AS LHV Pank

Consolidated Annual Report 2009

(translation of the Estonian original)

Consolidated annual report	**01.01.2009 – 31.12.2009**

Business name	AS LHV Pank
Commercial Registry no.	10539549
Legal address	Tartu mnt. 2, 10145 Tallinn
Phone	(372) 6800400
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E-mail	lhv@lhv.ee
Main activities	Banking
	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

The **mission** of LHV Bank is to foster Estonia's economy and social sustainability. The **vision** of LHV Bank is to be the primary and preferred bank of new generation in Estonia. This represents a bank without multiple offices, ATMs and cash transactions but which is accessible everywhere. A clear and simple online bank is targeted primarily at providing easy to use services to customers. Payments with the debit card of LHV Bank and if necessary, getting cash from ATMs, will be possible everywhere. The **values** of LHV Bank are personal approach and convenience. Each customer has a personal bank assistant who knows the customer's needs and opportunities. It is always easy and convenient to use the bank's services.

LHV Bank's target group consists of private customers with earnings above average and small and medium sized business clients. As compared to other banks, LHV Bank's main strength is providing investment services. LHV Bank has over 13 000 customers. LHV Bank operates the most active portal of financial markets, used by approximately 20 000 people per week.

Overview of the year 2009

Business activities

At 6 May 2009, the Estonian Financial Supervision Authority granted LHV Bank the activity license of a credit institution. Together with the granting of the license of a credit institution, the activity license of an investment firm was annulled as a financial institution can simultaneously hold only one of these particular activity licenses. After becoming a credit institution, LHV Bank operates as a cross-border provider of banking services in Latvia and Lithuania. At 25 May 2009, LHV Bank became a member of the Estonian Banking Association.

After being granted the activity license of a credit institution, two new products were introduced to the bank's range of products - deposits and loans. Demand and term deposits are accepted both from private as well as legal persons. The volume of LHV Bank's deposits increased to EEK 505.2 million of which demand deposits totalled EEK 114.0 million and term deposits totaled EEK 391.2 million. In the fourth quarter, the bank introduced a new type of deposits, whereby interest earned on the deposit is transferred to the account immediately at the beginning of the deposit term. Thereafter, when making deposits, the customer is able to decide whether interest to be earned on the deposit should be paid to the account at the beginning of the deposit period, on a monthly basis or at the end of the deposit period.

The loan portfolio of LHV Bank, including the leveraged loans or those granted using securities as collateral which had been included in the product portfolio already previously, increased to EEK 142.5 million by the year-end. After being granted the activity license of a credit institution, the bank entered into collaboration agreements with the Credit and Export Guarantee Fund KredEx and the Rural Development Foundation to launch its lending activities more efficiently. In the third quarter, the bank started to issue domestic guarantees.

In the first half of the year, several larger projects – authentication, payment system (clearing and settlements) and a new online bank were started. In the fourth quarter, the bank card project was set to. The transition of customer authentication from the password-based system to the one using ID cards, mobile-ID and PIN calculators will significantly increase the security of online banking. The accession to payment systems will enable customers to make regular transactions, including domestic and international payments. The goal of the new online bank is to provide as clear, simple and stylish self-service as possible. The projects of authentication and payments are expected to be completed by the end of the 1st quarter of 2010 and that of an online bank during 2010, to be followed by a comprehensive introduction of new opportunities to the customers. The issuance of bank cards is expected to be launched at the year-end 2010.

In respect of brokerage activities, new markets were made available to the customers in the 4th quarter. In addition to the former markets, it is now possible to trade the shares of Denmark, Norway, Spain, Italy and Austria, the shares in the alternative lists of Denmark and Sweden called First North, and more than 750 shares listed on London SETS and London IOB markets. In the third quarter, the underwriting of new Baltic options was completed.

At 30 June 2009, LHV Bank sold its wholly-owned subsidiary LHV Ilmarise Kinnisvaraportfelli OÜ to the parent AS LHV Group.

At the year-end 2009, an insurance contract was concluded with the insurance agency Chartis Europe SA (former AIG Europe SA) concerning professional indemnity and crime coverage which became effective from 1 January 2010.

Share capital

At 13 February 2009, the subscription of the new shares of AS LHV Group in the total amount of EEK 95.17 million was completed. The successful subscription of the shares enabled LHV Bank to increase its share capital to EEK 100 million at 24 April 2009.

Management

The Supervisory Board of LHV Bank has five members: Rain Lõhmus, Andres Viisemann, Tiina Mõis, Hannes Tamjärv and Heldur Meerits.

From 2nd February 2009, Mihkel Oja was removed from the Management Board and Indrek Nuume was elected as a new member. Going forward, Mihkel Oja will focus on managing AS LHV Varahaldus. Indrek Nuume has a long-term banking experience, having helped to strengthen the competence of LHV Bank in the credit area. The Management Board of LHV Bank has five members: Erki Kilu, Kerli Lõhmus, Jüri Heero, Erki Kert and Indrek Nuume.

Internal control

The internal control department of LHV Bank established in 2008 consists of three positions: Internal Auditor, Compliance Specialist and Risk Manager. The establishment of an independent internal control department at the bank was completed with the hiring of Internal Auditor at 5 January 2009. At the beginning of the year, the internal control department prepared the audit plan for 2009 which was approved by the bank's Supervisory and Management Boards. During the year, the internal control department performed several audits and control systems were introduced in the bank's various areas. Also, reporting formats were developed for the Management and Supervisory Boards.

Organisation

In addition to the investment committee and securities appraisal committee, a credit committee, and an asset and liability management committee were established after the bank was granted the activity license of a credit institution. The credit committee is engaged in the management of the bank's credit risks, including the review of the customer's loan applications. The asset and liability management committee is engaged in the management of the bank's liquid funds. The bank's investment portfolio was established in the 2nd quarter of the year to invest available funds more efficiently, the amount of which totalled EEK 61.8 million at the year-end.

The positions of a credit analyst and a lawyer were created with the aim of strengthening the credit area. For managing new projects, the positions of a clearing and settlements manager, a development manager of e-channels and a card development manager were created during the year. The position of a customer relations manager was created to increase the quality of customer service; a software developer and an IT analyst were additionally hired in the 4th quarter to increase IT development efficiency.

In conjunction with the creation of several new positions, an additional floor in the City Plaza office building was taken into use in November 2009. At the year-end 2009, 60 employees worked at LHV Bank.

Business environment

The recession which had begun in all three Baltic States in 2008 worsened considerably during 2009. Almost all sectors of economy were impacted by the sharp contraction of economy, led by real estate, retail and transportation. However, in the second half of the year, the first signs of stabilisation could particularly be seen in Estonia, helped by the recovery of the main export partners and the maintenance of a competitive position due to the moderate reduction in wages and prices. For the year 2010, LHV Bank forecasts an economic recovery beginning in the second half of the year and a slight pick-up of inflation. However, the economic situation will remain tense and risks in respect of global economic growth have not disappeared anywhere.

In 2009, the banking sector was characterised by a contraction of loan volumes, a sharp increase of overdue loans and stabilisation of the volume of deposits. The volume of loans granted both to private persons as well as businesses turned negative after a long growth trend. As compared to 2008, the balance of the loans granted to both private persons as well as businesses decreased (3% and 5%, respectively), and the declining trend continued steadily until the year-end. In addition to the decline in the loan balance, the balance of overdue loans increased significantly, whereby the most problematic sector was real estate (both commercial real estate as well as housing). The volume of deposits remained pretty much stable and at the same level as in 2008.

The decline in real estate prices which started in the spring of 2007 stalled in the second half of 2009. The halting of the downward trend was alleviated by more relaxed financing conditions, growth of economic confidence as well as transaction costs which had become relatively favourable (from their peak, the transaction costs in Tallinn's apartment market have fallen by more than 50%). The bottom of economic confidence in Estonia was reached in the early spring of 2009 and similarly to the other EU countries, it has significantly improved since then.

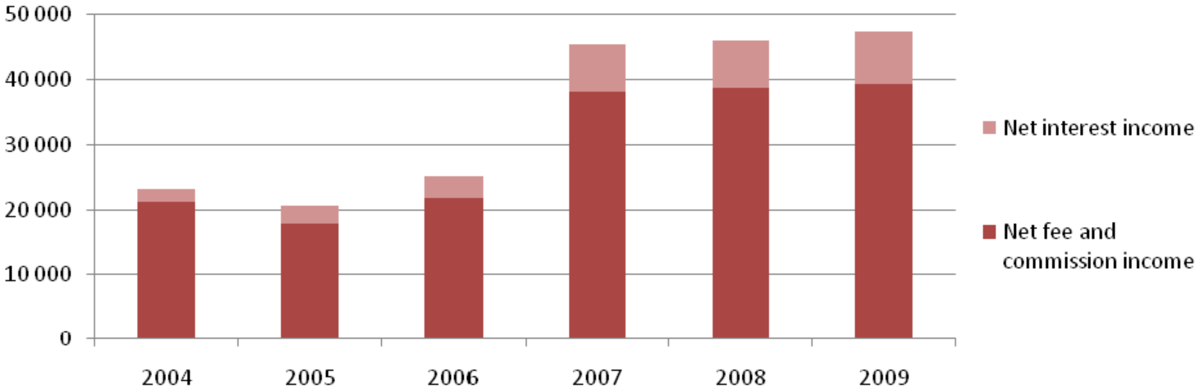
Alleviation of global macroeconomic tensions and restoration of risk-taking led to strong growth in securities markets in the spring of 2009. The broad-based index of US stock markets, S&P 500, increased by 23% in a year and from the bottom in mid-March, a total of 65%. The Baltic stock markets also increased strongly, led by Tallinn whose index OMXT increased by 47% in a year. Although the trading activity on the Tallinn Stock Exchange declined, the increase was propelled by expectations in respect of accession to the Euro zone at the beginning of 2011 as well as growth of macroeconomic stability. Similarly to stock markets, raw material markets also recovered from the post-crisis shock.

Financial results

EEK million	**2009**	**2008**	**change**
net fee and commission income	39,3	38,6	2%
net interest income	8,0	7,4	8%
net gain on financial assets	8,9	-3,8	-
total net operating revenues	56,2	42,2	33%
other income	4,4	4,3	2%
operating expenses	-57,0	-49,5	15%
profit	36	-3,0	-

EEK million	**31.12.2009**	**31.12.2008**	**change**
loan portfolio *	142,5	33,1	332%
investment portfolio	61,8	-	-
deposits	505,2	-	-
equity	102,6	34,6	197%
balance sheet total	640,3	66,4	864%
*excl. loans to related parties			
number of customers	13 112	11 028	19%
number of employees	60	48	25%

The following chart provides an overview of the net revenues of LHV Bank (in thousands kroons):



In 2009, fee and commission, interest as well as finance income all grew. Brokerage fees made 79% (10% growth), safekeeping fees 11% (9% decline) and other fees 10% of fee and commission income. With regard to brokerage income, intermediation of US shares, options and futures made 70%, Baltic shares 18% and other shares and fund units 12% of the total. As to the break-up of brokerage fees by countries, 71% was earned in Estonia (12% growth), 7% in Latvia (23% decline) and 22% in Lithuania (2% decline). The decline in safekeeping fees was related to the decline in value of clients assets at the beginning of 2009.

With regard to interest income, interest income on leveraged loans made up 36%, interest on corporate loans made up 25%, and interest on deposits and loans to related persons made up 37% of it. As at the year-end, the volume of loans secured by securities totalled EEK 47.2 million and the volume of loans issued to businesses totalled EEK 95.3 million.

With regard to finance income, revenues from investment portfolio totalled 59%, revenues from currency translation differences 37% and revenues from trading portfolio 4% of it.

During the year, staff-related costs increased by 30% and other operating expenses increased by 5%. The profit for the year totalled EEK 4.0 million.

The number of customers who have deposited their funds at LHV Bank increased by 19%, to over 13 000. The volume of customer securities increased to almost EEK 2,2 billion (34% growth). With regard to services, portfolio management volumes increased the most, by 143% in a year, reaching EEK 282 million.

Sponsorship

In 2010, LHV Bank will continue to sponsor the Estonian Traditional Music Center, helping it to arrange Viljandi Traditional Music Festival in the summer. The Estonian Traditional Music Center represents a collaboration partner for LHV Bank enabling it to make its contribution to the preservation of the Estonian national culture.

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

At 10 December 2009, the Estonian Business School and LHV Bank signed a collaboration agreement, laying the basis for obtaining higher education in the area of investment management in Estonia. The specialisation in investment management is aimed at full-time BBA students studying international business management at the EBS in the 2010/2011 academic year. The studies will be conducted in English and at the end of the studies, the first level Chartered Financial Analysts® (CFA) exam will be taken.

CONSOLIDATED FINANCIAL STATEMENTS

Management Board's declaration

The Management Board confirms the correctness and completeness of the consolidated 2009 financial statements of AS LHV Pank presented on pages 8-52.

The Management Board confirms that:

- the consolidated financial statements have been compiled in accordance with International Financial Reporting Standards as adopted in the European Union;
- the consolidated financial statements present a true and fair view of the Group's financial position, the results of operations and its cash flows;
- AS LHV Pank is going concern.

Erki Kilu /signed/
Chairman of the Management Board

Kerli Lõhmus /signed/
Member of the Management Board

Jüri Heero /signed/
Member of the Management Board

Erki Kert /signed/
Member of the Management Board

Indrek Nuume /signed/
Member of the Management Board

Tallinn, 20.04.2010

Consolidated statement of comprehensive income

(in thousands Estonian kroons)

	Note	2009	2008
Fee and commission income	6	47 372	45 670
Fee and commission expense	6	-8 085	-7 045
Net fee and commission income		**39 287**	**38 625**
Interest income	7	15 835	9 578
Interest expense	7	-7 834	-2 167
Net interest income		**8 001**	**7 411**
Net gain/loss from trading	8	3 657	-3 776
Net gain from financial assets designated at fair value	8	5 257	0
Dividend income	8	17	1
Net gain/loss from financial assets		**8 931**	**-3 775**
Other income	9	4 429	4 296
Operating expenses	10	-57 003	-49 515
Profit/loss for the year		**3 645**	**-2 958**
Comprehensive income/loss for the year		**3 645**	**-2 958**

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Consolidated balance sheet

(in thousands Estonian kroons)

	Note	31.12.2009	31.12.2008
Assets			
Balances with other banks	11	277 274	9 067
Balances with investment companies	11	37 486	0
Balances with central bank	11	88 525	0
Derivatives	12	3 003	96
Other financial assets at fair value through profit or loss	13	62 728	9 283
Loans granted	14	161 323	33 038
Receivables from customers	15	2 779	1 908
Finance lease receivables	16	0	4 246
Other assets	17	2 226	1 620
Tangible assets	18	4 448	6 876
Intangible assets	18	574	217
Total assets		**640 366**	**66 351**
Liabilities			
Loans received and deposits from customers	19	527 858	19 944
Financial liabilities at fair value through profit or loss	13	123	542
Accrued expenses and other liabilities	20	9 155	5 244
Deferred income	14	451	1 345
Bonds issued	21	0	4 342
Provisions	22	500	300
Total liabilities		**538 087**	**31 717**
Shareholders' equity			
Share capital	23	100 000	36 000
Reserves		1 518	1 518
Retained earnings/accumulated deficit		761	-2 884
Total shareholders' equity		**102 279**	**34 634**
Total liabilities and shareholders' equity		**640 366**	**66 351**

* Balance sheet as at 31.12.2009 is not consolidated as there is no Group as at balance sheet date (see note 5).

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

(in thousands Estonian kroons)

	Note	2009	2008
Cash flows from operating activities			
Fee and commission income received		55 054	52 846
Fee and commission expense		-8 085	-7 045
Operating and other expenses paid		-53 954	-46 558
Dividends received		17	1
Interest received		15 835	9 579
Interest paid		-7 711	-1 915
Cash flows from operating activities before change in operating assets and liabilities		**1 149**	**6 908**
Change in operating assets			
Settlement of foreign currency forward contracts		-2 907	-42
Net acquisition/disposal of trading portfolio		8 724	-11 549
Loans granted and receivables from customers		-129 092	24 535
Term deposits with other banks	11	-81 461	0
Mandatory reserve in central bank	11	-88 525	0
Stock exchange security deposit		11	60
Other receivables and prepayments		-617	411
Change in operating liabilities			
Demand deposits of customers	19	114 007	0
Term deposits of customers		391 184	0
Loans received		3 532	-10 679
Issued bonds	19	-810	827
Financial liabilities of trading portfolio		-419	542
Other liabilities and deferred income		3 185	-2 522
Net cash generated from operating activities		**217 961**	**8 491**
Cash flows from investing activities			
Purchase of fixed assets	18	-964	-4 117
Proceeds from disposal of fixed assets	18	0	29
Net cash handed over less proceeds from disposal of subsidiary	5	-54	0
Change in investment portfolio		-56 514	0
Net cash used in investing activities		**-57 532**	**-4 088**
Cash flows from financing activities			
Paid in share capital	23	64 000	0
Redeemed bonds	21	-74	-142
Interest paid	5	-123	-254
Net cash generated from / cash used in financing activities		**63 803**	**-396**
Net increase in cash and cash equivalents		**224 232**	**4 007**
Cash and cash equivalents at beginning of the year	11	9 067	5 060
Cash and cash equivalents at end of the year	**11**	**233 299**	**9 067**

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(in thousands Estonian kroons)

	Share capital	Reserves	Retained earnings	Total
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
Total comprehensive loss for 2008	0	0	-2 958	-2 958
Balance as at 31.12.2008	**36 000**	**1 518**	**-2 884**	**34 634**
Balance as at 01.01.2009	**36 000**	**1 518**	**-2 884**	**34 634**
Paid in share capital	64 000	0	0	64 000
Total comprehensive income for 2009	0	0	3 645	3 645
Balance as at 31.12.2009	**100 000**	**1 518**	**761**	**102 279**

More detailed information is provided in Note 23.

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Notes to the financial statements

NOTE 1 General information

AS LHV Pank (LHV Pank) provides banking, financial advisory and securities brokerage services to clients in Estonia, Latvia and Lithuania. LHV is a limited liability company incorporated and domiciled in Estonia. The address of its registered office is Tartu mnt. 2, Tallinn. As at 31.12.2009 LHV employed 60 people (as at 31.12.2008: 48 people).

These financial statements have been consolidated until 30.06.2009, when the subsidiary LHV Ilmarise Kinnisvaraportfelli OÜ which offers financial lease services, was sold. Subsidiary was sold in the process of group restructuring to the parent company LHV Group (see also Note 5).

These group consolidated financial statements were authorised for issue by the Management Board on 20 April 2010. The annual report will be presented for approval to the sole shareholder AS LHV Group. The ultimate controlling party for the company is Rain Lõhmus, who owns 60% of the voting rights (see also Note 23).

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 2009 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 2009 and ended at 31 December 2009. 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 2009. 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 on 1 January 2009

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions" The interpretation contains guidelines on the following issues: 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; or an entity or its owner grants the entity's employees rights to the entity's equity instruments. Adoption of the interpretation did not have any significant impact on the Group's financial statements.

IFRIC 14, IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - The interpretation contains guidance on when refunds or reductions in future contributions may be regarded as available for the purposes of the asset ceiling test in IAS 19. The interpretation did not have any effect on the Group's financial statements.

IAS 1 "Presentation of Financial Statements" - The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the 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 Group has elected to present a single 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 revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Amendment to IFRS 7 "Improving Disclosures about Financial Instruments" - The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

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.

Amendments to IFRIC 9 and IAS 39 - Embedded Derivatives (issued in March 2009) - The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these 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 2009 but not relevant to the Group´s operations

Amendments to IFRS 2 - Group Cash-settled Share-based Payment Transactions

IFRS 8 - Operating Segments

Amendments to IAS 23 - Borrowing Costs

IAS 32 and amendment to IAS 1 - Puttable Financial Instruments and Obligations Arising on Liquidation

IFRIC 12 – Service Concession Arrangement
IFRIC 13 – Customer Loyalty Programmes
IFRIC 15 – Agreements for the Construction of Real Estate
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
IFRIC 17 - Distributions of Non-Cash Assets to Owners
IFRIC 18 – Transfers of Assets from Customers
IFRS 1 and amendment to IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

(c) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

**** Amendment to IAS 24 "Related Party Disclosures"** (issued in November 2009 effective for annual periods beginning on or after 1 January 2011) - The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.
IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009) - The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its financial statements.
IFRS 3 (revised) "Business Combinations" (revised in January 2008 effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009) - The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Group as it does not expect a business combination to occur.
**** IFRS 9, Financial Instruments Part 1: Classification and Measurement** (issued in November 2009 effective for annual periods beginning on or after 1 January 2013) - IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an

irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

(d) New standards, amendments and interpretations to standards that are not yet effective and are not expected to have a material effect on Group's financial reporting

Amendment to IAS 32 "Classification of Rights Issues" (issued in October 2009 effective for annual periods beginning on or after 1 February 2010) - The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment is not expected to have a material impact on the Group's financial statements.

Amendment to IAS 39 "Eligible Hedged Items" (effective with retrospective application for annual periods beginning on or after 1 July 2009) - The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (is effective for annual periods beginning after 31 December 2009, early adoption permitted) - The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard does not have any effect on the Group's financial statements.

Amendment to IFRS 5 and consequential amendments to IFRS 1) "Non-current Assets Held for Sale and Discontinued Operations" (effective for annual periods beginning on or after 1 July 2009) - This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The amendment is not expected to have any impact on the Group's financial statements.

**** Amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions"** (effective for annual periods beginning on or after 1 January 2010) - The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group is currently assessing the impact of the amendments on its financial statements.

** **Amendments to IFRS 1 "Additional Exemptions for First-time Adopters"** (effective for annual periods beginning on or after 1 January 2010) - The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

** **Amendment to IFRS 1 "Limited exemption from comparative IFRS 7 disclosures for first-time adopters"** (effective for annual periods beginning on or after 1 July 2010) - Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not expected to have any impact on the Group's financial statements.

** **IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments** (effective for annual periods beginning on or after 1 July 2010) - This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments

compared to the carrying amount of the debt. The amendment is not expected to have any impact on the Group's financial statements.
** ***Amendment to IFRIC 14 " Prepayments of a Minimum Funding Requirement"*** *(*effective for annual periods beginning on or after 1 January 2011) - This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendment is not expected to have any impact on the Group's financial statements.
** ***Improvements to International Financial Reporting Standards, issued in April 2009*** *(*amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010) - The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.
** the improvements have not yet been adopted by the EU.

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, liabilities and contingent 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 statement of comprehensive income.

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 statement of comprehensive income.

Revenues and expenses of the subsidiaries acquired within the financial year are consolidated into the group statement of comprehensive income 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 statement of comprehensive income from the beginning of the financial year until the date of disposal.

The 2009 consolidated financial statements include the financial statements of AS LHV Pank (parent company) and its subsidiary LHV Ilmarise Kinnisvaraportfelli OÜ (Estonia–100% owned until 30.06.2009).

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 29), 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 functional and presentation currency of the entities in the Group 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 from monetary assets and liabilities are recorded in the statement of comprehensive income 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 other comprehensive income. 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 other comprehensive income.

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 central bank and other 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 of the bank 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.
Regular purchases and sales of financial investments are recognised on the settlement date in the balance sheet. Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the consolidated income statement. 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 statement of comprehensive income 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

(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 repayments 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 statement of comprehensive income 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 statement of comprehensive income 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 Tangible assets

Tangible assets are non-current assets used in the operating activities of the Group with a useful life of over one year. An item of tangible assets is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. 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 tangible assets 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. 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 fair value less costs to sell and its value in use), it is written down immediately to its recoverable amount recognising impairment loss in statement of comprehensive income 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 statement of comprehensive income 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 fair value less costs to sell and value in use. 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

Deposits from customers are initially recorded at the value date in their fair value less transaction costs and are subsequently measured at amortised cost using effective interest rate method on the balance sheet line "Loans received and deposits from customers", accrued interest liabilities are included on same line. Accrued interest expense is recognised in statement of comprehensive income line „Interest expense".

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 fair value.

A financial liability at fair value through profit or loss is an instrument held for trading purposes and is recognised at fair value at each reporting date. 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 statement of comprehensive income during the term of the instrument using the effective interest rate. Interest costs are included in the statement of comprehensive income 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 in a separate balance sheet line "financial liabilities at fair value through profit or loss" at fair value based on the market value. The interest payable on the deposit is recognized in the statement of comprehensive income under "Interest expense" and the change in the fair value of the option under "Net gain/loss from trading".

2.12 Financial Guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the liabilities under such guarantees are recognised at the outstanding value of guarantee stated as higher of unamortized fees and provision under IAS 37, based on experience with similar transactions and judgement of the management. In the statement of comprehensive income the fee income earned on a guarantee is recognised on a straight line basis over the life of the guarantee. The amounts to be disbursed to settle the guarantee obligation are recognised in the balance sheet as a provision on the date it becomes evident that it is probable that the guarantee is to be disbursed.

2.13 Payables to employees

Payables to employees include vacation pay accrual calculated in accordance with employment contracts and the laws of the Republic of Estonia in force as at the balance sheet date. The liability related to the payment of vacation pay accrual together with social security and unemployment insurance payments is included within current liabilities in the balance sheet and as personnel costs in the income statement.

2.14 Provisions and contingent liabilities

Liabilities 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 amount 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).

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

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

Financial liabilities are classified as current when they are due within twelve months after the balance sheet date or if the Group does not have an unconditional right to defer the payment for later than 12 months after the balance sheet date. Loans whose due date is within 12 months after the balance sheet date but which are refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue are recognised as current. Loans that the lender has the right recall at the balance sheet date due to violation of contractual terms are also classified as current.

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

2.16 Revenue and expenses

Revenue and expenses are accounted for using the accrual basis of accounting. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group, the amount of the revenue can be measured reliably and services were rendered by the Group. Revenue from services rendered in the ordinary course of business by the Group is recognised at the fair value of the fee received or receivable. Expenses are recognised when the company has received the goods or services.

Fee and commission income (incl. custody and portfolio management fees) are 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 statement of comprehensive income 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.

2.17 Asset management – fiduciary activities

The Group is engaged in providing asset management services. Such assets that have been given to the Group to manage by third parties and that the Group does not own are not included in the balance sheet. Service fees are derived from management of such assets and no associated credit and market risks arise for the Group.

2.18 Finance and operating leases - Group as the lessee

Leases of tangible assets 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 commencement 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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income as “operating expenses”.

2.19 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. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

2.20 Offsetting

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

2.21 Statutory reserve

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

2.22 Changes in the presentation of the balance sheet and statement of comprehensive income

LHV Pank has formerly recognised under the loans granted also specified other receivables from customers. In these financial statements these other receivables and related to them allowances for impairment have been transferred and the balances for 31.12.2008 have been respectively adjusted. Balance sheet item "loans granted" as at 31.12.2008 has been decreased by 61 thousand kroons and balance sheet item "receivables from customers" has been increased respectively. Receivables from customers form a balance of 76 thousand kroons gross and respective allowance provided for impairment in amount of 15 thousand kroons (see also Note 15).

As a result of becoming a licensed bank since May 2009 , some line items in the balance sheet of the bank have been changed: receivables from other banks, formerly recognised on line cash and cash equivalents in the balance sheet are now recognised as "loans and advances to banks". The balance sheet for 2008 has been adjusted respectively. Additional lime items "balances with central bank" and "loans received and deposits from customers" have been added. Acting as a bank, LHV Pank continues to present the operating activities in the statement of cash flows using the direct method, but the inflows and outflows of loans granted and deposits accepted are now presented in net amounts. Cash flows for 2008 have been restated respectively and loans received and repaid in net amount of 11 674 thousand kroons have been transferred to cash flows from operating activities (formerly recorded under financing activities).

NOTE 3 Risk management

The principles of identification, management and control of risks at LHV Pank are set out in the policies and procedures approved by the Supervisory Board and daily risk management is 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 Pank in order to ensure bank´s reliability, stability and profitability. Independent from the units taking risk positions, the internal control department carries out control over the risk management. The rules and procedures of risk management are constantly revised and updated in case of need.

3.1 Capital management

The goal of the Group's capital (incl. debt) management is to:

- ✓ comply with capital requirements as established by supervision authorities;
- ✓ ensure continuity of the Group's business and ability to generate returns for its shareholders;
- ✓ maintain a strong capital base supporting the development of business.

Debt is managed according to internal rules and the Asset and Liability Management Committee (ALCO) oversees capital management. The ALCO is involved in the development of an optimal balance sheet structure, it monitors liquidity and interest rate risk, and makes recommendations for raising additional share capital, if necessary, in order to ensure the bank's further development and to comply at any given time with the prudential requirements established for credit institutions.

Capital adequacy and the use of regulatory capital are monitored by the Finance Department. Reports dealing with the compliance with prudential and capital requirements for covering the risks are submitted monthly to supervision authorities. In 2009, the bank did not experience any problems in respect of compliance with capital adequacy requirements. LHV Pank does not use internal rating based (IRB) models for calculating capital requirements.

The own funds of a credit institution at any time shall be equal to or exceed the minimum amount of share capital prescribed in the Credit Institutions Act (EUR 5 million or EEK 78,230 thousand). A capital adequacy level, i.e. the ratio of the bank's own funds to risk-weighted assets shall be at least 10%.

As at 31.12.2009, the capital base of LHV Pank is calculated on a solo basis of the financial information of AS LHV Pank (the group no longer exists due to the sale of LHV Ilmarise Kinnisvaraportfell) and adequacy is calculated pursuant to the Credit Institutions Act. The net own funds of LHV Pank are equal to the amount of Tier 1 own funds because the bank has neither any other types of own funds nor instruments to be deducted from own funds.

(in thousands Estonian kroons)

Capital base	**31.12.2009**
Paid-in share capital	100 000
Reserves	1 518
Accumulated deficit	-2 887
Intangible assets (subtracted)	-574
Total Tier 1 own funds = net own funds for capital adequacy calculation	**98 057**
Capital requirements	
Central government and central banks with standardised approach	4 426
Credit institutions and investment firms with standardised approach	20 015
Retail claims with standardised approach	9 182
Other assets with standardised approach	857
Total capital requirements for covering the credit risk and counterparty credit risk	**34 480**
Capital requirement against foreign currency risk	940
Capital requirement against interest position risk	2 050
Capital requirement against equity portfolio risks	149
Capital requirement against option derivatives	32
Capital requirement for operational risk with standardised approach	6 274
Total capital requirements*	**43 925**
Capital adequacy (%)	**22,32**
Tier 1 Capital Ratio (%)	**22,32**

As of 31.12.2008 the base for calculating the capital base and adequacy was consolidated data and in calculating the capital adequacy the requirements for investment firms from Securities Market Act had been followed:

(in thousands Estonian kroons)

Capital base	**31.12.2008**
Paid-in share capital	36 000
Reserves	1 518
Retained earnings	74
Loss for the year	-2 958
Intangible assets (subtracted)	-217
Total Tier 1 own funds = net own funds for capital adequacy calculation	**34 417**
Risk-weighted assets	**50 554**
Carrying amount of assets in category I	4 601
Carrying amount of assets in category II	9 055
Carrying amount of assets in category III	7 713
Carrying amount of assets in category IV	44 886
Risk-weighted off-balance sheet transactions	48
Capital requirement against foreign currency risk	1 203
Capital requirement against trading portfolio risks	661
Total capital requirements	**6 924**
Capital adequacy (%)	**49,71**

3.2 Financial risk management

The main financial risks arising from the activities of LHV pank 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, other receivables and committed transactions. In order to hedge credit risk, LHV Pank 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 regularly monitored.

LHV Pank 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 Pank which is currently 1 million kroons (or an equivalent in a foreign currency) per customer through LHV Pank'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 Pank 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 Pank 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.

Since 2009, LHV Pank also issues business loans. Prior to issuing a loan, a credit risk analysis is performed for each customer, including an analysis of the customer's economic activities, reporting and cash flows, background checks, the company's structure, management and owners' related risk, an analysis of the industry and economic environment. The Credit Committee makes decisions in respect of risk-taking on the basis of a unanimous resolution. The maximum limit of a loan issued to a customer by LHV Pank is 20% of net own funds (NOF, whereby the legal limit is 25% of NOF). The requirements for loan collateral are established in the Bank's Credit Policy. After issuing the loan, follow-up monitoring of each customer's financial position is performed at least once a quarter. Problem loans are monitored on a continuous basis.

The Credit Committee sets limits for taking credit risk associated with bonds, taking into consideration the issuer's rating. The ALCO or authorised employees make decisions regarding investments within the limits set.

Stress tests are carried out for evaluating the credit risk of leveraged loans in order to determine potential losses in case of changes in the value of collateral and for evaluating the credit risk of other loans, the probability of the lender becoming insolvent, the amount of loans not covered by collateral at the time of insolvency and the amount of the resulting related expected loss is assessed. If necessary, decisions are made in respect of allocating additional risk capital in order to cover credit risk.

LHV Pank considers the loan as non-performing and writes it down when the loan payments have not been collected by the due date and/or the expected cash flows from the realisation of collateral are not sufficient for covering the carrying value of the loan principal and interest payments. Homogeneous loans may be provided for impairment on a group basis but due to the small size of the bank's loan portfolio, LHV Pank evaluates each loan individually. In 2009 and 2008, no loans were written down for impairment.

The following table provides an overview of the credit quality analysis (see also 2.22 for changes in presentation and Note 14):

	31.12.2009			31.12.2008		
(in thousand Estonian kroons)	Loans and advances to clients (Note 14)	Loans and advances to other banks (Note 11)	Total	Loans and advances to clients (Note 14)	Loans and advances to other banks (Note 11)	Total
Current and not impaired	161 323	403 285	**564 608**	37 276	9 067	**46 343**
Past due but not impaired	0	0	**0**	8	0	**8**
Gross	**161 323**	**403 285**	**564 608**	**37 284**	**9 067**	**46 351**

According to the internal rating system developed by LHV Pank in 2009, the loan portfolio is distributed between the quality classes as at balance sheet date as follows (excluded are the short term receivables from parent company in amount of 18 834 thousand kroons in 2009 and 6 638 in 2008).

(in thousand Estonian kroons)	**31.12.2009**	**31.12.2008**
Excellent	47 169	26 400
Good and very good	46 960	0
Satisfactory	41 552	0
Weak or doubtful	6 808	0
Total	**142 489**	**26 400**

The majority of the loan portfolio of LHV Pank is backed by listed securities - share in collaterals forms 33%, shares of not listed entities as collateral form 17%, guarantees by KredEx and Maaelu Edendamise Sihtasutus (rural life development foundation) form 15%, pledged rights of claims 22% and deposit guarantee 10%.

In addition to the loans granted, loan contracts have been concluded and signed whereby the unused loan commitments was EEK 16 860 thousand as at 31.12.2009, see also Note 27 (as at 31.12.2008, there were no unused loan commitments). Therefore, the Group's maximum on-balance sheet credit risk exposure without accounting for any collateral would equal the carrying amount of these loans and finance lease receivables of EEK 161 323 thousand (31.12.2008: EEK 37 345 thousand), see also Notes 14 and 16, and the total credit risk exposure from loans and financial guarantees granted and commitments taken would be EEK 187 946 thousand.

The maximum credit risk exposure	**31.12.2009**	**31.12.2008**
Balances with banks and investment companies (Note 11)	403 285	9 067
Derivatives (Note 12)	3 003	96
Other financial assets designated at fair value (bonds) (Note 13)	61 771	4 405
Finance lease receivables (Note 16)	0	4 246
Loans and advances to clients (Note 14)	161 323	33 038
Receivables from customers (Note 15) *	2 779	1 908
Other assets (Note 17)	207	218
Totalassets	**632 368**	**52 978**
Off-balance sheet liabilities (Note 27)	25 623	0
Total maximum credit risk exposure	**657 991**	**52 978**

* As at 31.12.2009, other receivables include overdue receivables in the amount of EEK 75 thousand, incl. receivables from private persons in the amount of EEK 67 thousand and from legal entities in the amount EEK 8 thousand; no receivables have been written down. As at 31.12.2008, other receivables included overdue receivables in the amount of EEK 76 thousand, incl. from private persons in the amount of EEK 49 thousand and from legal entities in the amount of EEK 27 thousand. Receivables from private persons were written

down in the amount of EEK 15 thousand. All receivables other than those overdue have been collected by the time of preparation of the annual report.

The credit risk exposure arising from cash and cash equivalents held with central bank, other banks and investment companies in essence is considered by the management to bear a minimal credit risk.

3.2.2 Market risk

Market risk arises from LHV Pank's trading and investment activities in the financial markets from interest rate products, foreign exchange and stock markets as well as lending activities and taking in financial resources. 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 Pank 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 the following pages. The main currencies, in which LHV Pank has open currency exposures, are USD, SEK, LTL and LVL. Open currency exposures have not significantly differed throughout 2009 in comparison with the balance sheet date exposures.

<u>Open currency exposures</u>

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 at 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 31.12.2009	EEK	EUR	LTL	LVL	SEK	USD	Other	Total
Assets bearing currency risk								
Balances with other banks and inv. companies	237 268	131 342	4 367	953	1 491	21 769	6 095	403 285
Financial assets at fair value through profit or loss	650	61 930	73	0	9	62	4	62 728
Loans granted	16 687	117 887	8 627	1 242	497	9 742	6 641	161 323
Receivables from customers	1 005	82	7	554	4	916	211	2 779
Other assets	1 878	340	0	8	0	0	0	2 226
Total assets bearing currency risk *	**257 488**	**311 581**	**13 074**	**2 757**	**2 001**	**32 489**	**12 951**	**632 341**
Liabilities bearing currency risk								
Loans received and deposits from customers	274 443	205 394	8 313	834	1 785	34 982	2 107	527 858
Financial liabilities at fair value through profit or loss	105	0	18	0	0	0	0	123
Deferred income	0	451	0	0	0	0	0	451
Accrued expenses and other liabilities	7 699	834	507	106	0	0	9	9 155
Total liabilities bearing currency risk *	**282 247**	**206 679**	**8 838**	**940**	**1 785**	**34 982**	**2 116**	**537 587**
Contingencies at contractual amounts *	0	123 217	0	0	0	126 220	0	249 437
Commitments at contractual amounts *	0	123 217	0	0	0	123 217	0	246 434
Open foreign currency position	**-24 759**	**104 902**	**4 236**	**1 817**	**216**	**510**	**10 835**	**97 757**

* the balances of total assets and total liabilities bearing currency risk above don't include derivatives at their fair value, but they are shown here at their full contractual cash flow amounts as contingencies and commitments (see also Note 12); also the table does not include the assets (tangible and intangible assets) and liabilities (provisions) not bearingcurrency risk and equity.

As at 31.12.2008								
Assets bearing currency risk	**EEK**	**EUR**	**LTL**	**LVL**	**SEK**	**USD**	**Other**	**Total**
Balances with other banks	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 granted	13 652	5 842	7 216	267	334	4 677	1 050	33 038
Receivables from customers	1 180	21	0	0	0	573	134	1 908
Other assets	1 254	351	7	8	0	0	0	1 620
Total assets bearing currency risk *	**28 883**	**11 177**	**7 721**	**332**	**335**	**5 284**	**1 184**	**54 916**
Liabilities bearing currency risk								
Loans received	11 683	8 261	0	0	0	0	0	19 944
Financial liabilities at fair value through profit or loss	379	2	161	0	0	0	0	542
Accrued expenses and other liabilities	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**
Contingencies at contractual amounts *	4 570	0	0	0	0	0	0	4 570
Commitments at contractual amounts *	0	0	0	0	572	3 902	0	4 474
Open foreign currency position	**16 678**	**2 834**	**7 211**	**241**	**-237**	**1 371**	**1 184**	**29 282**

* the balances of total assets and total liabilities bearing currency risk above don't include derivatives at their fair value, but they are shown here at their full contractual cash flow amounts as contingencies and commitments (see also Note 12); also the table does not include the assets (tangible and intangible assets, finance lease receivables) and liabilities (provisions and deferred income) not bearingcurrency risk and equity.

A sensitivity analysis has been performed for the effect of possible reasonable changes attributable to open currency positions on the income statement, with the assumption of other conditions remaining constant.

Impact on statement of comprehensive income (th EEK)	**Change**	**2009**	**Change**	**2008**
USD exchange rate	+10%	47	+10%	-57
	-10%	-47	-10%	57
SEK exchange rate	+5%	12	+5%	-4
	-5%	-12	-5%	4

✓ ***Price risk***

Financial instruments bearing price risk in LHV Pank are securities held in trading portfolio and investment portfolio. At the LHV Pank the limits are set for the size of the trading portfolio and acceptable credit quality ratings are specified for bonds in investment portfolio. The internal control department monitors the compliance with limits.

Sensitivity analysis of the impact to net result from the risk exposures against reasonable possible change:

Impact on statement of comprehensive income (th EEK)	**Change**	**2009**	**Change**	**2008**
Shares	+30%	224	+10%	461
	-30%	-224	-10%	-461
Fund units	+15%	32	+10%	27
	-15%	-32	-10%	-27
Bonds	+15%	9 265	+20%	881
	-15%	-9 265	-20%	-881

✓ ***Interest rate risk***

The goal of monitoring, measuring and managing interest rate risk is to evaluate the profitability of the bank's interest-bearing products, to forecast interest income and to set limits for risk management in order to prevent significant reduction of income through limitation of risks in two aspects:

- cash flow interest rate risk whereby in case of a 1% change in market interest rates, a change in annual net interest income is limited as compared to the estimated actual income based on the term structure of instruments currently in the balance sheet;
- fair value interest rate risk whereby in case of a 1% change in market interest rates, a change in the bank's intrinsic value is limited (fair value of assets and liabilities is determined by discounting the future cash flows at the market rate of interest).

To reduce the cash flow risk arising from possible change in interest rates, LHV Pank primarily uses fixed interest rates for taking in deposits. The interest rates of the deposits from customers were in 2009 upto 7%. The interest rate on loans granted was between 7.5-20.5% in 2009, same in 2008. Interest rates for leveraging loans granted are changed once a month at most according to fluctuations in market interest rates. Interest rates on loans received in 2009 were at 1.5% (2008: 8%).

Since due to the launch of its operations as a bank, cash and cash equivalents represent the largest share in the bank's balance sheet and as liabilities have longer due dates, the decline in market rates of interest would have a negative effect on the bank's interest income. However, interest rate risk has been kept within limits. As at 31.12.2009, a 1% decline in interest rates would have an effect on bank´s yearly interest income by -351 thousand kroons (1% rise in interest rates would have and effect by +351 thousand kroons). In 2008, the portfolio of the loans received and granted was of short-term nature and the change in market rates of interest did not have a significant impact on the fair value of loans because the interest rates of products were continuously restated along with the market rates.

The structure of the interest-earning assets and interest-bearing liabilities of LHV Pank according to the recalculation of interest due dates is presented in the following tables. Most of instruments represent fixed interest rate products in the case of which interest does not change during the contract period, and the leveraging loans are treated as a one-month product maturing at the next interest fixing date.

31.12.2009	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Balances with other banks and inv. companies	306 445	96 840	0	0	0	**403 285**
Financial investments, incl. derivatives	110	2 333	18 598	40 730	3 960	**65 731**
Loans granted	80 069	34 390	41 061	5 803	0	**161 323**
Receivables from customers	2 779	0	0	0	0	**2 779**
Other assets	0	0	0	0	207	**207**
Total financial assets	**389 403**	**133 563**	**59 659**	**46 533**	**4 167**	**633 325**
Liabilities						
Loans received and deposits from customers	303 088	182 022	20 098	22 650	0	**527 858**
Financial investments	0	0	0	0	123	**123**
Other liabilities	9	0	0	0	144	**153**
Total financial liabilities	**303 097**	**182 022**	**20 098**	**22 650**	**267**	**528 134**
Total interest repricing gap	**86 306**	**-48 459**	**39 561**	**23 883**	**-**	**101 291**

31.12.2008	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Balances with other banks and inv. companies	9 067	0	0	0	0	**9 067**
Financial investments, incl. derivatives	0	1 111	3 294	0	4 878	**9 283**
Loans granted	22 058	10 980	0	0	0	**33 038**
Receivables from customers	1 334	574	0	0	0	**1 908**
Finance lease receivables	39	122	712	3 373	0	**4 246**
Other assets	0	0	0	0	218	**218**
Total financial assets	**32 498**	**12 787**	**4 006**	**3 373**	**5 096**	**57 760**
Liabilities						
Loans received	7 247	12 697	0	0	0	**19 944**
Bonds issued	37	189	717	3 399	0	**4 342**
Other liabilities	542	0	0	0	0	**542**
Total financial liabilities	**7 826**	**12 886**	**717**	**3 399**	**0**	**24 828**
Total interest repricing gap	**24 672**	**-99**	**3 289**	**-26**	**-**	**27 836**

3.2.3 Liquidity risk

Liquidity risk relates to the solvency of LHV Pank to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. The finance department of LHV Pank 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, as well the concentration of bank's liabilities by maturities are monitored. As at 31.12.2009 and 31.12.2008, the Group does not have any debts past due.

The following tables present the distribution of financial assets and liabilities, excl. derivatives, by due dates and by future contractual undiscounted cash flows and therefore, the tables do not reconcile to the positions in balance sheet. In the maturity analysis, the cash flows are split into the maturity buckets in which the cash flows occur (including interest cash flows) rather than being included in a single bucket when the instrument matures.

Explanation of the fair value of these financial assets and liabilities is presented in Note 3.3. LHV Pank has sufficient supply of liquid resources to enable issuing standby loans. To enable covering unexpected monetary outflows, it is possible to sell security investments, which are held for a purpose to ensure liquidity.

31.12.2009	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates					
Loans received and deposits from customers	303 865	187 483	38 318	6 295	**535 961**
Financial investments	123	0	0	0	**123**
Other liabilities	6 551	2 460	500	0	**9 511**
Unused loan commitments	16 860	0	0	0	**16 860**
Financial guarantees by contractual amounts	8 763	0	0	0	**8 763**
Total liabilities	**336 162**	**189 943**	**38 818**	**6 295**	**571 218**
Assets held for managing liquidity risk by contractual maturity dates					
Balances with other banks and inv. companies	306 507	100 234	0	0	**406 741**
Financial investments	1 037	4 939	32 315	48 125	**86 416**
Loans granted	89 113	25 667	46 256	3 731	**164 767**
Receivables from customers	2 779	0	0	0	**2 779**
Total assets held for managing liquidity risk	**399 436**	**130 840**	**78 571**	**51 856**	**660 703**
Maturity gap from assets and liabilities	**63 274**	**-59 103**	**39 753**	**45 561**	**89 485**

31.12.2008	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates					
Loans received	8 835	11 603	0	0	**20 438**
Bonds issued	37	378	1631	4 915	**6 961**
Financial investments	542	0	0	0	**542**
Other liabilities	2 281	3 263	0	0	**5 544**
Total liabilities	**11 695**	**15 244**	**1 631**	**4 915**	**33 485**
Assets held for managing liquidity risk by contractual maturity dates					
Balances with other banks and inv. companies	9 067	0	0	0	**9 067**
Financial investments	5 021	1 420	3 479	0	**9 920**
Loans granted	22 058	11 133	0	0	**33 191**
Receivables from customers	1 334	574	0	0	**1 908**
Finance lease receivables	39	383	1651	4 882	**6 955**
Total assets held for managing liquidity risk	**37 519**	**13 510**	**5 130**	**4 882**	**61 041**
Maturity gap from assets and liabilities	**25 824**	**-1 734**	**3 499**	**-33**	**27 556**

3.2.4 Risk concentration

Distribution of assets and liabilities by geography is presented below:

As at 31.12.2009									
Asset distribution by geography	**Estonia**	**Latvia**	**Lithuania**	**Sweden**	**Finland**	**Denmark**	**USA**	**Other**	**Total**
Balances with banks and inv. companies	142 711	106 564	7 882	626	69 711	29 080	29 799	16 912	**403 285**
Financial investments, incl. derivatives	13 667	0	9 880	11 854	6 447	0	6 630	17 253	**65 731**
Loans granted	148 904	2 476	9 922	0	0	0	0	21	**161 323**
Receivables from customers	1 671	81	181	18	0	0	9	819	**2 779**
Other assets	2 092	82	52	0	0	0	0	0	**2 226**
Tangible and intangible assets	4 610	309	103	0	0	0	0	0	**5 022**
Total assets	**313 655**	**109 512**	**28 020**	**12 498**	**76 158**	**29 080**	**36 438**	**35 005**	**640 366**
Distribution of liabilities by geography									
Loans and deposits from customers	506 957	6 470	11 347	1	974	6	1 135	968	**527 858**
Financial investments	109	0	14	0	0	0	0	0	**123**
Other liabilities	8 895	115	1 086	0	0	0	9	1	**10 106**
Total liabilities	**515 961**	**6 585**	**12 447**	**1**	**974**	**6**	**1 144**	**969**	**538 087**

Unused loan commitments to Estonian residents amount to 16 860 thousand kroons (2008: nil).

As at 31.12.2008									
Asset distribution by geography	**Estonia**	**Latvia**	**Lithuania**	**Sweden**	**Finland**	**Denmark**	**USA**	**Other**	**Total**
Balances with other banks	8 837	15	201	0	0	0	0	14	**9 067**
Financial investments, incl. derivatives	5 418	468	297	1 287	1 539	0	9	361	**9 379**
Loans granted	24 521	771	7 746	0	0	0	0	0	**33 038**
Receivables from customers	1 146	14	0	15	1	0	0	732	**1 908**
Finance lease receivables	4 246	0	0	0	0	0	0	0	**4 246**
Other assets	1 486	82	52	0	0	0	0	0	**1 620**
Tangble and intangible assets	6 216	570	307	0	0	0	0	0	**7 093**
Total assets	**51 870**	**1 920**	**8 603**	**1 302**	**1 540**	**0**	**9**	**1 107**	**66 351**
Distribution of liabilities by geography									
Loans received	19 552	392	0	0	0	0	0	0	**19 944**
Financial investments	381	0	161	0	0	0	0	0	**542**
Bonds issued	4 342	0	0	0	0	0	0	0	**4 342**
Other liabilities	5 400	276	1 189	0	17	0	7	0	**6 889**
Total liabilities	**29 675**	**668**	**1 350**	**0**	**17**	**0**	**7**	**0**	**31 717**

Distribution of loans granted by industry

	31.12.2009	%	31.12.2008	%
Private individuals	25 691	15,93%	12 728	38,53%
Financial services	41 349	25,63%	10 869	32,90%
Wholesale and retail	16 913	10,48%	845	2,56%
Administration and support services	14 777	9,16%	4 342	13,14%
Construction	13 565	8,41%	21	0,06%
Manufacturing	7 496	4,65%	129	0,39%
Information and communication	6 758	4,19%	1 077	3,26%
Other services	4 959	3,07%	1 629	4,93%
Real estate	3 961	2,46%	160	0,48%
Other	25 854	16,03%	1 238	3,75%
Total	**161 323**	**100%**	**33 038**	**100%**

As at 31.12.2009, four loans granted qualify as large exposures, i.e. over 10% of the net own funds (NOF) of LHV Pank. The receivable from the parent totals 18 834 thousand kroons, i.e. 19.2% of NOF and the receivable from non-related entities totals 44 605 thousand kroons, i.e.45.5% of NOF. As at 31.12.2008 the receivable from the parent was 6 638 thousand kroons, i.e. 19.2% of NOF and the receivable from non-related entities was 4 342 thousand kroons, i.e.12.6% of NOF.

3.3 Fair value of financial assets and financial liabilities

According to the management of LHV Pank, the carrying values of assets and liabilities recognised at amortised cost in the consolidated balance sheet do not materially differ from their fair values as at 31.12.2009 and 31.12.2008.

Leveraged loans granted to customers are of sufficiently short-term nature and they have been issued at market terms, therefore the fair market rate of interest and also the fair value of loans do not change significantly during the loan term. The portfolio of other loans granted is still too small in volume due to the launch of the bank's operations, each customer is treated individually and interest rates vary as a result of the customer's risk level, therefore, a homogeneous and comparable interest rate based on similar transactions cannot be applied to discount the future cash flows of these loans. As the total loan portfolio was issued in the second half of 2009, the management estimates that the loans have been issued at market terms and their fair value as at 31.12.2009 does not materially differ from their carrying amount. See also the term structure of financial assets in Note 3.2.3. Liquidity.

All deposits from customers with fixed interest rates were also received in the second half of 2009. During this time period, the market yield curve has not significantly changed, as a result of which the fair value of deposits to be determined by discounting future interest income does not significantly differ from their carrying amount. See also the term structure of financial assets in Note 3.2.3. Liquidity.

Receivables from customers and accrued expenses and other liabilities have been generated/incurred during the ordinary course of business and are payable in the short-term, as a result of which the management estimates that their fair value does not significantly differ from their carrying amount. These receivables and liabilities are interest-free.

The following tables gives an overview of the hierarchy of valuation techniques used for valuation of financial asstets and liabilities measured at fair value:

	31.12.2009				31.12.2008			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss								
Trading portfolio								
shares	749	-	-	**749**	4 372	-	-	**4 372**
Fund units	208	-	-	**208**	506	-	-	**506**
Investment portfolio								
bonds	60 547	-	1 224	**61 771**	468	-	3 937	**4 405**
Derivatives	-	3 003		**3 003**	-	96	-	**96**
Total financial assets	**61 504**	**3 003**	**1 224**	**65 731**	**5 346**	**96**	**3 937**	**9 379**
Financial liabilities at fair value through profit or loss								
Derivatives	123	-	-	**123**	540	2	-	**542**
Total financial liabilities	**123**	**0**	**0**	**123**	**540**	**2**	**0**	**542**

Levels used in hierarchy:

Level 1– quoted prices in active market

Level 2 – valuation technique based on observable market data as inputs (rates and interest curves from similar transactions)

Level 3 – other valuation techniques (f.ex discounted cash flow method) with judgemental inputs

Debt instruments in Level 3 have been sold in total value of 2 668 thousand kroons in 2009 and net loss (interest received less revaluation loss) recognised in statement of comprehensive income amounts to 45 thousand kroons, see also Note 8.

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 Pank'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 Pank and to evaluate capital requirements. The analysis on cases collected into the database enables LHV Pank 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 risk manager of the bank is responsible for collecting information and the Management Board of LHV Pank is responsible for dealing with the analysis and implementing necessary measures.

Compliance control and internal audit have an important role in evaluating, monitoring and mitigating the operating risk. Pursuant to the Credit Institutions Act and Securities Market Act, the main task of Compliance Officer is to define non-compliance risks of the activities of LHV Pank to legislation, recommended guidelines of the Financial Supervisory Authority and procedure rules of LHV Pank, 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

The managements has evaluated the effects of the global economic crisis on the Company's business. Due to the current core business of LHV Bank as a securities intermediary, the events occurring in the securities markets are an important factor impacting the Company's business. Despite the sharp decline in the global securities markets which started in 2008 and continued in the early spring of 2009, the fee and commission income of LHV Bank has been maintained at the same level as in previous years and this trend is also expected to continue in 2010. As a result of the economic crisis which has hit the Baltic States, loan demand has decreased in the region as a whole. This has also had an effect on the lending activities of LHV Bank in Estonia. However, the management estimates that once the macroeconomic situation improves in 2010, the loan demand can be expected to slightly pick up in the region. The management believes that all necessary measures have been taken into use to ensure the Company's sustainable operations and growth in a relatively difficult to forecast economic environment.

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 (Note 13);
- 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 statement of comprehensive income of the period in which the change occurred.

NOTE 5 Subsidiaries

At 30.06.2009, AS LHV Pank sold its 100% ownership interest in LHV Ilmarise Kinnisvaraportfelli OÜ to its parent AS LHV Group. In this report, the transaction is recognised as a disposal to related parties, as a result of which the assets and liabilities of the entity disposed of were transferred at their carrying values. No differences arose between the assets and liabilities transferred and received. The entity was sold at the value of net assets of EEK 40 thousand which according to the management does not materially differ from the fair value of the ownership interest. The net cash flows generated from the sale of the subsidiary generated totalled EEK -54 thousand, incl. cash transferred in the bank accounts of the subsidiary in the amount of EEK 94 thousand.

In 2009 the results of the sold entity have been consolidated for the period from January to June. The results of LHV Ilmarise Kinnisvaraportfelli OÜ:

Balance sheet	30.06.2009	31.12.2008
Assets		
Cash and cash equivalents	94	117
Finance lease receivables (Note 16)	4 176	4 246
Other receivables and assets	37	31
Total assets	**4 307**	**4 394**
Liabilities		
Deferred income	0	9
Bonds issued (Note 21)	4 267	4 342
Total liabilities	**4 267**	**4 351**
Owner's equity		
Share capital	40	40
Reserves*	0	3
Total owner's equity	**40**	**43**
Total liabilities and owner's equity	**4 307**	**4 394**

Statement of comprehensive income	I half year 2009	2008
Interest income (Note 7)	132	270
Interest expense (Note 7)	-123	-252
Net interest income	**9**	**18**
Other revenues	81	96
Operating expenses	-93	-114
Loss for the period	**-3**	**0**

* The loss of the I half year 2009 before disposal was covered from the reserves.

NOTE 6 Net fee and commission income

Fee and commission income	**2009**	**2008**
Financial advisory services	210	284
Security brokerage and commissions	41 836	39 917
incl. related parties (Note 28)	*118*	*584*
Asset management and similar fees	5 326	5 469
incl. related parties (Note 28)	*18*	*7*
Total	**47 372**	**45 670**
Fee and commission expense		
Financial advisory and other similar services purchased	-15	0
Security brokerage and commissions paid	-8 070	-7 045
Total	**-8 085**	**-7 045**
Net fee and commission income	**39 287**	**38 625**

Fee and commission income by customer location:	**2009**	**2008**
Estonia	34 736	33 724
Latvia	3 116	3 766
Lithuania	9 520	8 180
Total	**47 372**	**45 670**

NOTE 7 Net interest income

Interest income	**2009**	**2008**
From balances with other banks and investment companies	4 250	2 622
From balances with central bank	57	0
Finance lease(Note 5, 16)	132	270
Margin loans and lending of securities (Note 14)	5 711	6 456
Other loans (Note 14)	5 685	230
incl. loans to related parties (Note 28)	*1 694*	*40*
Total	**15 835**	**9 578**
Interest costs		
Bonds issued (Note 5, 21)	-123	-252
Loans received and deposits from customers (Note 19)	-7 711	-1 915
incl. loans from related parties (Note 28)	*-394*	*-187*
Total	**-7 834**	**-2 167**
Net interest income	**8 001**	**7 411**

Interest income by customer location, excl other banks, investment companies and central bank:	**2009**	**2008**
Estonia	9 180	1 256
Latvia	235	475
Lithuania	2 113	5 225
Total	**11 528**	**6 956**

NOTE 8 Gain from financial assets

Gain/loss from financial assets	**2009**	**2008**
Related to changes in foreign exchange rates:	3 260	2 930
- translation gains less losses	-423	-117
- transactions gains less losses from customer trades	3 683	3 047
Net gain/loss on trading portfolio securities recognised at fair value	397	- 6 706
Incl. revaluation gains/losses	79	-6 967
Incl. interest income on bonds	*318*	261
Dividend income from trading portfolio securities	*17*	1
Gain from investment portfolio securities designated at fair value	5 257	0
Incl. revaluation gains	*4 269*	0
Incl. interest income on bonds	*988*	0
Net loss/gain from financial assets	**8 931**	**-3 775**

NOTE 9 Other income

	2009	**2008**
Other income from customers	1 347	474
Income from transactions with related parties (Note 28)	2 490	3 460
Income from transactions with other parties	592	362
Total other income	**4 429**	**4 296**

NOTE 10 Operating expenses

Staff costs	Note	2009	2008
Wages, salaries and bonuses		20 838	15 947
Social security and other taxes		6 927	5 394
Total		**27 765**	**21 341**
IT expenses		4 071	2 259
Information services and bank services		2 844	2 144
Marketing expenses		3 242	3 497
Office expenses		2 164	2 445
Transportation and communication costs		694	1 075
Training and travelling expenses of employees		823	1 434
Other purchased services		5 794	6 158
Other administrative expenses		2 420	1 339
Depreciation	18	3 035	2 882
Operating lease payments	25	3 634	4 443
Provision expense	22	200	300
Other operating expenses		317	198
Total operating expenses		**57 003**	**49 515**

Due to developing of banking activities the expenditure on IT has increased. Operating lease payments decreased in second half of 2009 as a result of reduction of rental prices. More marketing expenses had been planned for 2009, but these will be partly made only in 2010, when more emphasis is planned for marketing activities.

NOTE 11 Balances with central bank, other banks and investment companies

	31.12.2009	31.12.2008
Demand deposits *	179 182	9 067
Term deposits with original maturity less than 3 months *	54 117	0
Term deposits with maturity more than 3 months	80 000	0
Balances with central bank	88 507	0
Accrued interest	1 479	0
incl from central bank	*18*	*0*
Total	**403 285**	**9 067**
* cash and cash equivalents in statement of cash flows	233 299	9 067

Distribution of receivables is presented in note 3.2.4. Balances with investment companies included in demand deposits amounts to 37 485 thousand kroons. All other demand and term deposits are held at credit institutions. Balances with central bank include the balance of mandatory banking reserve, which all Estonian banks are required to hold in central bank at the level of 15% of all financial resources taken in (loans received and deposits from customers). Reserve requirement ist o be fulfilled as a monthly average in estonian kroons or in the foreign securities preapproved by central bank.

The funds of LHV Pank according to raitings given by Standard & Poor's or equivalent are held:

	31.12.2009	31.12.2008
AA- to AA+	77 915	0
A- to A+	139 595	9 067
Lower than A-	85 601	0
With no rating	100 174	0
Total	**403 285**	**9 067**

NOTE 12 Foreign currency derivatives

Balance as at 31.12.2009	Asset / liability (fair value)	Contingent assets (contractual amount)	Commitments (contractual amount)
Foreign currency future contract (USD)	0	123 217	123 217
Foreign currency forward contracts (USD)	3 003	126 220	123 217
Total derivatives	**3 003**	**249 437**	**246 434**
Balance as at 31.12.2008			
Foreign currency future contract (USD)	0	3 902	3 902
Foreign currency forward contracts (SEK)	96	668	572
Total derivatives	**96**	**4 570**	**4 474**

The foreign currency forward contracts have been concluded for client service purposes in order to hedge USD currency exchange rate risk and LHV Pank has again economically hedged that foreign currency exchange rate risk arising from forward contracts by entering opposite foreign currency future contracts. Both contracts are with 3 months maturity.
In 2008 the foreign currency forward contract had been concluded in Swedish kroons in order to economically hedge the foreign currency risk of fixed loans, receivables and securities. The foreign currency future was concluded in USD for the same purpose. The due dates of contracts are between 2 and 3 months from the balance sheet date.
A foreign currency future is traded on the stock exchange and daily gains or losses are immediately transferred to LHV Pank's account as a result of which, the carrying amount of the contract is 0.

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

Securities held for trading:	31.12.2009	31.12.2008
Shares	749	4 372
Fund units	208	506
Designated at inception:		
Bonds	61 771	4 405
Total financial assets	**62 728**	**9 283**

The shares include the underlying assets purchased for hedging the risk of written 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 Bank 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 60 547 thousand kroons (2008: 468 thousand kroons) are valued based on the quotes in an active market and bonds in the amount of 1 224 thousand kroons (2008: 3 937 thousand kroons) are valued using the discounted cash flow model are reported at the market price, see also Note 3.3. Debt securities have not been pledged as collateral for loans received or any other liabilities.

The bank's debt securities according to raitings given by Standard & Poor's or eqivalent:

	31.12.2009	31.12.2008
AA- to AA+	4 814	0
A- to A+	31 759	0
Lower than A-	23 974	468
With no rating	1 224	3 937
Total	**61 771**	**4 405**

Held for trading:	31.12.2009	31.12.2008
Options embedded in structured bonds	0	2
Written options	123	540
Total financial liabilities	**123**	**542**

LHV Pank 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 Pank and as at 31.12.2009, the interest rate used was 8% (2008: 8%).

NOTE 14 Loans granted

Loans to customers	Loan balance 31.12.2009	Loan balance 31.12.2008	Interest rate
Loans to entities	135 632	20 310	7%-18%
Loans to private persons	25 691	12 728	7%-18%
Total loans to customers	**161 323**	**33 038**	

The loans granted contain leveraged loans in the amount of 47 169 thousand kroons (31.12.2008: 26 400 thousand kroons) and loans to other unrelated entities in the amount of 95 320 thousand kroons (2008: 0). In 2009, loans were issued to related parties in the total amount of EEK 18 834 thousand (2008: 6 638 thousand), see Note 28. Deferred income includes deferred loan origination fees in the amount of 451 thousand kroons. They are recognised to interest income over the loan maturity period, of which the current part amounts to 301 thousand kroons and long-term part amounts to 150 thousand kroons. As at 31.12.2008 the deferred income included received prepaid interest on loans issued to customers in the amount of 1 336 thousand kroons. For interest income on loans granted, see Note 7.

Information about credit risk exposure and loan collateral information is presented in Note 3.2.1.
Distribution of loans granted by currency is presented in Note 3.2.2.
Distribution of loans granted by maturity is presented in Note 3.2.3.
Distribution of loans granted by geography is presented in Note 3.2.4.

Only leveraged loans backed with securities have been issued to the private individuals, where the interest rates are generally equal to their effective interest rates as no significant fees have been received at issuance.

NOTE 15 Receivables from customers

	31.12.2009	31.12.2008
Securities brokerage fees from intermediaries	749	752
Asset management fees from customers	532	323
Other fees for providing services to customers	963	848
incl. related parties (Note 28)	*455*	*693*
Payments in transit	535	0
Allowances for impairment of receivables	0	-15
Total	**2 779**	**1 908**

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

NOTE 16 Finance lease receivables

Net investment by due dates	**31.12.2008**
Up to 1 year	161
Between 1 and 5 years	712
Over 5 years	3 373
Total net investment	**4 246**
Future interest income by due dates	
Up to 1 year	261
Between 1 and 5 years	939
Over 5 years	1 509
Total future interest income	**2 709**
Gross investment by due dates	
Up to 1 year	422
Between 1 and 5 years	1 650
Over 5 years	4 883
Total gross investment	**6 955**

At 21.01.2005, a subsidiary to the parent AS LHV Pank, 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.

During the reporting period finance lease payments in amount of 70 thousand kroons were collected and as of 30.06.2009 the remaining receivable balance in amount of 4 176 thousand kroons was transferred to the parent company as aresult of the sale of the subsidiary (see also Note 5). The finance lease receivables are collateralized by the apartments sold on finance lease terms. As at 31.12.2009 as a result of the disposal of the subsidiary no finance lease receivables are reported in the group balance sheet.

NOTE 17 Other assets

	31.12.2009	**31.12.2008**
Guarantee deposits of Baltic stock exchanges	207	218
Prepayment of marketing expenses	200	466
Prepayments to Financial Supervision Authority	817	230
Other prepayments *	1 002	706
Total	**2 226**	**1 620**

* Prepayments include office rent, insurance, communication services and 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.

NOTE 18 Tangible and intangible assets

	Tangible assets	Intangible assets	Total
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**
Changes occurred in 2009:			
Purchase of non-current assets	496	488	964
Depreciation/amortisation charge	-2 904	-131	-3 035
Balance as at 31.12.2009			
Cost	11 424	1 211	12 635
Accumulated depreciation and amortisation	-6 976	-637	-7 613
Carrying amount	**4 448**	**574**	**5 022**

In 2009 and 2008, there was no indication of impairment of tangible and intangible assets.

NOTE 19 Loans received and deposits from customers

	31.12.2009				31.12.2008		
Loans received and due to customers	Private individuals	Private legal entities	Public entities	Total	Private individuals	Private legal entities	Total
Demand deposits	40 963	72 491	553	114 007	0	0	0
Term deposits	211 926	166 524	9 970	388 420	0	0	0
Structured bonds	0	0	0	0	709	101	810
Loans received *	0	0	22 650	22 650	705	18 345	19 050
Accrued interest liability	1 542	1 193	46	2 781	18	66	84
Total	**254 431**	**240 208**	**33 219**	**527 858**	**1 432**	**18 512**	**19 944**
Incl related parties (Note 28)	*137*	*818*	*0*	*955*	*0*	*8 040*	*8 040*

* Loans received from Maaelu Edendamise Sihtasutus (Rural Development Foundation) with intended purpose to finance loans to small enterprises operating in rural areas.

Distribution of loans received and deposits from customers by currency is presented in Note 3.2.2.
Distribution of loans received and deposits from customers by maturity is presented in Note 3.2.3.
Distribution of loans received and deposits from customers by geography is presented in Note 3.2.4.

The nominal interest rates of most loans received and deposits from customers equal their effective interest rates as no other significant fees have been paid.

Structured bonds are separated into two components, where the option component has been included at its fair value within the financial liabilities at fair value through profit or loss, see Note 13. Structured bonds were issued on 01.10.2008 with maturity of 1 year and the return of the bonds was dependent on return of the fund unit of LHV Persian Gulf Fund. The bonds have been redeemed by the balance sheet date.

NOTE 20 Accrued expenses and other liabilities

	31.12.2009	31.12.2008
Trade payables	787	964
Tax liabilities	3 030	1 360
Payables to employees	4 056	2 920
Financial guarantee contracts issued	144	0
Payments in transit	1 114	0
Other short-term liabilities	24	0
Incl. related parties (Note 28)	*15*	*0*
Total	**9 155**	**5 244**

Payables to employees consist of unpaid salaries; bonus accruals and vacation pay accrual for the reporting period and the increase in liabilities is caused by the increase in number of employees during the year. Payments in transit are liabilities to clients arising from securities brokerage. All the liabilities, except for financial guarantees, are payable within 12 months and are therefore recognized as current liabilities.

NOTE 21 Bonds issued

The balance sheet line bonds issued as at 31.12.2008 includes bonds related to the finance lease agreements.

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

At 19 January 2005, AS LHV Pank 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.

During the reporting period bonds issued in amount of 75 thousand kroons were redeemed and as of 30.06.2009 the remaining liability balance in amount of 4 267 thousand kroons was transferred to the parent company as aresult of the sale of the subsidiary (see also Note 5). As at 31.12.2009 as a result of the disposal of the subsidiary no liabilities from bonds issued are reported in the group balance sheet.

NOTE 22 Provisions

In the balance sheet, a provision has been recognised in the amount of 500 thousand kroons, the cost of which is included within operating expenses (see Note 10). Provision is recognized as a long-term liability.

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 60% of the voting rights. Andres Viisemann has significant influence with 19% of the voting rights.

	31.12.2009	**31.12.2008**
Share capital *(in thousand Estonian kroons)*	100 000	36 000
Number of shares (pcs)	10 000 000	3 600 000
Par value of a share *(in kroons)*	10	10

According to the Company's articles of association, the minimum share capital is 80 000 thousand and the maximum share capital is 320 000 thousand kroons. The share capital has been fully paid in cash.

As at 31.12.2009, the retained earnings of the Group totalled 761 thousand kroons. As at 31.12.2008, accumulated deficit totalled -2 958 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 31.12.2009, it would have been possible to pay out dividends in the amount of 601 thousand kroons, and the accompanying income tax would have amounted to 160 thousand kroons (see Note 24).

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 was 36 000 thousand kroons. As at 21.04.2009 the parent company LHV Group increased the share capital of LHV Pank by 64 000 thousand kroons by a monetary contribution. The amount of new share capital is 100 000 thousand kroons.

NOTE 24 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 2009 or 2008, no dividend payments were made to the shareholders.

NOTE 25 Operating lease

LHV Pank 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 14 957 thousand kroons (2008: 17 316 thousand kroons), the current portion of which amounts to 3 640 thousand kroons (2008: 3 928 thousand kroons) and the non-current portion amounts to 11 317 thousand kroons (2008: 13 388 thousand kroons).

Operating lease payments recognised in operating expense:	**2009**	**2008**
Office space	3 546	4 298
Cars	88	106
Computers	0	39
Total (Note 10)	**3 634**	**4 443**

NOTE 26 Assets under management from fiduciary activities

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

	31.12.2009	31.12.2008
Cash balance of customers	**70 173**	**98 293**
incl. shareholders and related entities	0	471
Securities of customers	**2 118 746**	**1 533 715**
incl. parent company	154 622	83 034
incl. shareholders and related entities	140 416	141 092
Total	**2 188 919**	**1 632 008**

Asset management fees for the management of these assets have been in the range of 0.015 – 0.025 % (for, respective income, see Note 6).

The monetary funds of the customers who use the platform of an active securities trader or the trading system LHV Trader offered by LHV Pank, have been recognised as off-balance sheet assets. Due to the nature of the system, LHV Pank has deposited these funds in personalised accounts with its partner and as the monetary funds of these customers are not used for business purposes by LHV Pank (they cannot be lent to other customers or used as collateral), therefore the monetary funds are recognised as off-balance sheet assets. LHV Pank earns commission and interest income on intermediation of transactions in these accounts similarly to customers' accounts reflected in the bank's balance sheet. LHV Pank has provided contractual guarantees to its partner in respect of LHV Trader accounts, guaranteeing potential losses to be incurred from financing of the transactions executed by customers intermediated by itself (leveraging), whereas the primary collateral being the securities used as collateral for leveraged loans. In its current practice, no such losses in respect of which the guarantee provided by LHV Pank would apply have incurred and LHV Pank has not paid any compensation relating to the guarantee.

NOTE 27 Contingent liabilities

Irrevocable transactions	Financial guarantees	Unused loan limits	Total
Liability in contractual amount 31.12.2009	8 763	16 860	**25 623**

As at 31.12.2008 LHV Pank did not have any contingent liabilities arising from irrevocable transactions.

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 2008 - 2009. 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 28 Transactions with related parties

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

- owners (parent company and owners of the parent);
- entities in the consolidation group (incl. fellow subsidiaries and associates);
- members of the management board, head of internal audit unit and legal entities controlled by them (together referred to as management);
- members of the supervisory board
- close relatives of the persons mentioned above and the entities related to them;

Transactions	Note	2009	2008
Interest income from related parties	7	1 694	40
Incl. parent company		1 694	38
Incl. ultimate controlling party and related entities		0	2
Interest expenses to related parties	7	409	187
Incl. management		*25*	*38*
Incl. parent company		*0*	*46*
Incl. ultimate controlling party and related entities		*384*	*103*
Net interest income/expense		**1 285**	**-147**
Incl. management		4	
Incl. ultimate controlling party and related entities	6	132	591
Total fee and commission income		**136**	**591**
Incl. ultimate controlling party and related entities	9	2 490	3 460
Total other income		**2 490**	**3 460**

Balances	Note	31.12.2009	31.12.2008
Incl. parent company	14	18 834	6 638
Incl. ultimate controlling party and related entities	15	455	693
Loans and receivables as at the year-end		**19 289**	**7 331**
Incl. management		955	320
Incl. ultimate controlling party and related entities	19	15	7 720
Loans received and liabilities as at the year-end		**970**	**8 040**

Loans granted to parent company in amount of 18 834 thousand kroons are with maturities in February, 2010 and with average interest rate of 3% (2008: maturities 4-6 months from balance sheet date and interest rate 7%). Other receivables have occurred from rendering services, they do not bear interest and are received by the time of compiling the annual report.

The term deposits due to management as of 31.12.2009 are with maturities in January, 2010 and bear interest 2,9-3,9%, and July, 2010 with interest rate 5,9-6,6% (31.12.2008 loans received with maturity in July, 2009, interest 7%). As at 31.12.2008 loans received from shareholders and related entities amounted to 7 720 thousand kroons with maturity in June, 2009 and interest rate of 7%.

In 2009, salaries and other compensations paid to the management of LHV totalled 4 554 thousand kroons (2008: 4 803 thousand kroons). As at 31.12.2009, remuneration for December and accrued holiday pay in the amount of 458 thousand kroons (as at 31.12.2008: 398 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 31.12.2009 and 31.12.2008 (pension liabilities, termination benefits, etc.). No remuneration has been paid to the members of the Supervisory Board of the bank in 2009 or 2008.
Information on assets of related parties held as an account manager is presented in Note 26.

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.

Statement of comprehensive income of the parent
(in thousand Estonian kroons)

	2009	2008
Fee and commission income	47 372	45 670
Fee and commission expense	-8 085	-7 045
Net fee and commission income	**39 287**	**38 625**
Interest income	15 703	9 308
Interest expense	-7 711	-1 915
Net interest income	**7 992**	**7 393**
Net gain/loss from trading	3 657	-3 776
Net gain from financial assets at fair value through profit or loss	5 257	0
Covering loss of subsidiary	-41	-47
Dividend income	17	1
Net gain/loss from financial assets	**8 890**	**-3 822**
Other income	4 389	4 275
Operating expenses	-56 910	-49 429
Profit/loss for the year	**3 648**	**-2 958**
Comprehensive income/loss for the year	**3 648**	**-2 958**

Balance sheet of the parent
(in thousand Estonian kroons)

	31.12.2009 *	31.12.2008
Assets		
Balances with central bank	88 525	0
Balances with other banks and investment companies	314 760	8 950
Derivatives	3 003	96
Other financial assets at fair value through profit or loss	62 728	9 283
Loans granted	161 323	33 038
Receivables from customers	2 779	1 908
Other assets	2 226	1 620
Investment in subsidiary	0	40
Tangible and intangible assets	5 022	7 093
Total assets	**640 366**	**62 028**
Liabilities		
Loans received and deposits from customers	527 858	19 944
Financial liabilities at fair value through profit or loss	123	542
Accrued expenses and other liabilities	9 155	5 275
Deferred income	451	1 336
Provisions	500	300
Total liabilities	**538 087**	**27 397**
Shareholders' equity		
Share capital	100 000	36 000
Reserves	1 518	1 518
Retained earnings/accumulated deficit	761	-2 887
Total shareholders' equity	**102 279**	**34 631**
Total liabilities and shareholders' equity	**640 366**	**62 028**

*The balance sheet of parent company equals the balance sheet in consoldated statements, as the subsidiary was sold during the accounting period.

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

	2009	2008
Cash flows from operating activities		
Fee and commission income received	55 021	52 874
Fee and commission expense	-8 085	-7 045
Operating and other expenses paid	-53 916	-46 595
Dividends received	17	1
Interest received	15 703	9 308
Interest paid	-7 711	-1 915
Cash flows from operating activities before change in operating assets and liabilities	**1 029**	**6 628**
Change in operating assets		
Settlement of foreign currency forward contracts	-2 907	-42
Net acquisition/disposal of trading portfolio	8 724	-11 549
Loans granted and receivables from customers	-129 156	24 361
Term deposits with other banks	-81 461	0
Mandatory reserve in central bank	-88 525	0
Stock exchange security deposit	11	60
Other receivables and prepayments	-617	411
Change in operating liabilities		
Demand deposits of customers	114 007	0
Term deposits of customers	391 184	0
Loans received	3 532	-10 679
Issued bonds	-810	827
Financial liabilities of trading portfolio	-419	542
Other liabilities and deferred income	3 195	-2 522
Net cash generated from operating activities	**217 787**	**8 037**
Cash flows from investing activities		
Purchase of non-current assets	-964	-4 117
Proceeds from disposal of fixed assets	0	29
Net cash handed over less proceeds from disposal of subsidiary	-54	0
Change in investment securities	-56 514	0
Net cash used in investing activities	**-57 438**	**-4 088**
Cash flows from financing activities		
Paid in share capital	64 000	0
Net cash generated from / cash used in financing activities	**64 000**	**0**
Net increase in cash and cash equivalents	**224 349**	**3 949**
Cash and cash equivalents at beginning of the year	8 950	5 001
Cash and cash equivalents at end of the year	**233 299**	**8 950**

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

	Share capital	Reserves	Retained earnings	Total
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
Total comprehensive 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**
Balance as at 01.01.2009	**36 000**	**1 518**	**-2 887**	**34 631**
Paid in share capital	64 000	0	0	64 000
Total comprehensive income for 2009	0	0	3 645	3 645
Balance as at 31.12.2009	**100 000**	**1 518**	**761**	**102 279**

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of AS LHV Pank

We have audited the accompanying consolidated financial statements of AS LHV Pank and its subsidiary (the Group) which comprise the consolidated balance sheet as of 31 December 2009 and the consolidated statement of comprehensive income, 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 2009, 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

20 April 2010

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

Profit allocation proposal

The Management Board of LHV Pank proposes to the General Meeting of Shareholders to distribute the profit for 2009 as follows:

reserve capital	182 thousand kroons
retained earnings	3 463 thousand kroons

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 LHV Pankfor the financial year ended 31 December 2009.

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
22.04.2010

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
22.04.2010

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

EMTAK	Activity	2009	2008
66121	Security and commodity contracts brokerage	47 162	45 386
64191	Credit institutions (banks) (granting loans)	15 703	0
64929	Other credit granting (except pawnshops)	0	6 686
66191	Financial consultancy services	210	284
64911	Financial leasing	132	270
	Total income	**63 207**	**52 626**