 6).

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 2007 ownership of 1 apartment was transferred (purchased out by lessee) for the total amount of 71 thousand kroons and additionally principal payments were made for the apartments not yet transferred in the amount of 61 thousand kroons. In 2006 ownerships of 8 apartments were transferred for the total amount of 5 827 thousand kroons and principal payments were made in the amount of 432 thousand kroons. By the time of compiling this report, 8 apartments are not yet bought out.

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 21). About receivables past due see tables for credit risk in Note 3 page 24.

NOTE 17 Other assets

	31.12.2007	31.12.2006
Guarantee deposits of Baltic stock exchanges	279	229
Prepayments of legal costs	0	71
Prepayments of marketing costs	1 125	0
Prepayments to financial supervision authority	181	172
Other prepayments *	506	294
Total	**2 091**	**766**

* 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 are 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. Increase in guarantee deposits has been caused by calculations of Tallinn Stock Exchange and volumes of LHV's clients trades on Baltic markets.

NOTE 18 Property, plant and equipment and intangible assets

Balance as at 31.12.2005	**Property, plant and equipment**	**Intangible assets**	**Total**
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 non-current assets	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**
Changes occurred in 2007:			
Purchase of non-current assets	5 754	104	5 858
Non-current assets sold at net book amount	-13	-3	-16
Depreciation charge	-522	-39	-561
Balance as at 31.12.2007			
Cost	7 052	541	7 593
Accumulated depreciation	-1 281	-424	-1 705
Net book amount	**5 771**	**117**	**5 888**

The main purchased assets in financial year are capitalization of repair expenses and furniture and other furnishings related to new investment centre, in total amount of 5 442 thousand kroons. Computers and other office technology have been purchased for 312 thousand kroons.

During the financial year PPE with acquisition cost of 1 726 tuhat kroons was 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 2007 or 2006.

NOTE 19 Loans received

	Loan balance 31.12.2007	**Loan balance 31.12.2006**	**Interest rate**
Loans from parent company (Note 27)	0	2 984	5%
Loans from shareholders and related companies (Note 27)	6 015	5 276	5-7%
Loans from financial institutions	0	4 862	6,25%
Loans from private persons	3 281	1 394	5-8%
Loans from companies	20 501	18 686	5-8%
Total	**29 797**	**33 202**	

The loans received are denominated in Estonian kroons, Euros and US dollars. Distribution by curriencies are presented in Note 3 on pages 25-26 and due dates in Note 3 on pages 27-28. Interest liabilities as of 31.12.2007 in amount of 339 thousand kroons is included in the balance of loans received (31.12.2006: 127 thousand kroons).

Nominal interest rates 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.

LHV

NOTE 20 Accrued expenses and other financial liabilities

	31.12.2007	31.12.2006
Supplier payables	730	690
Tax liabilities	1 618	1 151
Payables to employees	6 542	1 430
Other short-term liabilities	485	0
Total	**9 375**	**3 271**

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

NOTE 21 Bonds issued

Maturities of liabilities	31.12.2007	31.12.2006
Up to 1 year	208	1 957
Between 1 and 5 years	674	683
Over 5 years	3 603	3 786
Total issued bonds	**4 485**	**6 426**

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 16.

Bonds carry a coupon of 5.8% per annum, 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
19.04.2007	356	36	13 956	67	1 418
19.07.2007	1 054	105	14 061	66	1 484
19.10.2007	342	34	14 095	65	1 549
Total redeemed in 2007	**19 187**	**1 919**	**14 095**	**290**	**1 549**
19.01.2008	345	35	14 130	64	1 613
Total	**141 296**	**14 130**	**14 130**	**1 613**	**1 613**

NOTE 22 Litigation provisions

At 1 November 2005, the US Securities and Exchange Commission (US SEC) filed a court action charging two employees or LHV 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. In 2006, most of the frozen LHV own accounts were released and the last part of 861 thousand kroons was released in the beginning of 2007 (Note 11). 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 was expected not to exceed 400 thousand US dollars. As at 31.12.2006 the provision was recognized in balance sheet in amount of 4 880 thousand Estonian kroons. In March, 2007, LHV reached an agreement with SEC, according to which SEC agreed to disclaim and LHV to pay the forfeit in amount of 650 thousand US dollars (see for provision expence in Note 9). The court affirmed the agreement in june, 2007, and herewith the case is closed.

NOTE 23 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 67% in the voting rights of LHV Group. Significant influence is with Andres Viisemann with a share of 33% in the voting rights of LHV Group.

	31.12.2007	**31.12.2006**
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.

In 2001 concluded and in 2005 amended supplementary investment contract for financing the department of investment services it was agreed with the shareholders of LHV, that AS Lõhmus Holdings and AS Viisemann Holdings will additionally invest 10.7 million kroons into LHV. According to terms of contract the parent company AS LHV Group had an obligation to transfer a 42.4% ownership in AS Lõhmus, Haavel & Viisemann to the above mentioned companies. In 2006, the last contributions under this contract were recognised in the statement of changes in shareholders´ equity in the amount of 2 894 thousand kroons (Note 27). In 2007, the contract was terminated and AS LHV Group bought back the option for purchasing shares from its shareholders with a fixed price of 14.7 million kroons, thus the sole shareholder of LHV is still AS LHV Group. The shareholder´s equity did not change in this transaction.

In 2007 or2006 there were no dividend payments made to the shareholders.

As at 31.12.2007, the Group's retained earnings amounted to 23 474 thousand kroons (31.12.2006: 4 322 thousand kroons). Upon the payment of dividends, from 1 January 2008, the corporate income tax on dividends amounts to 21/79 (until 31. 12.2007: 22/78) 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 18 544 thousand kroons and accompanying income tax on dividends would amount to 4 930 thousand kroons. As at 31.12.2006, it would have been possible to pay out 3 371 thousand kroons, and the accompanying income tax would have amounted to 951 thousand kroons (Note 10).

NOTE 24 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 15 721 thousand kroons (2006: 3 679 thousand kroons), the current portion of which amounts to 4 014 thousand (2006: 1 149 thousand kroons) and the non-current portion amounts to 11 707 thousand kroons (2006: 2 530 thousand kroons).

Operating lease payments recognised in operating expense:	**2007**	**2006**
Office space	2 787	1 484
Cars	108	123
Computers	27	45
Total (Note 9)	**2 922**	**1 652**

NOTE 25 Contingencies and commitments

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

	31.12.2007	**31.12.2006**
Cash balance of customers	**119 422**	**225 423**
incl. shareholders and related companies	15 052	266
Securities of customers	**1 907 076**	**1 622 587**
incl. parent company	53 110	33 354
incl. shareholders and related companies	127 944	76 856
Total	**2 026 498**	**1 848 010**

Management fees for the management of these assets have been in the range of 0,015 - 0,025 % (See respective income in Note 5).

NOTE 26 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 27 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;

In 2006 former group companies AS GILD Financial Advisory Services and AS GILD Arbitrage were treated as related parties.

Transactions	Note	2007	2006
Interest revenues from related parties	6	0	2
Interest expenses to related parties	6	359	346
Net interest income/expense		**-359**	**-344**
Shareholders and related companies	5	2 183	550
Total fee and commission income		**2 183**	**550**
Former group companies		0	180
Total fee and commission expense		**0**	**180**
Shareholders and related companies	8	8 371	700
Former group companies		0	1 004
Total other income		**8 371**	**1 704**
Parent company		39	98
Former group companies		0	739
Total operating expenses		**39**	**837**
Former group companies		0	340
Profit from forward transactions		**0**	**340**
Contributions by shareholders	23	0	2 894
Total contributions to shareholders ´equity		**0**	**2 894**

Balances	Note	31.12.2007	31.12.2006
Shareholders and related companies	15	90	0
Receivables as at the year-end		**90**	**0**
Parent company		0	2 984
Shareholders and related companies	19	6 015	5 276
Loans received as at the year-end		**6 015**	**8 260**

In 2007, salaries and other compensations paid to the key management of AS LHV totalled 1 814 thousand kroons [2006: 786 thousand kroons]. As at 31.12.2007, remuneration for December and accrued holiday pay in the amount of 269 thousand kroons has been reported as a payable to the management [as at 31.12.2006: 87 thousand kroons] within balance of payable to employees (Note 20). The Company did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31.12.2007 and 31.12.2006 (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 25.

NOTE 28 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.

Income statement of the parent company

(In thousand Estonian kroons)

	2007	2006
Fee and commission income	46 944	27 768
Fee and commission expense	-8 906	-5 952
Net fee and commission income	**38 038**	**21 816**
Interest income	9 328	3 854
Interest expense	-2 069	-622
Net interest income	**7 259**	**3 232**
Net profit from trading	2 632	1 496
Covering loss of subsidiary company	-29	0
Dividend income	3	83
Net profit/loss from financial assets	**2 606**	**1 579**
Other income	16 680	2 423
Operating expenses	-45 433	-28 630
Profit for the year	**19 150**	**420**

Balance sheet of the parent company

(In thousand Estonian kroons)

	31.12.2007	31.12.2006
Assets		
Cash and bank	5 001	11 951
Derivatives	53	64
Financial assets at fair value through profit or loss	4 440	278
Loans to customers	57 538	44 297
Receivables from customers	1 769	1 819
Other assets	2 091	766
Investments in subsidiaries	40	40
Property, plant and equipment and intangible assets	5 888	607
Total assets	**76 820**	**59 822**
Liabilities		
Derivatives	0	30
Loans received	29 797	33 202
Accrued expenses and other liabilities	9 434	3 271
Provisions	0	4 880
Total liabilities	**39 231**	**41 383**
Shareholders´ equity		
Share capital	12 600	12 600
Reserves	1 518	1 518
Retained earnings	23 471	4 321
Total shareholders´ equity	**37 589**	**18 439**
Total liabilities and shareholders´equity	**76 820**	**59 822**

Cash flow statement of the parent company

(In thousand Estonian kroons)

	2007	2006
Cash flows from operating activities		
Fee and commission income received	66 422	30 590
Fee and commission expense	-8 906	-5 952
Operating and other expenses paid	-45 407	-27 407
Interest received	9 155	3 469
Settlement of foreign currency forward contracts	-19	-152
Net acquisition/disposal of trading portfolio	-4 307	415
Change in loans granted	-13 069	-32 157
Change in other liabilities	544	-7 581
Change in the stock exchange security deposit	-49	1 204
Release of previously frozen bank accounts	861	26 913
Net cash generated from operating activities	**5 225**	**-10 658**
Cash flows from investing activities		
Non-current assets acquired	-5 858	-381
Non-current assets sold	16	0
Sale of investment securities	0	828
Dividends received from investment securities	3	83
Net cash used in investing activities	**-5 839**	**530**
Cash flows from financing activities		
Loans received	91 237	56 176
Loan repayments	-94 855	-37 102
Interests paid	-1 857	-579
Net cash used in financing activities	**-5 475**	**18 495**
Net increase/decrease in cash and cash equivalents	**-6 089**	**8 367**
Cash and cash equivalents at beginning of the year	11 090	2 723
Cash and cash equivalents at end of the year	**5 001**	**11 090**

Statement of changes in shareholders' equity

(In thousand Estonian kroons)

	Share capital	Statutory reserve	Retained earnings	Total
Balance as at 01.01.2006	**12 600**	**1 518**	**1 007**	**15 125**
Contribution by shareholders	0	0	2 894	2 894
Net profit for 2006	0	0	420	420
Balance as at 31.12.2006	**12 600**	**1 518**	**4 321**	**18 439**
Carrying amount of holdings under control and significant influence	0	0	-40	-40
Carrying amount of holdings under control and significant influence under equity method	0	0	41	41
Adjusted consolidated equity at 31.12.2006	**12 600**	**1 518**	**4 322**	**18 440**
Balance as at 01.01.2007	**12 600**	**1 518**	**4 321**	**18 439**
Net profit for 2007	0	0	19 150	19 150
Balance as at 31.12.2007	**12 600**	**1 518**	**23 471**	**37 589**
Carrying amount of holdings under control and significant influence	0	0	-40	-40
Carrying amount of holdings under control and significant influence under equity method	0	0	43	43
Adjusted consolidated equity at 31.12.2007	**12 600**	**1 518**	**23 474**	**37 592**

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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 2007 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 2007, 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

29 February 2008

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

Proposal for profit allocation

The Management Board of AS LHV proposes to the General Meeting of Shareholders to add the net profit of 2007 in the amount of 19 152 thousand kroons to retained earnings.

Signatures of the Management Board and the Supervisory Board to the 2007 Annual Report

The Management Board has prepared the management report and the financial statements of AS Lõhmus, Haavel & Viisemann for the financial year ended on 31. december 2007.

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

MANAGEMENT BOARD
29.02.2008

Chairman of the Management Board
Liisi Ruus

Members of the Management Board:

Kerli Lõhmus

Jüri Heero

Erki Kert

Mihkel Oja

SUPERVISORY BOARD
31.03.2008

Chairman of the Supervisory Board
Rain Lõhmus

Members of the Supervisory Board:

Tiina Mõis

Andres Viisemann