AS Lõhmus, Haavel & Viisemann

Consolidated Annual Report 2008

(translation of the Estonian original)

LHV

Consolidated annual report **01.01.2008 – 31.12.2008**

Business name	AS Lõhmus, Haavel & Viisemann
Commercial Registry no.	10539549
Legal address	Tartu mnt. 2, 10145 Tallinn
Phone	(372) 6800400
Fax	(372) 6800410
E-mail	lhv@lhv.ee
Main activities	Security brokerage
	Financial advisory
	Finance lease and other lending
Management Board	Erki Kilu
	Kerli Lõhmus
	Jüri Heero
	Erki Kert
	Indrek Nuume
Supervisory Board	Rain Lõhmus
	Tiina Mõis
	Andres Viisemann
	Hannes Tamjärv
	Heldur Meerits
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

AS Lõhmus, Haavel & Viisemann (LHV) is an investment company, founded in 1999, that operates in Estonia, Latvia and Estonia. The sole shareholder of LHV is AS LHV Group. Almost five thousand customers use the security brokerage and investment services of LHV. LHV manages Estonia's most popular investment portal that is used by approximately twenty thousand people every week.

Business operations

In 2008, the fast development of LHV continued. Pursuant to its strategic goals, the Company decided to apply for licence of a credit institution at the beginning of the year. As a bank, the Company plans to expand its range of services with three important products – deposits, loans and settlements. Deposits held at call and term deposits will be raised both from private investors as well as legal persons. The lending activities of LHV will be targeted at entities. Joining the settlement systems will enable customers to open regular bank accounts at LHV, and to make domestic and foreign payments between other banks.

At 15 May 2008, LHV filed for an application with the Financial Supervision Authority to obtain licence of a credit institution. Subsequently, there has been ongoing communication with the Financial Supervision Authority and submission of additional materials. Pursuant to legislation, the review of the application for authorisation of a credit institution will take up to 12 months.

In the second quarter, the Company was engaged in several product development projects. The procedures for determining guarantee rates of financial instruments used as collateral for loans and leveraged transactions, and that for calculating interest rates were simplified. In the third quarter, the Company launched the underwriting of Baltic options and provision of the first structured bond.

At the beginning of the year, the new investment centre was opened on the ground floor of City Plaza and the customer service centre in Pärnu Road was closed. In addition to regular customer service, the investment centre also offers opportunities to gain new investment knowledge. For example, investment-related literature and magazines can be borrowed, and presentations at investment-related seminars can be listened to. The interior design of the investment centre designed by interior architect Pille Lausmäe was mentioned in the annual review of the respectable design company Vitra.

In 2008, the Company continued to arrange investment-related seminars and the stock game Stock Shark in Estonia, Latvia and Lithuania. In addition, LHV published three issues of the investment magazine Investeeri!. The Company also plans to continue with seminars, the stock game and magazines in 2009.

In the first half of 2009, the Company will mainly focus on applying for licence of a credit institution and development of bank functions and services with regard to processes, IT, legal aspects, etc. A more active provision of banking services to Estonian customers will be the Company's focus in the second half of 2009. Securities intermediation will continue to grow in Latvia and Lithuania.

Share capital

At 13 May 2008, the Company's sole shareholder AS LHV Group decided to increase the share capital through a bonus issue in the amount of 23.4 million kroons, as a result of which the share capital of LHV increased to 36 million kroons.

The sole shareholder decided to change the business name of LHV to AS LHV Pank, change and approve the new articles of association and increase share capital to 80 million kroons. These decisions will be effected when LHV becomes a credit institution.

At 13 February 2009, the subscription for the new shares of the parent of LHV, AS LHV Group, ended. The shares were subscribed for in the total amount of 95.17 million kroons, enabling to increase the share capital of LHV to 100 million kroons upon becoming a credit institution.

Management

With the goal of strengthening management competencies of LHV in the banking sector, two more members were added to the Supervisory Board of LHV with the resolution of the sole shareholder at 18 December 2008. Hannes Tamjärv and Heldur Meerits were appointed as new members of the Supervisory Board. From 18 December 2008, the Supervisory Board of LHV consists of five members. The members of the Supervisory Board are Rain Lõhmus, Andres Viisemann, Tiina Mõis, Hannes Tamjärv and Heldur Meerits.

In 2008, changes occurred in the Management Board. At 12 May 2008, Erki Kilu was elected as a new member of the Management Board at the meeting of the Supervisory Board of LHV. At the meeting of the Supervisory Board at 13 May 2008, the former Chairman of the Management Board Liisi Ruus was recalled and Erki Kilu was elected as the new Chairman of the Management Board.

At 17 December 2008, the Supervisory Board of LHV decided to recall Mihkel Oja from the Management Board and elect Indrek Nuume as a new member from 2 February 2009. Hereinafter, Mihkel Oja will focus on the management of AS LHV Varahaldus. Indrek Nuume has a previous long-term banking experience, helping to strengthen the competencies of LHV in the credit area. The Management Board of LHV consists of five members. The members of the Management Board are Erki Kilu, Kerli Lõhmus, Jüri Heero, Erki Kert and Indrek Nuume.

Internal control

In 2008, the internal control department was established in the organisational structure of LHV which covers all management and operating levels of LHV in order to ensure efficiency of operations, reliability of reporting, control over risks and adoption of decisions on the basis of reliable and appropriate information. The internal control department consists of three positions:

- Internal Auditor who is an independent performer of the control function and who monitors all operating activities of LHV and reports to the Chairman of the Supervisory Board of LHV;
- Compliance Officer who performs control over investment activities and provision of investment services, and reports to the Management Board of LHV;
- Risk Analyst who is engaged in daily assessment, management and monitoring of risks at LHV, and reports to the Management Board of LHV.

Risk Analyst was employed at 28 April 2008, Compliance Officer at 2 June 2008 and Internal Auditor at 5 January 2009. Therewith, an independent and effectively functioning internal control was created at LHV.

Organisation

In the second half of 2008, the lines of business of LHV were more clearly specified and the organisational structure was updated. The organisational structure of LHV is based on the principle of segregation of functions.

The structure consists of five main areas, each managed by one member of the Management Board and which have their own departments

- sales and marketing area consists of the marketing department, and the sales and customer service department targeted at retail customers;
- administrative area encompasses the functions related to the main activity, primarily support functions, including bookkeeping, securities management, human resources management, legal services and credit analysis departments;
- brokerage area consists of the brokerage department and IT department;
- investment banking and analysis area encompasses analysts who are responsible for preparation of investment recommendations with regard to shares traded on stock exchanges and stock commentators who primarily write articles for the financial portal;
- private banking department consists of the sales and customer service department targeted at private banking customers, and the portfolio management department.

In addition to the current investment committee and the securities appraisal committee, a credit committee and an asset and liability management committee will be established after the Company becomes a credit institution.

At the year-end 2008, LHV employed 48 people. In the second half of the year, more emphasis was laid on the recruitment of employees with required experience and the personnel policy was updated. In 2009, more emphasis will be laid on employee development and training, relating to additional work responsibilities and expansion of the operating area.

Business environment

The problems which started in the US financial sector in 2007 escalated into a global crisis in 2008, resulting in a sharp decline of the global stock markets and reduction of growth forecasts of most countries for the upcoming years. On the background of the financial crisis, the economic cool down of the Baltic countries which had started a year earlier, accelerated and by the end of the year, the economies of Estonia, Latvia and Lithuania were in a recession.

The first signs of a global financial crisis which exploded in 2008 were already evident in 2007, when the prices of subprime bonds declined sharply because more and more people experienced difficulties with paying their home mortgages. In 2008, the weakness spread to the whole mortgage-backed bond market which had a devastating effect on financial institutions with large volumes of securitised real estate loans in their balance sheets. The most significant date of the financial crisis is 15 September when the US investment bank Lehman Brothers with more than a hundred year operating history crashed, signalling the largest bankruptcy in the US history. The liquidity contraction which had already started before the bankruptcy of Lehman Brothers deepened further and liquidity almost disappeared for a while from the financial sector. The effects from the reluctance and inability of banks to issue new loans and extend current ones quickly filtered through to the real economy via private consumers and entities as a result of which the global economic cool down accelerated and a recession hit several large countries. Central banks all over the world reacted to the liquidity contraction by sharply cutting their interest rates and issuing massive bailout packages for the financial sector. Several large banks both in Europe and the USA were nationalised in order to prevent bankruptcies.

The pressure on financial institutions and deleveraging in the system spread to stock markets. The key indices of the US stock market: S&P 500, Dow Jones and Nasdaq declined by 38%, 34% and 41% in a year, respectively. However, some of the losses were reversed in December when the indices increased by almost 20% from the bottom. The stock market crash was accompanied by extraordinarily large volatility, illustrated by the 650-point daily movements of Dow averages in October.

The commodities' sector which offered protection to investors in the first half of the year, also declined steeply in the second half of the year. Crude oil which cost USD 150 USD/barrel in mid-2008, fell in the second half of the year and at the year-end, the barrel of oil already cost USD 50. The price decline in the commodities'l sector together with the cool down of the world economy put global pressure on prices. When in 2007 the Central banks were busy curbing inflation, by the year-end 2008, major fears were related to deflation.

The Baltic countries with the collapse of their real estate bubble and a large current account deficit was hit especially hard by the global financial crisis and by the year-end 2008, the Latvian economy had contracted by 10.5% year-over-year, being the worst result in the European Union. Latvia is also one of the countries which in order to avoid the worst, was forced to approach the International Monetary Fund (IMF) and the European Union. At the year-end, Latvia signed the 7.5 billion euro bailout package. The economy of Estonia which grew by modest 0.4% in the first quarter also declined steeply by the year-end (-9.4% year-over-year). The economic cool down of Lithuania was somewhat more moderate in 2008 and in the fourth quarter, the GDP declined by 1.5% year-over-year according to preliminary data.

In the conditions of a sharply cooling economic environment and global deleveraging and risk averseness, the Baltic stock markets also declined sharply in 2008. The index of the Tallinn Stock Exchange (OMXT) declined by 63% in a year, the indices of Riga (OMXR) and Vilnius (OMXV) fell by 54% and 65%, respectively. On the background of the decline, the trading activity on the Baltic stock exchanges also declined.

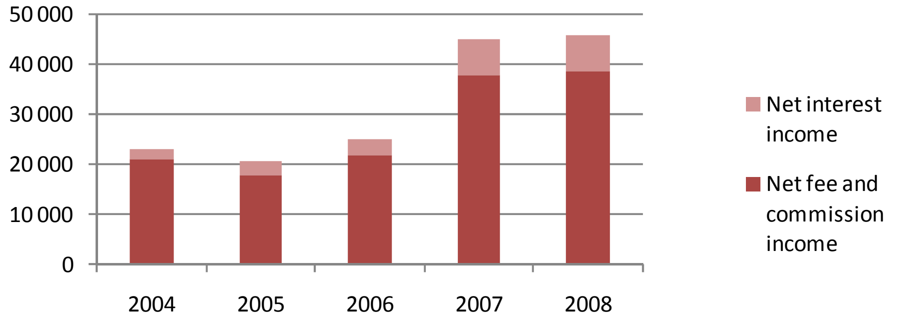
Financial results

Net fees and commissions income increased by 2% in a year, to 38.6 million kroons. Fees for securities intermediation made up the largest share, i.e. 76% of the gross fee income. The number of trades intermediated into the markets on behalf of customers increased by 18% in a year, to 246 thousand transactions which is almost three times more than the number of transactions placed on the Tallinn Stock Exchange in 2008. Of the gross service income, 79% was earned from intermediation of US shares, options and futures, 10% from the Baltic shares and 11% from other shares and fund units. By countries, 67% of the gross fee income was earned in Estonia (decline of -12%), 10% in Latvia (growth of 301%) and 23% in Lithuania (growth of 22%).

Net interest income increased by 2% as compared with last year, to 7.4 million kroons. As at the year-end, the volume of security backed lending (margin) provided to the customers was 22 million kroons. 60% of the loans were issued in Estonia, 4% in Latvia and 36% in Lithuania. The volume of loans issued to other entities was 11 million kroons at the year-end.

	2007	2008	Growth
net service fee income	38 038	38 625	2%
net interest income	7 271	7 411	2%
loan volume	57 538	33 099	-42%

The following chart provides an overview of the net revenue of LHV:



In 2008, Operating expenses increased by 9% and the loss for the year totalled almost 3 million kroons. As compared with the previous year, the loss was primarily related to the financial costs from trading and higher office expenses.

The customers' assets under LHV's management increased by 20% in a year, to 4 800 customers which is a very decent result considering the cooler economic environment in the Baltic countries. However, the volume of assets under management decreased by 19%, to 1 632 million kroons, due to the overall decline in the markets.

Sponsorship

In 2009, LHV will assist the Estonian Traditional Music Centre with the arrangement of the festival Viljandi Folk in the summer. The Estonian Traditional Music Centre is a collaboration partner for the Company, enabling LHV to make its contribution to the preservation of Estonia's national heritage.

LHV also sponsors young sailors by purchasing new Optimist yachts for the Estonian Optimist Class Association. The yachts will be rented out to clubs and schools where young people interested in sailing can use the yachts for a symbolic fee. The association will use the rental fees received from clubs and schools to arrange competitions and camps for children, and training for their coaches.

CONSOLIDATED FINANCIAL STATEMENTS

Management Board's declaration

The Management Board confirms the correctness and completeness of the consolidated 2008 financial statements of AS Lõhmus, Haavel & Viisemann presented on pages 8-45.

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 entities in its consolidation group are going concerns.

/signed/

Erki Kilu ________________

Chairman of the Management Board

/signed/

Kerli Lõhmus ________________

Member of the Management Board

/signed/

Jüri Heero ________________

Member of the Management Board

/signed/

Erki Kert ________________

Member of the Management Board

/signed/

Indrek Nuume ________________

Member of the Management Board

Tallinn, 02.04.2009

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Kuupäev/date 03.04.09
PricewaterhouseCoopers, Tallinn

Consolidated income statement

(in thousand Estonian kroons)

	Note	2008	2007
Fee and commission income	5	45 670	46 944
Fee and commission expense	5	-7 045	-8 906
Net fee and commission income		**38 625**	**38 038**
Interest income	6	9 578	9 608
Interest expense	6	-2 167	-2 337
Net interest income		**7 411**	**7 271**
Netgain/loss from trading	7	-3 776	2 632
Dividend income	7	1	3
Net loss/gain from financial assets		**-3 775**	**2 635**
Other income	8	4 296	16 698
Operating expenses	9	-49 515	-45 490
Loss/profit for the year		**-2 958**	**19 152**

The notes on pages 13 to 45 are an integral part of these consolidated financial statements.

Consolidated balance sheet

(in thousand Estonian kroons)

	Note	31.12.2008	31.12.2007
Assets			
Cash and cash equivalents	11	9 067	5 060
Derivatives	12	96	53
Other financial assets at fair value through profit or loss	13	9 283	4 440
Loans granted	14	33 099	57 538
Trade receivables	15	1 847	1 769
Finance lease receivables	16	4 246	4 410
Other assets	17	1 620	2 091
Property, plant and equipment, and intangible assets	18	7 093	5 888
Total assets		**66 351**	**81 249**
Liabilities			
Loans	19,21	19 944	29 797
Financial liabilities at fair value through profit or loss	13,21	542	0
Accrued expenses and other liabilities	20	5 244	9 375
Deferred income	14	1 345	0
Bonds issued	21	4 342	4 485
Provisions	22	300	0
Total liabilities		**31 717**	**43 657**
Shareholders' equity			
Share capital	23	36 000	12 600
Reserves		1 518	1 518
Accumulated deficit/retained earnings		-2 884	23 474
Total shareholders' equity		**34 634**	**37 592**
Total liabilities and shareholders' equity		**66 351**	**81 249**

The notes on pages 13 to 45 are an integral part of these consolidated financial statements.

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PricewaterhouseCoopers, Tallinn

LHV

Consolidated cash flow statement

(in thousand Estonian kroons)

	Note	2008	2007
Cash flows from operating activities			
Fee and commission income received		52 770	66 422
Fee and commission expense		-7 045	-8 906
Operating and other expenses paid		-49 445	-45 493
Finance lease receivables paid by customers		174	188
Interest received		9 847	9 436
Settlement of foreign currency forward contracts		-42	-19
Net acquisition/disposal of trading portfolio		-11 149	-4 307
Change in loans granted		24 171	-13 069
Change in other liabilities		-513	544
Change in deferred income		1 336	0
Change in stock exchange security deposit		60	-49
Release of previously frozen banks accounts		0	861
Net cash generated from operating activities		**20 164**	**5 608**
Cash flows from investing activities			
Purchase of non-current assets	18	-4 117	-5 858
Proceeds from disposal of non-current assets	18	29	16
Dividends received from investment securities	7	1	3
Net cash used in investing activities		**-4 087**	**-5 839**
Cash flows from financing activities			
Redeemed bonds		-142	-1 919
Loans received		74 578	91 237
Bonds issued		904	0
Loan repayments		-84 985	-94 855
Interest paid		-2 425	-2 147
Net cash used in financing activities		**-12 070**	**-7 684**
Net increased / decrease in cash and cash equivalents		**4 007**	**-7 915**
Cash and cash equivalents at beginning of the year	11	5 060	12 975
Cash and cash equivalents at end of the year	**11**	**9 067**	**5 060**

The notes on pages 13 to 45 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(in thousand Estonian kroons)

	Share capital	Reserves	Accumulated deficit/ Retained earnings	Total
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**
Balance as at 01.01.2008	**12 600**	**1 518**	**23 474**	**37 592**
Transfers to share capital through bonus issue	23 400	0	-23 400	0
Net loss for 2008	0	0	-2 958	-2 958
Balance as at 31.12.2008	**36 000**	**1 518**	**-2 884**	**34 634**

More detailed information is provided in Note 23.

The notes on pages 13 to 45 are an integral part of these consolidated financial statements.

Notes to the financial statements

NOTE 1 General information

AS Lõhmus, Haavel & Viisemann (LHV) provides investment, finantsvõimenduse and securities brokerage services to clients in Estonia, Latvia and Lithuania; also financial consultancy services. Subsidiary of LHV – Ilmarise Kinnisvaraportfelli OÜ (100% ownership; situated in Estonia, Tallinn) offers financial lease services. As at 31.12.2008 LHV employed 48 people (as at 31.12.2007: 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 02 April 2009.

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 2008 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 2008 and ended at 31 December 2008. 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 or after 1 January 2008. 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 2008

Reclassification of Financial Assets – amendments to standards IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" and consequential amendment: Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the following options (a) to reclassify a financial asset out of the held-for-trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale or held-for-trading asset to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The Group has not applied reclassification options in the reporting period; therefore, the amendments do not affect the Group's financial statements.

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning at or after 1 March 2007). The interpretation contains guidelines on the following issues: applying IFRS 2 "Share-based Payment" for transactions of payments with shares which are entered into by two or more related entities; and adopting an accounting approach in the following instances: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees of an entity, or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. The interpretation does affect the Group's financial statements.

(b) New standards, amendments and interpretations that are mandatory for the Group and are effective for annual periods beginning at or after 1 January 2008.

IAS 1 (amendment) *– Presentation of Financial Statements (effective 1 January 2009):*
The main change in IAS 1 is the replacement of the income statement by the statement of comprehensive income which also includes all non-owner changes in equity, such as revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but not the recognition or measurement of specific transactions and balances. The Group applies the amendments from 1 January 2009.

IAS 27 (revised) *– Consolidated and Separate Financial Statements (effective from 1 January 2009):*
The standard requires recognition of transactions with minority shareholders directly in equity under the condition that the parent retains control over the entity. In addition, the standard clarifies accounting for control ceased over the subsidiary or revaluation of shares to fair value whereby the differences are taken to profit or loss. The Group applies the amendments from 1 January 2009.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method for making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group estimates that the amendments will not affect the financial statements.

(c) Standards, amendments and interpretations not yet effective but which may affect the Group's financial statements

IFRS 8 – Operating Segments (effective from 1 January 2009)
IAS 23 (amendment) – Borrowing Costs (effective from 1 January 2009)
IAS 32 and amendment to IAS 1 – Puttable Financial Statements and Obligations Arising on Liquidation (effective from 1 January 2009).

Improving Disclosures about Financial Instruments – amendment to IFRS 7 "Financial Instruments: Disclosures" (effective for annual periods beginning at or after 1 January 2009). The amendment requires additional disclosures about measurement of fair value and liquidity risk. An entity shall disclose an analysis of financial instruments using a three-level fair value hierarchy. The amendment (a) explains that the liquidity analysis of liabilities by contractual maturities shall include financial guarantees issued in the maximum amount of the guarantee and in the earliest period in which the guarantee can be collected; and (b) requires disclosure of remaining contractual maturities of financial derivatives when information regarding contractual maturities is material for understanding the timing of cash flows. In addition, an entity shall disclose an analysis of financial assets held for hedging purposes by maturities when this information is useful for the readers of the financial statements in order to understand the nature and scope of liquidity risk.

(d) Standards, amendments and interpretations not yet effective and not relevant to the Group's operations

IFRS 3 (amendment) – Business Combinations (effective from 1 July 2009)
IFRIC 12 – Service Concession Arrangement (effective from 1 January 2009)
IFRIC 13 – Customer Loyalty Programmes (effective from 1 January 2009)
IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2009)
IFRIC 15 – Agreements for the Construction of Real Estate (effective from 1 January 2009)
IFRIC 16 – Hedged of a Net Investment in a Foreign Operation (effective from 1 October 2008)
IFRIC 17 – Distribution of Non-Cash Assets to Owners (effective from 1 July 2009)
IFRIC 18 – Transfers of Assets from Customers (effective from 1 July 2009)
IFRS 1 – First-time Adoption of International Financial Reporting Standards (effective from 1 July 2009)
IFRS 1 and amendment to IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from 1 January 2009)
IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items (effective from 1 July 2009)

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 2008 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 currecny

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 trading", 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:

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

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

Loans assumed and bonds issued are initially recognised at fair value less transaction costs (cash proceeds less transaction costs). Other financial liabilities (trade payables, accrued expenses and other borrowings) are initially recognised at cost, including all directly attributable expenditure.

A financial liability at fair value through profit or loss is an instrument held for trading purposes or is recognised at fair value at initial recognition. All other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Borrowing costs are included in the calculation of the effective interest rate. The difference between the proceeds (less transaction costs) and redemption value are recognised in the income statement during the term of the instrument using the effective interest rate. Interest costs are included in the income statement line "Interest costs".

Structured bonds consist of a deposit and an option embedded in the bond. As the value of the option depends on the return on the underlying asset being the value of the fund unit, it represents a derivative which is not closely related and the Group has therefore elected to recognise the option portion of the bonds at fair value based on the market value. The interest payable on the deposit is recognised under "Interest expense" and the change in the fair value of the option under "Net gain/loss from trading".

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

The principles of identification, management and control of risks at LHV are set out in the policies and procedures approved by the Supervisory Board and daily risk management organized by the Management Board. The purpose of risk management is to identify, assess, manage and control all risks related to the activities of LHV in order to ensure LHV's reliability, stability and profitability. Independently carries out the management of the risks of the entity's internal control. 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 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 reporting about meeting the regulatory requirements on the solvencuy and risk mitigating coverage for capital requirements for investment entities is filed with the Authority on monthly basis. In 2008 there have been no problems related to meeting the demands of capital adequacy. LHV does not use interanal rating models for calculating capital requirements.

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..

Capital adequacy	**31.12.2008**	**31.12.2007**
Paid-in share capital	36 000	12 600
Reserves	1 518	1 518
Retained earnings	74	4 322
Profit/loss for the year	-2 958	16 201
Intangible assets (subtracted)	-217	-117
Total Tier 1 own funds	**34 417**	**34 524**
Risk-weighted assets	**50 554**	**72 858**
Carrying amount of assets in category I	4 601	155
Carrying amount of assets in category II	9 055	5 060
Carrying amount of assets in category III	7 713	8 270
Carrying amount of assets in category IV	44 886	67 711
Risk-weighted off-balance sheet transactions	48	27
Capital requirement against foreign currency risk	1 203	2 883
Capital requirement against trading portfolio risks	661	163
Capital requirement against credit risk exposures exceeding risk concentration limits of trading portfolio	0	0
Total capital requirements*	**6 924**	**10 334**

* Total capital requirement = 10% *(risk-weighted assets + off-balance sheet transactions) + capital requirement against foreign currency risk + capital requirement against trading portfolio + capital requirement against exposures exceeding the concentration limits

As at 31.12.2008, two loans had been issued with large exposures, i.e. over 10% of the net own funds (NOF) of LHV. The receivable from the parent totals 6 638 thousand kroons, i.e. 19.2% of NOF and the receivable from non-related entities totals 4 342 thousand kroons, i.e.12.6% of NOF.

Loan capital is managed according to internal rules, on the basis of principles explained in subparagraphs of financial risk management.

3.2 Financial risk management

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

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

3.2.1 Credit risk

Credit risk is the potential loss which would arise from the counterparty's inability to meet its obligations to the Group. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks and other financial institutions, but mostly credit exposures to customers, including outstanding loans, finance lease receivables, other receivables and committed transactions. In order to hedge credit risk, LHV analyses the operations and financial position of its customers and business partners. After authorising the loan, the solvency of the customer and the value of the collateral are constantly monitored.

LHV gives margin loans backed by securities to its customers, i.e. financial leverage. The maximum amount of the loan depends on market value of the assets held as collateral in the investment account, and on the general limit set by LHV which is currently 1 million kroons (or an equivalent in a foreign currency) per customer through LHV's website. The granting of major loans assumes an analysis of the portfolio offered as collateral by the customer and the decision is within the competence of the Management Board. The list of acceptable marketable financial instruments and the levels of the required collateral are published on LHV website www.lhv.ee. The credit risk arising from financial leverage is mitigated by constant monitoring of the market values of the financial instruments required as collateral. When the value of the collateral assets falls below the established limit, LHV is entitled to demand a transfer of additional collateral to the account or pay off the loan in the customer's account without the customer's trade order, liquidating the collateral asset for this purpose.

The legal title of the property leased by LHV Ilmarise Kinnisvaraportfelli OÜ under finance lease agreements remains with the Company until lease receivables have been collected in full. Therefore, the Company does not have any significant credit risk under the assumption that prices do not decrease significantly in the real estate market due to which the value of collateral would fall below the nominal value of all receivables. The prices in the real estate market which had significantly increased until now have by now fallen to the year 2004 level at which time according to the assessment reports, the collaterals were adequate for covering of finance lease receivables and there were no risksarising from the collateral.

The following table provides an overview of the credit quality analysis:

	31.12.2008				31.12.2007			
	Finance lease receivables	Loans to private persons	Loans to legal persons	Total	Finance lease receivables	Loans to private persons	Loans to legal persons	Total
Current and not impaired	4 238	12 728	20 310	37 276	4 393	51 350	6 011	61 754
Past due but not impaired	8	27	49	84	17	170	47	234
Gross	**4 246**	**12 755**	**20 359**	**37 360**	**4 410**	**51 520**	**6 058**	**61 988**
Individually impaired	0	-15	0	-15	0	-40	0	-40
Net	**4 246**	**12 740**	**20 359**	**37 345**	**4 410**	**51 480**	**6 058**	**61 948**

As at 31.12.2008, the Group's maximum credit risk exposure without considering collaterals would be the carrying amount of these loans and finance lease receivables, i.e. 37 380 thousand kroons (31.12.2007: 61 948 thousand kroons).

The maximum credit risk exposure from derivatives is their fair value which is 96 thousand kroons (31.12.2007: 53 thousand kroons) as at 31.12.2008.

The maximum credit risk exposure from other financial assets designated at fair value through profit or loss is the carrying amount of bonds, i.e. 4 405 thousand kroons (31.12.2007: 4 014 thousand kroons) as at 31.12.2008.

The maximum credit risk exposure from other receivables from customers is also their carrying amount: 1 847 thousand kroons (31.12.2007: 1 769 thousand kroons) as at 31.12.2008. All receivables have been collected by the time of preparing the financial statements.

3.2.2 Market risk

Market risk arises from LHV's trading and investment activities in the financial markets from interest rate products, foreign exchange and stock markets. Market risk is a potential loss which may arise from unfavourable changes in foreign exchange rates, prices of securities or interest rates. The VaR (Value at Risk) method is used to assess potential losses. The method calculates the maximum potential loss at a particular trade date from a particular portfolio with 99% probability. Options portfolios are limited to the open delta limit of the total portfolio. In order to mitigate market risk, conservative limits have been established for the trading portfolio and open foreign currency exposures, the monitoring responsibility of which lies with the internal control department.

✓ ***Foreign currency risk***

Foreign currency 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 open foreign currency positions. If the open currency position exceeds the limits set in regulatory acts, measures are immediately implemented to reduce such positions (hedging the risk with relevant instruments, like foreign currency forwards or futures).

Foreign currency rate risk is managed under the following limits:

- Open currency positions of OECD member states cannot exceed 15% of net own funds
- Open currency positions of any other currency (excl. euro, lats, litas) cannot exceed 5% of net own funds
- Open currency positions of the Estonian kroon, Latvian lats and Lithuanian litas are without limits, as the kroon and the litas are pegged to the Euro using a fixed exchange rate and the fluctuation of the lats is fixed at +/-1% to the Euro.

Information regarding assets and liabilities bearing currency risk is presented in the tables on pages 26-27. The main currencies, in which LHV has open currency exposures, are USD, SEK and LVL. Open currency exposures have not significantly changed throughout 2008 in comparison with the balance sheet date of 31.12.2008.

A sensitivity analysis has been performed for the effect of possible reasonable changes attributable to open currency positions on the income statement.

	Change	**2008**	**Change**	**2007**
USD exchange rate	+10%	-57	+10%	4
	-10%	57	-10%	-4
SEK exchange rate	+5%	-4	+6%	-8
	-5%	4	-6%	8
LVL exchange rate	+5%	31	+0,5%	13
	-5%	-31	-0,5%	-13
Total appreciation of exchange rates		**-30**		**9**
Total depreciation of exchange rates		**30**		**-9**

Open currency exposuress

The following tables present the risks arising from open currency exposures. Assets and liabilities denominated in foreign currencies have been presented in EEK equivalent in respective columns, according to the exchange rate prevailing at the balance sheet date. Derivatives reported at fair value in the balance sheet have been included within contractual amounts under contingencies and commitments. Open currency exposure and the volume of financial assets and liabilities of the Group at the balance sheet date do not significantly differ from the average exposure during the year.

As at 31.12.2008

Assets bearing currency risk	**EEK**	**EUR**	**LTL**	**LVL**	**SEK**	**USD**	**Other**	**Total**
Cash and cash equivalents	8 733	76	201	57	0	0	0	9 067
Financial assets at fair value through profit or loss	4 064	4 887	297	0	1	34	0	9 283
Loans to customers	13 713	5 842	7 216	267	334	4 677	1 050	33 099
Receivables from customers	1 119	21	0	0	0	573	134	1 847
Other assets	1 254	351	7	8	0	0	0	1 620
Total assets bearing currency risk	**28 917**	**11 177**	**7 721**	**332**	**335**	**5 284**	**1 185**	**54 916**
Assets not bearing currency risk								
Finance lease receivables	4 246	0	0	0	0	0	0	4 246
Property, plant and equipment, and intangible assets	7 093	0	0	0	0	0	0	7 093
Total assets not bearing currency risk	**11 339**	**0**	**0**	**0**	**0**	**0**	**0**	**11 339**
Total assets *	**40 222**	**11 177**	**7 721**	**332**	**335**	**5 284**	**1 184**	**66 255**
Contingencies at contractual amounts (Note 12)	**4 570**	**0**	**0**	**0**	**0**	**0**	**0**	**4 570**
Liabilities bearing currency risk								
Loans received	11 683	8 261	0	0	0	0	0	19 944
Other financial liabilities	379	2	161	0	0	0	0	542
Accrued expenses	4 713	80	349	91	0	11	0	5 244
Total liabilities bearing currency risk	**16 775**	**8 343**	**510**	**91**	**0**	**11**	**0**	**25 730**
Liabilities not bearing currency risk								
Bonds issued	4 342	0	0	0	0	0	0	4 342
Deferred income	9	1 336	0	0	0	0	0	1 345
Provisions	300	0	0	0	0	0	0	300
Total liabilities not bearing currency risk	**4 651**	**1 336**	**0**	**0**	**0**	**0**	**0**	**5 987**
Total liabilities *	**21 426**	**9 679**	**510**	**91**	**0**	**11**	**0**	**31 717**
Commitments at contractual amounts (Note 12)	**0**	**0**	**0**	**0**	**572**	**3 902**	**0**	**4 474**
Total shareholders' equity	34 634	0	0	0	0	0	0	34 634
Open foreign currency position	**-11 268**	**1 498**	**7 211**	**241**	**-237**	**1 371**	**1 184**	**0**

* the balances of total assets and total liabilities differ from the carrying amounts by the fair value of the derivatives, which are shown here at their full contractual amounts.

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As at 31.12.2007

Assets bearing currency risk	EEK	EUR	LTL	LVL	SEK	USD	Other	Total
Cash and bank	4 042	15	1	2	0	232	768	**5 060**
Financial assets at fair value through profit or loss	0	4 327	0	0	22	87	4	**4 440**
Loans to customers	15 165	3 275	25 950	2 610	2 570	7 057	911	**57 538**
Receivables from customers	776	24	0	0	103	691	175	**1 769**
Other assets	1 175	898	18	0	0	0	0	**2 091**
Total assets bearing currency risk	**21 158**	**8 539**	**25 969**	**2 612**	**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**	**8 539**	**25 969**	**2 612**	**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	10 929	0	0	0	191	0	**29 797**
Accrued expenses	8 396	35	694	243	0	7	0	**9 375**
Total liabilities bearing currency risk	**27 073**	**10 964**	**694**	**243**	**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**	**10 964**	**694**	**243**	**0**	**198**	**0**	**43 657**
Commitments at contractual amounts (Note 12)	**0**	**0**	**0**	**0**	**2 825**	**7 833**	**0**	**10 658**
Total shareholders' equity	37 592	0	0	0	0	0	0	37 592
Open foreign currency position	**-26 983**	**-2 425**	**25 275**	**2 369**	**-130**	**36**	**1 858**	**0**

* the balances of total assets and total liabilities differ from the carrying amount by the fair value of the derivatives, which shown here at their full contractual amounts.

LHV

✓ ***Price risk***

Financial instruments bearing price risk in LHV are securities held for trading. The limits are set for the size of the trading portfolio at LHV. The head of the brokerage team oversees the trading portfolio and the internal control department monitors the compliance with limits.

Sensitivity analysis:

Effect on income statement	**Change**	**2008**	**Change**	**2007**
Shares	+10%	461	+20%	11
	-10%	-461	-20%	-11
Fund units	+10%	27	+10%	27
	-10%	-27	-10%	-27
Bonds	+20%	881		
	-20%	-881		
Total effect of price appreciation		**1 349**		**38**
Total effect of price depreciation		**-1 349**		**-38**

✓ ***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 2008, the fixed interest rate on loans granted was between 7.5-20.5% (2006: 7.75-12.75%). Interest rates for loans granted are changed once a month at most according to fluctuations in 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 2008 were as high as 8% (2007: 7%). Interest rate risk is also reduced by framing up the due dates of loans – loans are taken mostly with short, but extendable due dates.

The finance lease receivables of LHV Ilmarise Kinnisvaraportfelli OÜ 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 the maturity date, the Group is entitled to redeem the issued bonds in the additionally collected amount. Due to this, the Group does not bear significant interest rate risk.

As the portfolio of loans granted and loans received is of short-term nature, the change in market interest rates does not have a significant influence on the fair value of these loans.

3.2.3 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 finance department of LHV is responsible for the management of liquidity risk. In order to hedge liquidity risk, the probable net position of receivables and liabilities by maturities is regularly monitored and adequate amounts of liquid assets are kept in each time period. The sources of funding are constantly supplemented when due dates arrived or when customers take additional loans. In case the volume of loans granted to customers declines, the sources of funding are reduced accordingly, as all loans received short-term. As at 31.12.2008 and 31.12.2007, the Group does not have any debts past due.

Undiscounted cash flows of issued bonds up to 1 year total 415 thousand kroons, between 1-5 years, 1 631 thousand kroons and over 5 years, 4 915 thousand kroons. Corresponding undiscounted cash flows from finance lease receivables up to 1 year total 422 thousand kroons, between 1-5 years, 1 650 thousand kroons and over 5 years, 4 883 thousand kroons.

The global liquidity crisis prevailing in 2008 has not affected LHV's funding opportunities because due to the crisis in the stock markets, the volume of leverage used by the customers of LHV has declined and hence, the need to raise debt has decreased.

The following tables present the distribution of financial assets and liabilities by due dates. The carrying amounts are used in the analysis, except for derivatives, for which the contractual amounts are used. Explanation of the fair value of these financial assets and liabilities is presented in Note 3.3.

As at 31.12.2008

Financial assets	Up to 3 months	3-12 months	1-5 years	over 5 years	Total
Cash and cash equivalents	9 067	0	0	0	**9 067**
Financial assets at fair value through profit or	4 878	1 111	3 294	0	**9 283**
Derivatives	668	0	0	0	**668**
Loans to customers	22 119	10 980	0	0	**33 099**
Receivables from customers	1 273	574	0	0	**1 847**
Finance lease receivables	39	122	712	3 373	**4 246**
Other receivables and assets	298	211	893	218	**1 620**
Total	**38 342**	**12 998**	**4 899**	**3 591**	**59 830**
Financial liabilities					
Derivatives	572	0	0	0	**572**
Loans received	7 247	12 697	0	0	**19 944**
Other financial liabilities	542	0	0	0	**542**
Deferred income	343	1 002	0	0	**1 345**
Accrued expenses and other liabilities	3 283	1 961	0	0	**5 244**
Bonds issued	37	189	717	3 399	**4 342**
Provisions	0	300	0	0	**300**
Total	**12 024**	**16 149**	**717**	**3 399**	**32 289**

As at 31.12.2007

Financial assets	Up to 3 months	3-12 months	1-5 years	over 5 years	Total
Cash and cash equivalents	5 060	0	0	0	**5 060**
Financial assets at fair value through profit or	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	144	649	1 019	279	**2 091**
Total	**67 923**	**4 721**	**1 688**	**3 854**	**78 186**
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**

3.3 Fair value of financial assets and financial liabilities

The Group estimates that the fair values of the assets and liabilities denominated at amortised cost in the balance sheet do not differ significantly from their carrying amounts as at 31.12.2008 and 31.12.2007. The loans granted to customers that have been issued with fixed interest rates are sufficiently short-term and issued at market terms, therefore the fair market rate and respectively, the fair value of the loan does not change significantly during the loan term. The loans received and structured bonds are also of a very short maturity and therefore, their fair value does not differ significantly during the loan or deposit term. Information regarding liquidity is presented in the subparagraph presented above.

Receivables from customers, accrued expenses and other liabilities have arisen in the normal course of business 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 amount. These receivables and liabilities do not carry any interest.

Both finance lease receivables and bonds issued are of significantly longer maturity and the fair value of these expected cash flows at the current market rates might differ from the carrying amounts of the lease receivables and bonds issued. The bonds issued are quoted on the Tallinn Stock Exchange. Since their first quotation on the stock exchange at 13.10.2005 until 31.12.2008, there have been no transactions with the bonds and therefore, there is no information available on price movements. As there have been no transactions with bonds in the secondary market, the fair value of bonds is not reliably determinable as a result of which this value is not presented here. The lessees are entitled to terminate their agreement at any time during the lease period; therefore it would not be appropriate to consider these cash flows from current agreements as expected cash flows on the basis of schedules established in the agreement. Bonds have been redeemed in exactly the same volume as purchased finance lease agreements. Therefore, the Management Board has evaluated and concluded that the combined fair value of lease receivables and bonds issued does not significantly differ from their carrying amount.

3.4 Operating risk

Operating risk is a potential loss caused by human, process or information system flaws. When completing transactions, transaction limits and competence systems are used to minimise 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 in order to carry out a 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 collected into the 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 the Management Board is responsible for 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. Pursuant to the Securities Market Act, the main task of Compliance Officer is to define non-compliance risks of the activities of LHV to legislation, recommended guidelines of the Financial Supervisory Authority and procedure rules of LHV, considering the nature, range and complexity of business and services rendered, and arrangement of mitigating or avoiding those risks. Internal audit is an independent and objective, assuring and consulting activity that is targeted at improving the Company's performance and adding value. Internal audit helps achieving the goals of the Company, using a systematic and disciplined approach to assess and increase the efficiency of the risk management, control and organisational management process.

3.5 Effects of the economic crisis

Management has evaluated the effects of the global liquidity crisis and the related overall economic crisis on the Company's business. An important factor affecting the Company's operations is the decline in the trading activity of LHV's customers related to the decline in the value of instruments traded in the financial markets. Despite this, the fee and commission income of LHV in 2008 was maintained at the same level as in 2007. Management cannot reliably predict the effect of the economic crisis on the Company's activities and financial position in 2009. Management believes that it has taken all necessary measures to ensue the Company's sustainability and growth in the current circumstances.

LHV

NOTE 4 Significant management estimates and assumptions

In accordance with IFRS, several financial figures presented in the consolidated financial statements are strictly based on critical accounting estimates and assumptions made by management, which 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 revenue and expenses of subsequent reporting periods. Although these estimates have been made to the best of management's knowledge and their judgement of current events, the actual outcome may ultimately not coincide with them and may significantly differ from these estimates.

Management's estimates have been primarily applied to:

- recognition of impairment losses of loans, receivables and investments;
- in the absence of an active market, fair valuation of investments using valuation techniques;
- determination of useful lives of non-current assets (see Notes 2.9, 2.10 and 18);
- assessment of provisions and contingent assets / liabilities;
- evaluation of the 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 in the circumstances. Changes in management's estimates are reported in the income statement of the period in which the change occurred. In these financial statements, management estimates have been used to value bonds (see Note 13).

NOTE 5 Net fee and commission income

	2008	2007
Fee and commission income		
Financial advisory services	284	1 995
Security brokerage and commissions	39 917	40 519
incl. related parties (Note 27)	*584*	*2 180*
Asset management and similar fees	5 469	4 430
incl. related parties (Note 27)	*7*	*3*
Total	**45 670**	**46 944**
Fee and commission expense		
Financial advisory and other similar services purchased	0	-1 744
Security brokerage and commissions paid	-7 045	-7 162
Total	**-7 045**	**-8 906**
Net fee and commission income	**38 625**	**38 038**

Fee and commission income by customer location:	**2008**	**2007**
Estonia	33 724	39 457
Latvia	3 766	887
Lithuania	8 180	6 600
Total	**45 670**	**46 944**

NOTE 6 Net interest income

	2008	2007
Interest income from		
Cash and bank	2 622	2 091
Finance lease(Note 16)	270	280
Margin loans and lending of securities (Note 14)	6 456	6 994
Other loans (Note 14)	230	243
incl. loans to related parties (Note 27)	*40*	*0*
Total	**9 578**	**9 608**
Interest costs		
Bonds issued (Note 21)	-252	-268
Loans received (Note 19)	-1 915	-2 069
incl. loans from related parties (Note 27)	*-187*	*-359*
Total	**-2 167**	**-2 337**
Net interest income	**7 411**	**7 271**

Interest income by customer location:	**2008**	**2007**
Estonia	3 071	4 300
Latvia	667	192
Lithuania	5 840	5 116
Total	**9 578**	**9 608**

NOTE 7 Gain from financial assets

	2008	2007
Gain/loss from financial assets		
Related to changes in foreign exchange rates:	2 930	2 748
- translation gains less losses	-117	73
- transactions gains less losses from customer trades	3 047	2 675
Gain from securities recognised at fair value	-6 706	-116
Net gain/loss from trading	**-3 776**	**2 632**
Dividend income from trading portfolio securities	1	3
Net loss/gain from financial assets	**-3 775**	**2 635**

NOTE 8 Other income

	2008	2007
Accounting services rendered	0	679
Other income from customers	474	368
Fines and penalties received	0	25
Income from transactions with related parties (Note 27)	3 460	8 371
Income from transactions with other parties	362	7 255
Total other income	**4 296**	**16 698**

NOTE 9 Operating expenses

	Note	2008	2007
Staff costs			
Wages, salaries and bonuses		15 947	15 716
Social security and other taxes		5 394	4 981
Total		**21 341**	**20 697**
IT expenses		2 259	1 843
Information services and bank services		2 144	1 904
Marketing expenses		3 497	3 206
Office expenses		2 445	1 546
Transportation and communication costs		1 075	975
Training and travelling expenses of employees		1 434	1 203
Other purchased services		6 158	4 195
Other administrative expenses		1 339	1 302
Depreciation	18	2 882	561
Operating lease payments	24	4 443	2 922
Provision expense	22	300	2 782
Other operating expenses		198	2 354
Total operating expenses		**49 515**	**45 490**

Due to the addition of new rental premises and appreciation of rental prices, the operating lease payments and office expenses increased in 2008. Deprecation has also significantly increased as a result of capitalisation of repair costs and purchase of furniture and furnishings. Other purchased services have increased as a result the expenses related to legal counselling and personnel recruitment. Other operating expenses included the cost related to the relocation of the Company to the 16th floor of City Plaza in 2007.

NOTE 10 Corporate income tax

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Instead of taxing the net profit, the distribution of retained earnings is subject to taxation at the rate of 21/79. In 2008 or 2007, no dividend payments were made to the shareholders. As at 31.12.2008, the Group does not have any distributable retained earnings.

NOTE 11 Cash and cash equivalents

Demand deposits	**31.12.2008**	**31.12.2007**
With Moody´s long-term rating of A1 at banks	9 053	4 277
With FitchRatings long-term rating of AA- at banks	14	783
Total cash and cash equivalents	**9 067**	**5 060**

NOTE 12 Foreign currency derivatives

	Receivable / liability (fair value)	Contingent assets (contractual amount)	Commitments (contractual amount)
Balance as at 31.12.2008			
Foreign currency future contract (USD)	0	3 902	3 902
Foreign currency forward contract (SEK)	96	668	572
Total derivatives	**96**	**4 570**	**4 474**

Balance as at 31.12.2007			
Foreign currency future contract (USD)	0	7 833	7 833
Foreign currency forward contract (SEK)	53	2 878	2 825
Total derivatives	**53**	**10 711**	**10 658**

The foreign currency forward contract has been concluded in Swedish kroons in order to hedge the foreign currency risk of fixed loans, receivables and securities. A foreign currency future is traded on the stock exchange and daily gains or losses are immediately transferred to LHV's bank account as a result of which, the carrying amount of the contract is 0. The due dates of contracts are between 2 and 3 months after the balance sheet date (2007: 1-5 months).

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

Securities held for trading:	**31.12.2008**	**31.12.2007**
Shares	4 372	38
Fund units	506	388
Bonds	4 405	4 014
Total financial assets	**9 283**	**4 440**

As at 31.12.2008, the shares include the underlying assets purchased for hedging the risk of underwritten options.

With regard to listed securities, the fair value of investments is their bid price. The discounted cash flow model has been used for bonds, the market price of which is difficult to determine. The valuation method considers the current condition and the expected rate of return at the date of valuation and may not accurately reflect market conditions before and after the valuation date.
The Company has adjusted its return expectations due to higher market interest rates and the risk level. All securities are reported at fair value in the financial statements. Of the total bond position, securities in the amount 468 thousand kroons are valued based on the quotes in an active market and bonds in the amount of 3 937 thousand kroons are valued using the discounted cash flow model are reported at the market price.
In 2007, the Company did not use alternative valuation methods and all securities to determine at the market price.

Held for trading:	**31.12.2008**	**31.12.2007**
Options embedded in structured bonds (Note 21)	2	0
Underwritten options	540	0
Total financial liabilities	**542**	**0**

LHV underwrites options for the securities traded on Baltic stock exchanges.

The Black & Scholes model is used to value options. If an underlying asset pays dividends, the Roll, Geske & Whaley model is used. The variables entered into the price formation include the price of the underlying asset, strike prices (future trade price), volatility, *smile, strike-smile, smile step*, interest, date of paying dividends and the amount of expected dividends. The price of the underlying asset is determined according to the market price, i.e. the price of a put option is calculated using the bid price and the price of a call option is calculated using the ask price of the underlying asset. In order to determine volatility, the function of the Bloomberg terminal is used and it is monitored that no arbitrage opportunities arise between various strike prices. Interest used for valuation depends on the value of money for LHV and as at 31.12.2008, the interest rate used was 8%.

NOTE 14 Loans given

Loans to customers	Loan balance 31.12.2008	Loan balance 31.12.2007	Interest rate
Loans to entities	13 721	6 058	7%-18%
Loans to private persons	12 755	51 520	7%-18%
Allowances for loans	-15	-40	
Total loans to customers	**26 461**	**57 538**	

Customer's interest in leveraged loans depends on the situation in the financial markets. In a declining market, interest has significantly decreased, and therefore, the volume of loans has also decreased considerably.

Distribution of loans to customers by currencies is presented in Note 3 on pages 26-27 and by due dates in Note 3 on pages 29 . Loans granted are backed by securities and can be terminated by the customer at any time. Information regarding credit risk exposures, securities accepted as collateral for loans and loans past due is presented in Note 3 on page 24.

By customer location:	31.12.2008	31.12.2007
Estonia	17 933	12 223
Latvia	774	1 664
Lithuania	7 754	43 651
Total loans	**26 461**	**57 538**

Interest rates used by the Group for loans in different currencies as at 31.12.2008:

EEK	12.75%	LVL	17.50%	SEK	10.75%	HRK	16.00%	JPY	7.25%
EUR	10.25%	LTL	12.75%	CAD	9.25%	HUF	18.00%	PLN	12.75%
USD	8.00%	GBP	10.00%	CHF	8.00%	CZK	9.75%	RUB	20.00%

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%

In 2008, loans were issued to related parties in the total amount of EEK 6 638 thousand (see Note 27). Deferred income includes accrued interest on loans issued to customers in the amount of 1 336 thousand kroons. For interest income on loans granted, see Note 6.

The interest rates of most loans are generally equal to their effective interest rate as no significant fees have been received at issuance.

NOTE 15 Receivables from customers

	31.12.2008	31.12.2007
Securities brokerage fees from intermediaries	752	1 094
Asset management fees from customers	323	418
Other fees for providing services to customers	772	257
incl. related parties (Note 27)	*693*	*90*
Total	**1 847**	**1 769**

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

NOTE 16 Finance lease receivables

	31.12.2008	31.12.2007
Net investment by due dates		
Up to 1 year	161	166
Between 1 and 5 years	712	669
Over 5 years	3 373	3 575
Total net investment	**4 246**	**4 410**
Future interest income by due dates		
Up to 1 year	261	270
Between 1 and 5 years	939	982
Over 5 years	1 509	1 727
Total future interest income	**2 709**	**2 979**
Gross investment by due dates		
Up to 1 year	422	436
Between 1 and 5 years	1 650	1 651
Over 5 years	4 883	5 302
Total gross investment	**6 955**	**7 389**

At 21.01.2005, a subsidiary to the parent AS Lõhmus, Haavel & Viisemann, 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 customers 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 (for interest cost, see Note 6).

These finance lease agreement cover the 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. Upon the early payment of the full amount of the net investment of the lease agreement, the lessees are entitled to acquire the apartment before the end of the lease term. In 2008, no apartments were transferred, principal payments for apartments not yet transferred totalled 28 thousand kroons. In 2007, ownership of 1 apartment was transferred (purchased by the lessee) for the total amount of 71 thousand kroons and principal payments were additionally made for the apartments not yet transferred in the amount of 115 thousand kroons. By the time of compiling this report, 8 apartments have not yet been purchased.

All finance lease receivables have been pledged as collateral for the bonds issued. Danske Bank A/S Estonia Branch acts as a guarantee agent and custodian of the pledged assets (see Note 21). For receivables past due, see the credit risk table in Note 3 on page 24.

NOTE 17 Other assets

	31.12.2008	31.12.2007
Guarantee deposits of Baltic stock exchanges	218	279
Prepayment of marketing expenses	466	1 125
Prepayments to Financial Supervision Authority	230	181
Other prepayments *	706	506
Total	**1 620**	**2 091**

* Prepayments include office rent, insurance, periodicals.

Prepayments are expected to be received or used within 12 months of the balance sheet date, and are therefore considered current assets. Guarantee deposits on the Baltic stock exchanges are held to guarantee securities trading activity on the stock exchanges of Tallinn, Riga and Vilnius, and should therefore be considered long-term assets. A change in guarantee deposits is related to calculations performed in accordance with the Rules and Regulations of the Tallinn Stock Exchange, and the volumes of LHV's customer trades on the Baltic stock exchanges.

NOTE 18 Property, plant and equipment, and intangible assets

	Property, plant and equipment	Intangible assets	Total
Balance as at 31.12.2006			
Cost	3 040	441	3 481
Accumulated depreciation and amortisation	-2 488	-386	-2 874
Carrying amount	**552**	**55**	**607**
Changes occurred in 2007:			
Purchase of non-current assets	5 754	104	5 858
Proceeds from disposal of non-current assets at carrying amount	-13	-3	-16
Depreciation/amortisation charge	-522	-39	-561
Balance as at 31.12.2007			
Cost	7 052	541	7 593
Accumulated depreciation and amortisation	-1 281	-424	-1 705
Carrying amount	**5 771**	**117**	**5 888**
Balance as at 31.12.2007			
Cost	7 052	541	7 593
Accumulated depreciation and amortisation	-1 281	-424	-1 705
Carrying amount	**5 771**	**117**	**5 888**
Changes occurred in 2008:			
Purchase of non-current assets	3 935	182	4 117
Proceeds from disposal of non-current assets at carrying amount	-29	0	-29
Depreciation/amortisation charge	-2 800	-82	-2 882
Balance as at 31.12.2008			
Cost	10 948	723	11 671
Accumulated depreciation and amortisation	-4 072	-506	-4 578
Carrying amount	**6 876**	**217**	**7 093**

The majority of the non-current assets purchased in 2008 and 2007 are capitalised repair costs as well as furniture and other furnishings related to the investment centre opened in April 2008. In both years, non-current assets were disposed at the carrying amount and neither additional income arose nor were additional expenses incurred. In 2008 and 2007, there was no indication of impairment of property, plant and equipment, and intangible assets.

NOTE 19 Loans received

	Loan balance at 31.12.2008	Loan balance at 31.12.2007	Interest rate
Loans from related parties (Note 27)	8 040	6 015	5-7%
Loans from private persons	828	3 281	5-8%
Loans from legal persons	11 076	20 501	5-8%
Total	**19 944**	**29 797**	

Loans received are denominated in Estonian kroons and euros. The distribution by currencies is presented on pages 26-27 and the due dates on page 29 of Note 3. The balance of loans received as at 31.12.2008 includes the interest liability in the amount of 67 thousand kroons (31.12.2007: 339 thousand kroons). For interest costs, please see Note 6.
Loans received include the deposit portion of structured bonds, which as at 31.12.2008 totals 827 thousand kroons, incl. from private persons in the amount of 723 thousand kroons and from legal persons in the amount of 104 thousand kroons. As at 31.12.2007, the Company had not issued any structured bonds.

The nominal interest rates of most loans equal their effective interest rates as no other significant fees have been paid.

NOTE 20 Accrued expenses and other liabilities

	31.12.2008	31.12.2007
Trade payables	964	730
Tax liabilities	1 360	1 618
Payables to employees	2 920	6 542
Other short-term liabilities	0	485
Total	**5 244**	**9 375**

Trade payables are payable within 12 months of the balance sheet date and are therefore recognised as current liabilities. Payables to employees consist of unpaid salaries; bonus accruals and vacation pay accrual for the reporting period. In 2007, payables to employees included the annual bonus of employees. No bonuses are payable on the basis of the results for 2008.

NOTE 21 Bonds issued

The balance sheet line bonds issued includes bonds related to the finance lease agreement.

Distribution of liabilities by maturities	**31.12.2008**	**31.12.2007**
Up to 1 year	226	208
Between 1 and 5 years	717	674
Over 5 years	3 399	3 603
Total issued bonds	**4 342**	**4 485**

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

Interest on coupon bonds is 5.8% per annum. The redemption payments of bonds and interest payments to bond holders take place on a quarterly basis in the month following the end of the quarter.

As at 31.12.2008, the following principal and interest payments have been made to the bond holders:

Date	Number of bonds	Amount of principal payment	Cumulative principal payment	Amount of interest payment	Cumulated interest payment
Redeemed in 2005	67 362	6 736	6 736	695	695
Redeemed in 2006	54 402	5 440	12 176	564	1 259
Redeemed in 2007	19 187	1 919	14 095	290	1 549
Redeemed in 2008	1 419	142	14 237	254	1 803
Total redeemed	**142 370**	**14 237**	**14 237**	**1 803**	**1 803**

Structured bonds include two portions, the deposit position is included within loans received, see Note 19, and the option position is included within financial liabilities recognised at fair value, see Note 13. Structured bonds were issued at 01.10.2008 with the maturity in 1 year and the return on bonds depending on the return of the fund unit of LHV Persian Gulf Fund.

NOTE 22 Provisions

In the balance sheet, a provision has been recognised in the amount of 300 000 kroons, the cost of which is included within operating expenses (see Note 9).

NOTE 23 Shareholders' equity in the public limited company

The sole shareholder of the Group is AS LHV Group. The ultimate controlling party of AS LHV Group is Rain Lõhmus with 67% of the voting rights. Andres Viisemann has significant influence with 33% of the voting rights.

	31.12.2008	31.12.2007
Share capital *(in thousand Estonian kroons)*	36 000	12 600
Number of shares (pcs)	3 600 000	1 260 000
Par value of a share *(in kroons)*	10	10

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

As at 31.12.2008, the accumulated deficit of the Group totalled -2 958 thousand kroons. As at 31.12.2007, retained earnings totalled 23 474 thousand kroons. Upon the payment of dividends to the owners, from 1 January 2008, the corporate income tax expense amounts to 21/79 of the net dividends paid. Thus, as at 31.12.2007, it would have been possible to pay out dividends in the amount of 18 544 thousand kroons, and the accompanying income tax would have amounted to 4 930 thousand kroons (see Note 10). In 2008 and 2007, no dividends were paid to the shareholders.

At 13.05.2008, the Company decided to carry out a bonus issue to increase share capital in the amount of 23 400 thousand kroons. The amount of new share capital is 36 000 thousand kroons.

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 17 316 thousand kroons (2007: 15 721 thousand kroons), the current portion of which amounts to 3 928 thousand kroons (2007: 4 014 thousand kroons) and the non-current portion amounts to 13 388 thousand kroons (2007: 11 707 thousand kroons).

Operating lease payments recognised in operating expense:	**2008**	**2007**
Office space	4 298	2 787
Cars	106	108
Computers	39	27
Total (Note 9)	**4 443**	**2 922**

NOTE 25 Contingencies and commitments

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

	31.12.2008	**31.12.2007**
Cash balance of customers	**98 293**	**119 422**
incl. shareholders and related entities	471	15 052
Securities of customers	**1 533 715**	**1 907 076**
incl. parent	83 034	53 110
incl. shareholders and related entities	141 092	127 944
Total	**1 632 008**	**2 026 498**

Asset management fees for the management of these assets have been in the range of 0.015 – 0.025 % (for, respective income, see 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 2007 - 2008. 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 related parties:

- owners (parent and owners of the parent);
- entities in the consolidation group (incl. fellow subsidiaries and associates);
- management and supervisory board members;
- close relatives of the persons mentioned above and the entities related to them;

Transactions	Note	2008	2007
Interest income from related parties	6	40	0
Incl. parent		38	0
Incl. shareholders and related entities		2	0
Interest expenses to related parties	6	187	359
Incl. management		*38*	*51*
Incl. parent		*46*	*163*
Incl. shareholders and related entities		*103*	*145*
Net interest income/expense		**-147**	**-359**
Shareholders and related entities	5	591	2 183
Total fee and commission income		**591**	**2 183**
Shareholders and related entities	8	3 460	8 371
Total other income		**3 460**	**8 371**
Parent		0	39
Total operating expenses		**0**	**39**

Balances	Note	31.12.2008	31.12.2007
Parent	14	6 638	0
Shareholders and related entities	15	693	90
Loans and receivables as at the year-end		**7 331**	**90**
Shareholders and related entities	19	8 040	6 015
Loans received as at the year-end		**8 040**	**6 015**

In 2008, salaries and other compensations paid to the management of LHV totalled 4 803 thousand kroons (2007: 1 814 thousand kroons). As at 31.12.2008, remuneration for December and accrued holiday pay in the amount of 398 thousand kroons (as at 31.12.2007: 269 thousand kroons) is reported as a payable to management (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 31.12.2008 and 31.12.2007 (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 Events after the balance sheet date

At 17.02.2009, LHV Management Board decided to transfer the shares of the subsidiary of LHV Ilmarise Kinnisvaraportfelli OÜ to the Group's parent AS LHV Group. The transfer will be made after the consent of all bond holders has been received.

NOTE 29 Separate financial statements

In accordance with the Estonian Accounting Act, information on the separate primary financial statements of the parent of the consolidation group shall be disclosed in the notes to the financial statements.

Income statement of the parent

(in thousand Estonian kroons)

	2008	2007
Fee and commission income	45 670	46 944
Fee and commission expense	-7 045	-8 906
Net fee and commission income	**38 625**	**38 038**
Interest income	9 308	9 328
Interest cost	-1 915	-2 069
Net interest income	**7 393**	**7 259**
Net loss/gain from trading	-3 776	2 632
Covering loss of subsidiary	-47	-29
Dividend income	1	3
Net gain/loss from financial assets	**-3 822**	**2 606**
Other income	4 275	16 680
Operating expenses	-49 429	-45 433
Profit/loss for the year	**-2 958**	**19 150**

Balance sheet of the parent

(in thousand Estonian kroons)

	31.12.2008	31.12.2007
Assets		
Cash and cash equivalents	8 950	5 001
Derivatives	96	53
Other financial assets at fair value through profit or loss	9 283	4 440
Loans to customers	33 099	57 538
Receivables from customers	1 847	1 769
Other assets	1 620	2 091
Investment in subsidiary	40	40
Property, plant and equipment, and intangible assets	7 093	5 888
Total assets	**62 028**	**76 820**
Liabilities		
Derivatives	542	0
Loans	19 944	29 797
Accrued expenses and other liabilities	5 275	9 434
Deferred income	1 336	0
Provisions	300	0
Total liabilities	**27 397**	**39 231**
Shareholders' equity		
Share capital	36 000	12 600
Reserves	1 518	1 518
Retained earnings/accumulated deficit	-2 887	23 471
Total shareholders' equity	**34 631**	**37 589**
Total liabilities and shareholders' equity	**62 028**	**76 820**

Cash flow statement of the parent
(in thousand Estonian kroons)

	2008	2007
Cash flows from operating activities		
Fee and commission income received	52 798	66 422
Fee and commission expenses	-7 045	-8 906
Operating and other expenses paid	-49 482	-45 407
Interest received	9 576	9 155
Settlement of foreign currency forward contracts	-42	-19
Net acquisition/disposal of trading portfolio	-11 149	-4 307
Change in loans granted	24 171	-13 069
Change in other liabilities	-513	544
Change in stock exchange security deposit	60	-49
Change in deferred income	1 336	0
Release of previously frozen bank accounts	0	861
Net cash generated from operating activities	**19 710**	**5 225**
Cash flows from investing activities		
Purchase of non-current assets	-4 117	-5 858
Proceeds from disposal of non-current assets	29	16
Dividends received from investment securities	0	3
Net cash used in investing activities	**-4 087**	**-5 839**
Cash flows from financing activities		
Loans received	74 578	91 237
Bonds issued	904	0
Loan repayments	-84 985	-94 855
Interest paid	-2 171	-1 857
Net cash used in financing activities	**-11 674**	**-5 475**
Net increase/decrease in cash and cash equivalents	**3 949**	**-6 089**
Cash and cash equivalents at beginning of the year	5 001	11 090
Cash and cash equivalents at end of the year	**8 950**	**5 001**

Statement of changes in shareholders' equity
(in thousand Estonian kroons)

	Share capital	Reserves	Accumulated deficit / Retained earnings	Total
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
Value of holdings under control and significant influence under equity method	0	0	43	43
Adjusted consolidated equity as at 31.12.2007	**12 600**	**1 518**	**23 474**	**37 592**
Balance as at 01.01.2008	**12 600**	**1 518**	**23 471**	**37 589**
Increase of share capital through bonus issue	23 400	0	-23 400	0
Net loss for 2008	0	0	-2 958	-2 958
Balance as at 31.12.2008	**36 000**	**1 518**	**-2 887**	**34 631**
Carrying amount of holdings under control and significant influence	0	0	-40	-40
Value of holdings under control and significant influence under equity method	0	0	43	43
Adjusted consolidated equity as at 31.12.2008	**36 000**	**1 518**	**-2 884**	**34 634**

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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 2008 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 2008, 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.

/signed/

Tiit Raimla
AS PricewaterhouseCoopers

/signed/

Relika Mell
Authorised Auditor

3 April 2009

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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.*

Profit allocation proposal

The Management Board of LHV proposes to the General Meeting of Shareholders to add the net loss for 2008 in the amount of 2 958 thousand kroons to retained earnings.

Signatures of the Management Board and the Supervisory Board to the consolidated annual report

The Management Board has prepared the management report and the consolidated financial statements of AS Lõhmus, Haavel & Viisemann for the financial year ended 31 December 2008.

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

MANAGEMENT BOARD
09.04.2009

Chairman of the Management Board

Erki Kilu /signed/ ____________________

Members of the Management Board:

Kerli Lõhmus /signed/ ____________________

Jüri Heero /signed/ ____________________

Erki Kert /signed/ ____________________

Indrek Nuume /signed/ ____________________

SUPERVISORY BOARD
13.04.2009

Chairman of the Supervisory Board

Rain Lõhmus /signed/ ____________________

Members of the Supervisory Board:

Tiina Mõis /signed/ ____________________

Andres Viisemann /signed/ ____________________

Hannes Tamjärv /signed/ ____________________

Heldur Meerits /signed/ ____________________

Allocation of income according to EMTAK 2008

EMTAK	Activity	2008
66121	Security and commodity contracts brokerage	45 386
66191	Financial consultancy services	284
64911	Financial leasing	270
64929	Other credit granting (except pawnshops)	6 686
	Total income	**52 626**