AS LHV Varahaldus

Annual Report 2008

(Translation of the Estonian original)

Annual Report	**01.01.2008 - 31.12.2008**
Business Name	AS LHV Varahaldus
Commercial Registry No.	10572453
Legal address	Tartu mnt. 2, Tallinn 10145
Phone	(372) 6800400
Fax	(372) 6800402
Main activities	Fund management, EMTAK 66301 (Estonian version of NACE)
Management Board	Mihkel Oja
	Kerli Lõhmus
	Rait Kondor
Supervisory Board	Andres Viisemann
	Rain Lõhmus
	Erki Kilu
	Charles Smith
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

AS LHV Varahaldus is a fund management company. In 2008 the main business activity of the company was to provide fund management services to five mandatory pension funds, one supplementary pension fund and three equity Eurofunds (UCITSs).

Out of pension funds with progressive investment strategies (up to 50% of the assets are invested in equities) offered in Estonia, LHV World Equities Pension Fund and LHV New Markets Pension Fund managed by the Company were the second and third best funds. On the background of declining equity markets and the financial crisis, the returns of all progressive funds were negative in 2008.

Comparison of progressive pension	NAV 31.12.2007	NAV 31.12.2008	Growth of the NAV
PF Sampo Pension 50	16.0500	13.9048	-13,37%
LHV World Equities PF	**17.5800**	**13.6244**	**-22,50%**
LHV New Markets PF	**15.0700**	**11.4796**	**-23,82%**
ERGO PF 2P2	16.6400	12.0184	-27,77%
Hansa PF K3	16.9600	11.9836	-29,34%
SEB Progressive PF	17.1700	11.7618	-31,50%

Among pension funds with balanced investment strategies (up to 25% of the assets are invested in equities), LHV Balanced Strategy Pension Fund managed by the Company also ranked second in terms of return. Similarly to progressive funds, all balanced funds had negative returns in 2008.

Comparison of balanced pension	NAV 31.12.2007	NAV 31.12.2008	Growth of the NAV
Sampo Pension 25	13.5500	12.5273	-7,55%
LHV Balanced Strategy PF	**13.0500**	**11.3169**	**-13,28%**
Hansa PF K2	14.0500	11.2411	-19,99%

The returns of conservative funds investing only in bonds were better in 2008. However, on the background of the financial crisis, the corporate bonds, that LHV Dynamic Bonds Pension Fund and LHV Quality Bonds Pension Fund managed by us invest in, had negative returns (risk premium required by the market increased), therefore the returns of funds were not positive, but slightly negative.

Comparison of conservative pension	NAV 31.12.2007	NAV 31.12.2008	Growth of the NAV
SEB Conservative PF	11.3800	11.7428	3,19%
ERGO Stable PF 2P1	11.6500	11.9340	2,44%
PF Sampo Pension Interest	11.6000	11.7758	1,52%
LHV Dynamic Bonds PF	**12.7800**	**12.7432**	**-0,29%**
LHV Quality Bonds PF	**11.9800**	**11.8363**	**-1,20%**
Hansa PF K1	11.7500	10.6679	-9,21%

The supplementary pension funds offered in Estonia differ from one another as regards to their share invested in equities, therefore it is more difficult to compare the returns of different funds. LHV Supplementary Pension Fund invests 75% of its portfolio on average in equity markets, but the share of equities was kept significantly lower in

2008 which was a difficult year for the financial markets. Similarly to mandatory pension funds investing in equities, all supplementary pension funds also had negative returns in 2008.

Comparison of supplementary pension funds*	NAV 31.12.2007	NAV 31.12.2008	Growth of the NAV
PF Sampo Pension 100 Pluss(100)	19.0770	15.1956	-20,35%
SEB Balanced PF (35)	19.3040	14.3462	-25,68%
Hansa PF V1 (30)	19.8100	14.4915	-26,85%
LHV Supplementary PF (75)	**18.5000**	**12.1527**	**-34,31%**
Hansa PF V2 (60)	16.9500	10.3417	-38,99%
Hansa PF V3 (100)	23.0600	10.9422	-52,55%
SEB Active PF (100)	18.5820	8.7810	-52,74%

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

The Company manages three Eurofonds that invest in equities, one of which – LHV Persian Gulf Fund – launched its activities in the first half of 2008. The results of equity funds were significantly affected by the large decline in equity markets, which mostly took place during the last months of the year.

LHV Eurofonds	NAV 31.12.2007	NAV 31.12.2008	Growth of the NAV
LHV World Equities Fund	10.3776	5.9907	-42,28%
LHV Persian Gulf Fund	-	5.5806	-44,19%
LHV Emerging Europe Alpha Fund	8.6648	2.8045	-67,63%

At the end of 2008, the total amount of assets managed by LHV Varahaldus was 559 million kroons, out of which 85% was in mandatory pension funds. At the end of 2007, the total amount of assets under management was 500 million kroons.

In 2009, the objective of the Company is to increase its market share in the mandatory pension market and increase the volume of assets under management in its equity funds through positive returns as well as attracting new investors.

As at 31.12.2008, the Company had 9 employees (31.12.2007: 7 employees). During the reporting period, the Company paid a total of 3 854 127 kroons in salaries (2006: 2 195 510 kroons), out of which 478 423 kroons were paid to the members of the Management Board (2007: 522 045 kroons). The members of the Supervisory Board did not receive any remuneration during the reporting period.

FINANCIAL STATEMENTS

Management Board's confirmation of the financial statements

The Management Board confirms the correctness and completeness of AS LHV Varahaldus 2008 financial statements as presented on pages 6-20.

The Management Board confirms that:

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

Mihkel Oja / signed /
Member of the Board

Kerli Lõhmus / signed /
Member of the Board

Rait Kondor / signed /
Member of the Board

Tallinn, 15.04.2009

Balance Sheet

(in Estonian kroons)

Assets	Note	31.12.2008	31.12.2007
Current Assets			
Cash and bank	3	11 964 224	1 470 083
Short term financial investments	4	14 314 777	15 270 420
Loans granted	6	7 719 794	0
Other receivables	8	895 165	805 256
Accrued income		520 000	405 591
Other prepaid expenses		564 653	327 241
Total current assets		**35 978 613**	**18 278 591**
Non-current assets			
Units of managed pension funds	5	14 765 759	29 041 684
Units of managed investment funds	5	6 747 972	8 938 465
Property, plant and equipment	7	546 104	51 504
Intangible assets	7	1 189 322	1 196 576
Total non-current assets		**23 249 157**	**39 228 229**
Total assets		**59 227 770**	**57 506 820**
Liabilities and equity			
Current liabilities			
Supplier payables	8	602 823	759 694
Accrued expenses and other liabilities	9	825 892	442 322
Provisions	10	0	4 880 000
Current portion of long-term borrowings	7,11	408 796	0
Total current liabilities		**1 837 511**	**6 082 016**
Non-current liabilities			
Finance lease liabilities	7	325 329	0
Subordinated liabilities	11	12 517 280	0
Total non-current liabilities		**12 842 609**	**0**
Equity			
Share capital		63 000 000	63 000 000
Share premium		4 100 000	4 100 000
Accumulated losses		-15 675 196	-15 311 927
Net loss for financial year		-6 877 154	-363 269
Total equity	12	**44 547 650**	**51 424 804**
Total liabilities and equity		**59 227 770**	**57 506 820**

The Notes to the financial statements presented on pages 11-20 are an integral part of the Annual Report.

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Income statement

(in Estonian kroons)

	Note	2008	2007
Fee income	8,13	14 248 101	9 705 786
Other operating income	10	4 919 950	124 296
Total operating income		**19 168 051**	**9 830 082**
Operating expenses	8,14	-11 391 574	-9 572 444
Personnel expenses			
Wages and salaries		*-3 854 127*	*-2 195 510*
Social security costs		*-1 205 212*	*-720 267*
Unemployment insurance expense		*-8 110*	*-5 456*
Total personnel expenses		-5 067 449	-2 921 233
Depreciation and amortization	7	-142 890	-35 326
Provision expense	10	0	-700 000
Other operating expenses		-75 932	-67 152
Total operating expenses		**-16 677 845**	**-13 296 155**
Operating profit/loss		**2 490 206**	**-3 466 073**
Financial income and expense			
Profit from revaluation of short-term securities		706 848	2 119 875
Profit from revaluation of units of managed funds	5,11	-10 038 629	922 198
Interest income	3,6	334 906	159 764
Interest expense	11,15	-347 546	0
Foreign exchange losses		-22 939	-99 033
Total financial income and expense		**-9 367 360**	**3 102 804**
Net loss for the financial year		**-6 877 154**	**-363 269**

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Cash flow statement

(in Estonian kroons)

	Note	2008	2007
Casf flow from operating activities			
Operating profit/loss		2 490 206	-3 466 073
Adjustments:			
Depreciation and amortization	7	142 890	35 326
Change in receivables and prepayments		-441 730	4 230
Change in supplier payables		226 699	220 056
Change in provision	10	-4 880 000	700 000
Interests paid		-27 660	0
Total change in working capital		**-4 979 801**	**959 612**
Total cash flow from / cash used in operating activities		**-2 489 595**	**-2 506 461**
Cash flow from investing activities			
Purchase of property, plant and equipment	7	-97 410	-50 472
Loans granted	6	-7 700 000	0
Prepayments of loans granted		0	4 284 848
Purchase of short-term financial investments		-4 202 629	-24 954 243
Sales of short-term financial investments		4 175 243	14 012 248
Purchase of long-term financial investments	5	-4 693 980	-9 387 960
Sales of long-term financial investments	5	11 121 769	0
Dividends and interest received		1 997 414	967 941
Total cash used in / cash flow from investing activities		**600 407**	**-15 127 638**
Cash flow from financing activities			
Finance lease payments	15	-118 587	0
Issue of subordinated bonds	11	12 517 280	0
Total cash flow from financing activities		**12 398 693**	**0**
Total cash flow		**10 509 505**	**-17 634 099**
Cash and cash equivalents at beginning of the period	3	1 470 083	19 157 073
Change in cash and cash equivalents		**10 509 505**	**-17 634 099**
Effect of exchange rate differences [1]		-15 364	-52 891
Cash and cash equivalents at the end of the period	**3**	**11 964 224**	**1 470 083**

The Notes to the financial statements presented on pages 11-20 are an integral part of the Annual Report.

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

Statement of changes in equity

(inEstonian kroons)

	Share capital	Share premium	Accumulated loss	Total equity
Balance at 01.01.2007	**63 000 000**	**4 100 000**	**-15 311 927**	**51 788 073**
Net loss for financial year	0	0	-363 269	-363 269
Balance at 31.12.2007	**63 000 000**	**4 100 000**	**-15 675 196**	**51 424 804**
Balance at 01.01.2008	**63 000 000**	**4 100 000**	**-15 675 196**	**51 424 804**
Net loss for financial year	0	0	-6 877 154	-6 877 154
Balance at 31.12.2008	**63 000 000**	**4 100 000**	**-22 552 350**	**44 547 650**

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

The Notes to the financial statements presented on pages 11-20 are an integral part of the Annual Report.

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Notes to the Financial Statements

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

1.1 General principles

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

1.2 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits held at call with banks as well as those in the investment account at AS Lõhmus, Haavel & Viisemann, as well as term deposits with original maturities of three months or less.

1.3 Shares and other securities

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

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

The purchases and sales of financial investments were previously recognised at the trade date. Management has decided to bring the recognition policy in compliance with the policies used by the parent of the consolidation group and recognise transactions with financial investments at the settlement date. The change in the accounting policy has not impacted the Company's financial statements for 2007 and 2008.

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

1.4 Trade receivables

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

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

1.5 Derivative financial instruments

Derivative financial instruments (forward and swap contracts) are reported in the balance sheet at their fair value. Fair value is the market value of derivative financial instruments. Gains and losses on derivative financial instruments are reported as income or expense for the period.

1.6 Property, plant and equipment

Property, plant and equipment are assets used in the operations of the Company with a useful life of over one year. Property, plant and equipment is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Property, plant and equipment is carried in the balance sheet at its cost less any accumulated depreciation and any impairment losses. Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.
Items of property, plant and equipment leased under the finance lease terms are accounted for similarly to acquired non-current assets.

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

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

1.7 Intangible assets

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

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

assessed either for each individual asset or the smallest group of assets for which it is possible to distinguish cash flow. The impairment loss of assets is reported as expenses in the accounting period.
The depreciation rate for intangible assets with definite useful lives is 33%.

1.8 Goodwill

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

1.9 Finance and operating leases

Leases of property, plant and equipment which transfer substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

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

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

1.10 Financial liabilities

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

1.11 Provisions and contingent liabilities

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

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

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

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

1.13 Revenues and expenses

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

1.14 Corporate income tax

According to income tax legislation currently in force the profit for financial year of a company is not a subject for taxation. Income tax is paid for dividends, fringe benefits, gifts, sponsorship, guest admission expenses, expenses not related to business and transfer pricing corrections. From 1.01.2008 the distribution of retained earnings is subject to a dividend tax of 21/79 (in 2007 the tax rate was 22/78) of net dividend paid. In certain circumstances the dividends received can be distributed forward without additional income tax expense. The corporate income tax related to dividend payments is accounted as liability and tax expence in income statement the same period the dividend is announced, no matter for which period the dividend is announced or when the divident payment is actually carried out. The liability for income tax payment is on the 10 day of the next month of dividend payment.

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

1.15 Starurory reserve capital

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

1.16 Changes in presentation

In 2008, the policy for preparation of the cash flow statement was adjusted. As the granting of loans is not the main activity of AS LHV Varahaldus, the granting of loans is recognised under cash flows from investing activities (earlier under cash flows from operating activities). The comparative information for 2007 has also been adjusted accordingly.

Note 2 Impacts of the economic crisis

Management has evaluated the effects of the global liquidity crisis and the related general economic crisis on the business activities of the Company. An important factor influencing the activities of the Company is a financial loss resulting from impairment of instruments tradable in the financial markets and the related decrease of market value of funds managed by the Company, due to which income from the main activities of the Company, i.e. fund management fees have decreased as well.

Management cannot reliably predict the effect of the economic crisis on the Company's activities and financial position in 2009. Management believes that it has taken all necessary measures to ensure sustainability and growth of the Company in the current conditions.

Note 3 Cash and cash equivalents

	31.12.2008	31.12.2007
Bank accounts	11 593 367	1 451 380
Investment account at LHV	370 857	18 703
Total cash and cash equivalents	**11 964 224**	**1 470 083**

In 2008, the interests earned on bank accounts totals 262 118 kroons (2007: 127 409 kroons).

Note 4 Short-term financial investments

	31.12.2008	31.12.2007
Shares	0	207 006
Bonds	14 314 777	12 887 704
Fund units	0	2 175 710
Total at fair value through profit or loss	**14 314 777**	**15 270 420**

For bonds whose market price based on transactions in the active market is difficult to determine, the discounted cash flow method is applied. The valuation method reflects the current situation and expected return at the valuation date and may not adequately reflect the market conditions both before and after the valuation date.
The Company has adjusted the return expectations that are used as an input in the discounted cash flow model due to higher interest rates and risk levels in the market. Of the total bond position, securities in the amount of 1 761 421 kroons have been recognised at the market price that is based on quotes in an active market and in the amount of 12 553 356 using the discounted cash flow method.

No alternative valuation methods were used in 2007 and all securities were recognised at their market price.

Note 5 Non-current financial investments

	31.12.2008	31.12.2007
Units of pension funds	14 765 759	29 041 685
Units of investment funds	6 747 972	8 938 464
Total at fair value through profit or loss	**21 513 731**	**37 980 149**

In 2008, the units of pension funds were sold in the total amount of 11 121 769 kroons and the sold units were deleted from the register. The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is 12 000 001 kroons. The units of investment funds were purchased at their nominal value and the total acquisition cost of these fund units is 14 081 940 kroons (incl. 9 387 960 in 2007 and 4 693 980 kroons in 2008).

Note 6 Loans granted

At the end of 2008, loans were granted twice to AS Lõhmus, Haavel & Viisemann (LHV; another subsidiary of the parent) in the total amount of 7 700 000 kroons. It was an alternative to a demand deposit, the loans were granted at an interest rate of 7% and with a maturity date of June 2009. In the income statement, interest income on loans granted is carried at the total amount of 72 878 kroons (2007: 32 355 kroons). As at 31.12.2008, interest receivables made up 19 794 kroons.

Note 7 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets	
	IT equipment	**Licences**	**Goodwill**
Balance at 31.12.2006			
Acquisition cost	**47 123**	**18 263**	**1 183 699**
Accumulated depriciation	-14 644	-1 507	0
Carrying value	**32 479**	**16 756**	**1 183 699**
Changes occurred in 2007			
Purchase of non-current assets	47 404	3 068	0
Depreciation/amortization charge	-28 379	-6 947	0
Balance at 31.12.2007			
Acquisition cost	**94 527**	**21 331**	**1 183 699**
Accumulated depriciation	-43 023	-8 454	0
Carrying value	**51 504**	**12 877**	**1 183 699**
Changes occurred in 2008			
Purchase of non-current assets	630 236	0	0
Depreciation/amortization charge	-135 636	-7 254	0
Balance at 31.12.2008			
Acquisition cost	724 763	21 331	1 183 699
Accumulated depreciation	-178 659	-15 708	0
Carrying value	**546 104**	**5 623**	**1 183 699**

In 2008, the Company acquired a passenger car under the finance lease agreement for 532 826 kroons. The finance lease liability is recognised in the balance sheet as a current portion of non-current liabilities in the amount of 88 910 kroons and as a non-current portion of non-current liabilities (up to 5 years) in the amount of 325 329 kroons (see also Note 15).

The balance sheet of AS LHV Varahaldus under the line intangible assets includes positive goodwill in the amount of 1 183 699 kroons which arose from the acquisition and merger of former fund manager AS Seesam Varahaldus.

As at 31.12.2008, an impairment test of goodwill was performed. Three former funds of Seesam Varahaldus have been designated as the cash-generating unit for the purpose of goodwill testing. Income from management of such funds and related allocated expenses were designated as cash flows. Calculation of the value is based on the following main assumptions:

- in forecasting the cash flows for the years 2009-2013, the Management Board has assessed that salaries will not increase, according to which the clients' investments into funds have been derived
- the increase in the volume of assets in funds exceeds the clients exiting from funds
- the growth rate used for indirect expenses is 7%
- cash flow discount rate used is 12%
- assumptions of returns of funds are conservative and are estimated to be 2-3% per annum
- when using the key assumptions, the Management Board relied on previous periods' experience and its best estimate regarding probable expectations.

As a result of the impairment test the recoverable value exceeds substantially carrying value of goodwill, therefore no impairment has been identified.

Note 8 Related party transactions

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

The owners of AS Varahaldus are :	
AS LHV Group	61,96%
European Bank for Reconstruction and Development (EBRD)	19,04%
Seesam Life Insurance SE	19,00%

Management fees	Revenues 2008	Receivable as at 31.12.2008	Revenues 2007	Receivable as at 31.12.2007
Pension funds	9 384 288	759 115	7 386 213	728 873
Investment funds	2 509 347	98 872	350 375	76 383
Total	**11 893 635**	**857 987**	**7 736 588**	**805 256**

In 2008, the services from LHV for rent and administration were purchased for 1 859 471 kroons. The expenses have been accounted as part of operating expenses in the income statement. As at 31.12.2008, the liability to LHV is stated at 30 992 kroons and loans granted at 7 700 000 kroons in the balance sheet (see Note 6).
In 2007, services were purchased for 1 779 548 kroons. As at 31.12.2007, the liability to LHV is recognised in the amount of 86 937 kroons in the balance sheet.
Subordinated liability to the parent AS LHV Group is recognised in the amount of 12 517 280 kroons in the balance sheet (see Note 11).
During the reporting period, salaries were paid to the members of the Management Board in the amount of 478 423 kroons (2007: 522 045). No remuneration was paid to members of the Supervisory Board. The members of the Supervisory Board covered by employment contracts were paid remuneration of 312 000 kroons (2007: 312 715 kroons). As at 31.12.2008, liabilities to members of the Management Board totals 31 440 kroons (31.12.2007: 38 945 kroons). As at 31.12.2008, liabilities to members of the Supervisory Board totals 20 478 kroons (31.12.2007: 19 516 kroons).
The Company has entered into contracts with the members of the Management Board upon termination of which no termination benefits have been stipulated. In matters not regulated by the contract, the parties abide by the procedure established in legislation of the Republic of Estonia.

No impairment losses were recognised for receivables from related parties in 2008 and in 2007.

Note 9 Accrued expenses and other liabilities

	31.12.2008	31.12.2007
Payables to employees	552 365	222 753
Tax liabilities	273 527	219 569
incl. social security tax	169 315	120 103
incl. personal income tax withheld	92 358	78 296
incl. unemployment insurance premium	3 363	2 840
incl. contributions to mandatory pension	8 964	6 166
incl. corporate income tax	-1 826	10 870
incl. value added tax	1 353	445
incl. tax penalties	0	849
Total	**825 892**	**442 322**

In 2008, the Company recruited new employees in connection with management and monitoring of equity funds, as a result of it salary accruals have increased.

Note 10 Provisions

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

Note 11 Subordinated liabilities

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

Interest expenses on subordinated bonds in the amount of 319 886 kroons are recognised under interest expenses in the income statement. The non-current portion of non-current liabilities is recognised in the same amount in the balance sheet.

LHV

Note 12 Own funds

As at 31.12.2008 he company´s share capital is 63 000 000 kroons, which consits of 6 300 000 shares with nominal value of 10 kroons.

The Company`s own funds consists of:	31.12.2008	31.12.2007
Tier 1 own funds	**43 358 328**	**50 228 228**
Share capital, incl. share premium	67 100 000	67 100 000
Accumulated losses	-15 675 196	-15 311 927
Net loss for the financial year	-6 877 154	-363 269
Intangible assets	-1 189 322	-1 196 576
Tier 2 own funds	**12 517 280**	**0**
Subordinated fixed-term liabilities	12 517 280	0
Total net own funds	**55 875 608**	**50 228 228**

As at 31.12.2008 the initially calculated equity was lower by 4 880 000 kroons due to lack of information regarding the possibility to release the provision and income arising as a result of it.

Note 13 Fee income

	2008	2007
Pension fund management (note 8)	9 384 288	7 386 213
Investment fund management (note 8)	2 509 347	350 375
Fund issue and redemption fees	2 354 466	1 969 198
Total	**14 248 101**	**9 705 786**

In the financial year and in 2007, the Company's services were rendered only in Estonia.

Note 14 Operating expenses

	2008	2007
Marketing expenses	5 376 078	4 078 689
Advertising expenses	548 107	1 202 464
Other outsourced services	1 573 756	1 500 245
Office expenses	1 093 815	494 590
Depository fees	808 571	787 254
Registration fees	576 625	430 077
Supervision and guarantee fees	331 628	284 592
Legal consultations and audit	324 972	265 572
Communication costs	381 971	199 438
Travel and training cots	269 926	166 989
Transport expenses	53 073	82 693
Bank services, management and transaction fees	31 565	55 695
IT expenses	21 487	24 146
Total operating expenses	**11 391 574**	**9 572 444**

Note 15 Finance and operating lease

The Company leases office space under the operating lease terms and a passenger car under the finance lease terms. In the reporting period, the rent for the office space in the total amount of 962 172 kroons was recognised under other operating expenses in the income statement. Interest expenses in the amount of 18 537 kroons arising from payment of financial lease instalments are recognised under interest expenses in the income statement. Principal payments of the finance lease total 118 587 kroons and are recognised as a deduction of financial lease liabilities. The finance lease agreement is entered into with an expiry date of 15.03.2013, interest rate 5.53% and the underlying currency of the contract is euro.

In 2007, the office space as well as the passenger car was leased under the operating lease terms. The rent for office space totalled 445 804 kroons and the rent for passenger cars 66 105 kroons.

Lisa 16 Contingent liabilities

Tax authorities have the right to review to the Company's tax records for up to 6 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The Company's management estimates that there are not any circumstances which may lead tax authorities to impose additional taxes on the Company.

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS LHV Varahaldus

We have audited the accompanying financial statements of AS LHV Varahaldus (the Company) which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Estonia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.

/signed/

Tiit Raimla
AS PricewaterhouseCoopers

/signed/

Relika Mell
Authorised Auditor

15 April 2009

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

Proposal for covering net loss for financial year

The Management Board of AS LHV Varahaldus proposes to the General Meeting of Shareholders to add the loss for 2008 in the amount of 6 877 154 kroons to the accumulated losses from previous years.

Signatures of the Management Board and the Supervisory Board to the 2008 Annual Report

The Management Board has prepared the management report and the financial statements of AS LHV Varahaldus for the financial year ended on 31 December 2008.

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

MANAGEMENT BOARD
15.04.2009

Members of the Management Board:

Mihkel Oja / signed /

Kerli Lõhmus / signed /

Rait Kondor / signed /

SUPERVISORY BOARD
19.05.2009

Chairman of the Supervisory Board

Andres Viisemann/ signed /

Members of the Supervisory Board:

Rain Lõhmus / signed /

Erki Kilu / signed /

Charles Smith / signed /

The revenue of AS LHV Varahaldus according to EMTAK 2008

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