AS LHV Pank

Annual Report 2011

(translation of the Estonian original)

Annual report	**01.01.2011 – 31.12.2011**

Legal name	AS LHV Pank
Commercial Registry no.	10539549
Legal address	Tartu mnt. 2, 10145 Tallinn
Phone	(372) 6800400
Fax	(372) 6800410
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
	Raivo Hein
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

The mission of LHV Pank is to foster Estonia's economy and social sustainability. The vision of LHV Pank is to be the primary and preferred bank of the new generation in Estonia. The key values of LHV Pank are direct communication 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 Pank is based on Estonian capital. The bank's customers are individuals, small and medium-sized companies and institutional investors. The branch offices of LHV Pank are located in Tallinn, Tartu, Riga, Vilnius and Helsinki. LHV Pank employs over 100 people. 20 000 private customers and 3900 corporate customers in Estonia, Latvia and Lithuania and 8 000 private customers in Finland use the bank's services. As compared to other banks, LHV Pank is more focused on increasing the assets of customers and managing their investments. LHV Pank is one of the largest brokers on NASDAQ OMX Baltic Stock Exchanges and the largest broker on international markets for the Baltic retail investors.

The goal of LHV Pank is to encourage people to invest their funds and teach customers to better understand the area of investments. For educating investors, the bank has launched an annual series of seminars "Investment School" and a virtual stock game "Börsihai" ("Stock Exchange Shark"). LHV Pank quarterly publish the largest investment magazine in Estonia, "Investeeri" ("Invest"), manages the weekly radio cast "Buum" ("Boom") and operates the most active portal of financial markets. In 2009, LHV Pank and Estonian Business School signed a collaboration agreement, laying down a foundation for earning a bachelor's degree in investment management.

Overview of the year 2011

Business activities

In 2011, fast growth in business of LHV Pank and active development works to launch new products and services continued. After the adoption of the euro at the beginning of the year, a new online bank, home page and financial portal were launched in mid-January. In January, LHV Pank joined the national direct debit system which made it even easier for customers to conclude transactions. In June, the online bank was further improved and it became the sole provider of offering stock trading over the smartphone in Estonia.

In collaboration with Saxo Bank, a new trading platform LHV Broker was introduced to the market in June, primarily aimed at foreign currency and CFD trading, but it also provides access to key stock markets.

From 25 August, the Bank started to issue bank cards to its customers. Bank cards are equipped with the most modern and secure chip technology, and the number of the bank account related to the card is printed on its back side. At the year-end, almost 6,000 bank cards had been issued, over 90% of which were debit-credit cards. In cooperation of the Estonian Football Association and LHV Pank, a new football bank card was issued, the owners of which can support any Estonian football club of their choice or the national team with every purchase they make.

At 25 August, the new customer service office was opened on the ground floor of City Plaza, Tallinn and a marketing campaign for provision of daily banking services in Estonia was launched. After the launch of the marketing campaign, the number of new customers visiting the bank office increased more than four times in September as compared to previous months in 2011. Over the last months of the year, the number of payments by customers reached 20,000 per month and the bank gained monthly about 1,000 new customers.

In February, the Finnish Supervision Authority issued its approval for opening a bank branch in Finland. The branch was established and registered in the Commercial Register of Finland. The Finnish branch of LHV Pank officially launched its operations at 7 March, immediately followed a major marketing campaign introducing LHV trademarks and loan products. In September, a new office was opened in Helsinki and the next marketing campaign for issuing of loans was launched. Prior to this, all processes related to issuing and administration of loans as well as dealing with debtors, criteria for issuing loan and price lists were updated.

Management and the principles of remuneration

The Supervisory Board of LHV Pank has six members: Rain Lõhmus, Andres Viisemann, Tiina Mõis, Hannes Tamjärv, Heldur Meerits and Raivo Hein.

The Management Board of LHV Pank has five members: Erki Kilu, Kerli Lõhmus, Jüri Heero, Erki Kert and Indrek Nuume.

The employees of LHV Pank receive primarily fixed wages and salaries. Only a few employees are paid according to the sales-related performance fee scheme which depends on the fulfilment of the agreed goals. In 2011, incentive related remuneration was neither paid to the persons engaged in the Company's risk management nor to the members of the Management Board. The bank neither pays major termination benefits nor grants non-monetary compensations.

Calculated gross salaries and wages *(EUR thousand)*	**basic salary**	**incentive salary**	**total**	**number of employees**
retail banking	1 195	43	1 238	78
investment banking	445	4	449	22
private and corporate banking	267	6	273	15
support services	481	0	481	27
infotechnology	379	0	379	22
total	**2 767**	**53**	**2 820**	**164**

Business environment

In 2011, the Estonian economy grew at the fastest rate of the last couple of years and the gross domestic product for the year increased by 7.6% primarily due to strong exports of goods and services. In the second half of the year, the domestic demand also stated to pick up, primarily related to the fast growth of post-crisis capital expenditures made by companies for transport means, and machinery and equipment. Private consumption also started to recover in the second half of the year and companies increased their inventories of goods and raw materials.

In the first three quarters of the year, the exporting manufacturing sector made the largest contribution to economic growth. In the second half of the year, and especially in the 4th quarter, the contribution made by the processing industry to economic growth decreased. The additional value created by industries oriented towards the domestic market, such as the construction sector, information and communication, grew significantly.

The tensions arising from the high debt burden of Southern European countries, budget deficits and low competitiveness which escalated in the second half of 2011, have impacted the growth outlook for the whole Europe and the GDP growth in the euro area is forecast to be zero in 2012. Estonian economic growth is also significantly decelerating due to the cooling of the economies of its major export partners and lower economic confidence, and Estonian economic growth is expected to be only a few percentage points in 2012. Along with the escalation of tensions, long-term interest rates have also started to fall at the end of the year.

The contraction of loan volumes which started with the onset of the global financial crisis, continued in the Estonian economy in 2011 and the total balance of loans issued declined by 8.5% in a year. As compared to the peak reached in the third quarter of 2008, the balance of loans issued to businesses was 20.2% lower as at the year-end 2011. The decline in the loan balance of households continued at a slightly lower pace and at the year-end 2011, the balance of loans issued to households was 2.5% lower than a year ago.

Similarly to previous years, the volume of deposits continued to grow in 2011. The balance of deposits of businesses increased by 10.2% and that of households increased by 8.9%. As at the year-end, the total volume of deposits of businesses and households at Estonian commercial banks totalled almost EUR 10.1 billion.

The stock market turnover in the Baltics was the lowest in ten years, reaching only EUR 400 billion. The Tallinn Stock Exchange declined by 24% and the stock exchanges of Riga and Vilnius fell by 5% and 27%, respectively. The magnitude of the decline in European stock markets was also the same and Germany's DAX Index declined by 15% in a year. The U.S. stock markets remained unchanged during 2011. The price of crude oil (Brent) increased by 18% in euros in a year and reached a record level at the beginning of 2012.

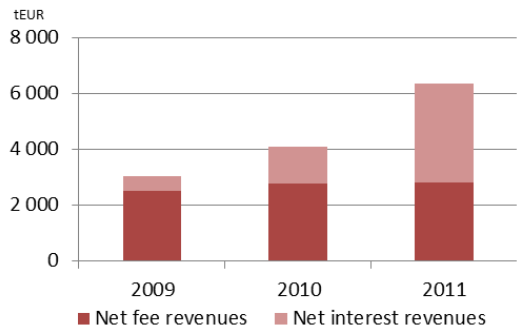
Financial results

At the year-end, the balance sheet total of LHV Pank was EUR 230 million which is 81% higher than at the beginning of the year. The volume of deposits at the bank increased to EUR 209 million, which is 82% higher than a year ago. Of this amount, demand deposits totalled EUR 35 million and term deposits totalled EUR 173 million. The volume of the bank's loan portfolio reached EUR 67 million and that of the bond portfolio reached EUR 76, which is 75% and 345% higher than at the beginning of the year.

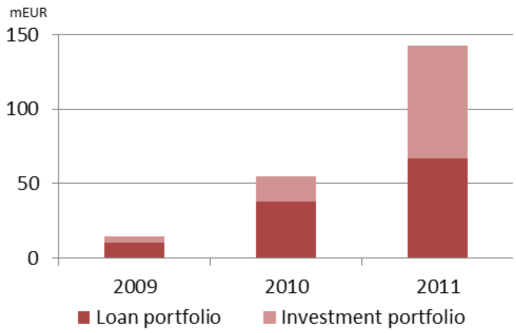
In 2011, LHV Pank's net fee and commission income totalled EUR 2.8 million, net interest income totalled 3.6 million and the financial loss totalled EUR 0.9 million. The bank's net income totalled EUR 5.5 million, expenses totalled EUR 9.4 million, loan provision totalled EUR 2.6 million and the loss totalled EUR 6.5 million.

In 2011, the share capital of LHV Pank was increased three times, in April, July and October. In all cases, the bank's sole shareholder LHV Group made a monetary contribution of EUR 0.4 million, EUR 2.0 million and EUR 8.8 million, respectively, to share capital. The bank's share capital increased to EUR 17.7 million by the year-end 2011. Prior to the increase of the share capital of LHV Pank, the share capital of LHV Group was increased by EUR 12.9 million. During the issue of new shares, current and new investors subscribed for the share in the total amount of EUR 12.9 million, including all members of the Supervisory Board directly or through their holding companies in the amount of EUR 8.3 million, 9 investors in the amount of EUR 4.5 million and 20 employees in the amount of more than EUR 100 thousand. After the increase of share capital, the members of the Supervisory Board own 77%, investors own 21% and employees own 2% of the shares of LHV Group.

EUR million	2011	2010	change
net fee and commission income	2.8	2.8	1%
net interest income	3.6	1.3	168%
net gains from financial assets	-0.9	0.3	-365%
total net operating revenues	5.5	4.4	24%
other income	0.1	0.2	-63%
operating expenses	-9.4	-5.5	70%
loan losses	-2.6	0	
net loss	-6.5	-0.9	



EUR million	2011	2010	change
loan portfolio	66.7	38.1	75%
investment portfolio	75.7	17.1	345%
deposits	209.4	114.8	82%
equity	10.4	5.7	82%
total assets	229.4	126.9	81%
number of customers holding assets in bank	23 979	16 275	47%
number of loan customers in Finland	8 264	7 877	5%
number of employees	144	102	41%



At the year-end, the volume of margin loans backed by securities totalled EUR 7.4 million (annual decrease 18%), the volume of loans issued to corporates totalled EUR 45.4 million (annual growth 166%) and the volume of consumer loans was EUR 14.2 million (annual growth 18%).

In 2011, the number of customers who have deposits at LHV Pank increased by 47% and at the year-end, the number of customers totalled 23 979. From the time of issuing bank cards at the end of August, the bank gained 600 new customers in August and 1 600 new customers in September. Over the last three months of the year, more than 3 000 new customers joined the bank. The volume of customer securities totalled EUR 187 million at the end of 2011.

LHV pank

FINANCIAL STATEMENTS

Statement of comprehensive income

(in thousands of euros)

	Note	2011	2010
Interest income	5	7 590	2 969
Interest expense	5	-4 013	-1 635
Net interest income		**3 577**	**1 334**
Fee and commission income	6	3 541	3 474
Fee and commission expense	6	-752	-711
Net fee and commission income		**2 789**	**2 763**
Net gains/losses from financial assets measured at fair value	10	-915	269
Foreign exchange rate gains		28	66
Net gains/losses from financial assets		**-887**	**335**
Other income		91	248
Operating expenses	7	-9 444	-5 544
Loss before loan losses		**-3 874**	**-864**
Loan losses	12	- 2 607	0
Net loss for the year		**-6 481**	**-864**
Total comprehensive loss for the year		**-6 481**	**-864**

Notes on pages 11 to 43 are an integral part of these consolidated financial statements.

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Kuupäev/date 11.04.12
PricewaterhouseCoopers, Tallinn

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Balance sheet

(in thousands of euros)

	Note	31.12.2011	31.12.2010
Assets			
Balances with credit institutions	8	27 580	20 382
Balances with investment companies	8	4 915	2 934
Balances with central bank	8	52 556	45 431
Financial assets at fair value through profit or loss	10	45 716	17 071
Held-to-maturity financial investments	11	30 001	0
Loans granted	12	66 680	38 073
Receivables from customers	13	154	1 839
Other assets	14	813	757
Tangible assets	15	873	221
Intangible assets	15	503	215
Total assets		**229 791**	**126 923**
Liabilities			
Loans received and deposits from customers	16	213 874	116 971
Financial liabilities at fair value through profit or loss	10	441	0
Accrued expenses and other liabilities	17	1 500	1 048
Deferred income	12	389	185
Provisions	18	13	13
Subordinated loans	19	3 181	3 032
Total liabilities		**219 398**	**121 249**
Shareholders' equity			
Share capital	20	17 700	6 500
Retained earnings/accumulated deficit		-7 307	-826
Total shareholders' equity		**10 393**	**5 674**
Total liabilities and shareholders' equity		**229 791**	**126 923**

Notes on pages 11 to 43 are an integral part of these consolidated financial statements.

LHV pank

Cash flow statement

(in thousands of euros)

	Note	2011	2010
Cash flows from operating activities			
Fee and commission income received		3 660	3 789
Fee and commission expense		-752	-711
Operating and other expenses paid		-9 213	-5 334
Interest received		7 590	2 651
Interest paid		-4 013	-1 635
Cash flows from operating activities before change in operating assets and liabilities		**-2 729**	**-1 240**
Change in operating assets:			
Settlement of currency forward contracts		0	192
Net acquisition/disposal of trading portfolio		24	8
Loans granted and receivables from customers		-29 530	-29 424
Term deposits with other credit institutions		-9 186	5 201
Mandatory reserve at central bank		5 240	-1 365
Security deposits		-35	-576
Other receivables and prepayments		-20	-38
Change in operating liabilities			
Demand deposits of customers		16 761	11 079
Term deposits of customers		77 784	71 440
Loans received		2 505	748
Financial liabilities for trading		441	-8
Other liabilities and deferred income		657	600
Net cash generated from operating activities		**61 912**	**56 617**
Cash flows from investing activities			
Purchase of non-current assets	15	-1 170	-325
Change in investment portfolio		- 59 586	-12 483
Net cash used in investing activities		**-60 756**	**-12 808**
Cash flows from financing activities			
Paid in share capital	20	11 200	0
Subordinated loans received	19	0	3 000
Net cash generated from financing activities		**11 200**	**3 000**
Net increase in cash and cash equivalents		**12 356**	**46 809**
Cash and cash equivalents at the beginning of the year	8	61 720	14 911
Cash and cash equivalents at the end of the year	**8**	**74 076**	**61 720**

Notes on pages 11 to 43 are an integral part of these consolidated financial statements.

Statement of changes in equity

(in thousands of euros)

	Share capital	Reserves	Retained earnings/loss	Total
Balance as at 01.01.2010	**6 391**	**97**	**50**	**6 538**
Changes in statutory reserve capital	0	12	-12	0
Transfers to share capital through bonus issue	109	-109	0	0
Total comprehensive loss for 2010	0	0	-864	-864
Balance as at 31.12.2010	**6 500**	**0**	**-826**	**5 674**
Balance as at 01.01.2011	**6 500**	**0**	**-826**	**5 674**
Paid in share capital	11 200	0	0	11 200
Total comprehensive loss for 2011	0	0	-6 481	-6 481
Balance as at 31.12.2011	**17 700**	**0**	**-7 307**	**10 393**

More detailed information is provided in Note 20.

Notes on pages 11 to 43 are an integral part of these consolidated financial statements.

Notes to the financial statements

NOTE 1 General information

AS LHV Pank (Bank) provides banking, financial advisory and securities brokerage services to customers in Estonia, Latvia, Lithuania and Finland. LHV is a limited liability company incorporated and domiciled in Estonia. The address of its registered office is Tartu mnt. 2, Tallinn. As at 31.12.2011, LHV employed 144 people (as at 31.12.2010: 102 people).

These financial statements were approved by the Management Board on 10 April 2012. The financial statements will be presented for approval to the sole shareholder AS LHV Group. Rain Lõhmus who owns 46% of the voting rights and Andres Viisemann who owns 13% of the voting rights (see also Note 20) have significant influence ower the Company. The financial statements approved by the Management Board shall be authorised for approval by the Supervisory Board and shareholders. The shareholders have the right not to approve the financial statements while the Supervisory Board does not have that right.

NOTE 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation
The financial statements of the Bank for the financial year 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below, such as: "financial assets and liabilities at fair value through profit or loss", including derivatives.

The preparation of 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 2011 and ended at 31 December 2011. The financial figures have been presented in thousands of euros unless referred differently in specific disclosures.

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 financial statements which became mandatory for the Bank's accounting periods beginning on or after 1 January 2011. The overview of these standards and the Bank management's estimate of the potential impact of applying the new standards and interpretations is given below.

a) **Adoption of New or Revised Standards and Interpretations**
The following new or revised standards and interpretations became effective for the Bank from 1 January 2011:

Improvements to International Financial Reporting Standards, issued in May 2010; (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011) – The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement

to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period;
IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity;

The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral is disclosed in Note 3.2 of the financial statements.
There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact to the Bank.

b) New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2012, and which the Bank has not early adopted.

Amendments to IFRS 7 - Disclosures—Offsetting Financial Assets and Financial Liabilities; (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.
IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009 and effective for annual periods beginning on or after 1 January 2015) - IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets, and in December 2011 to change its effective date and add transition disclosures. Key features of the standard 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 payments of principal and interest only (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.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

IFRS 13, Fair Value Measurement; (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Bank is currently assessing the impact of the standard on its financial statements.
Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities; (effective for annual periods beginning on or after 1 January 2014; not yet adopted by the EU). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Bank is currently assessing the impact of the amendments on the Bank and the

timing of its adoption by the Bank.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7; (effective for annual periods beginning on or after 1 January 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Bank is currently assessing the impact of the amended standard on disclosures in its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.2 Changes in presentation and accounting principles

Change in functional and presentation currency

As of 1 January 2011, the Republic of Estonia joined the euro area and adopted euro as a national currency, replacing the Estonian kroon. Therefore, since 1 January 2011 the functional currency of the Bank is euro. The change in the functional currency is applied prospectively. As at 1 January 2011 the Bank recalculated its accounting balances on the basis of exchange rate EUR 1 = EEK 15.6466.

The financial statements for the year 2011 are presented in euros. Comparative figures are recalculated from the Estonian kroon to euro at the exchange rate of EUR 1 = EEK 15.6466. As this exchange rate has also been the fixed exchange rate in the past, no currency translation differences arose.

2.3 Foreign currency translation

(a) Functional and presentation currency

The functional and presentation currency of the Bank is euro.

(a) Foreign currency transactions and balances

Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank (up to 31 December 2010: 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 euros based on the foreign currency exchange rates of the European Central Bank (up to 31 December 2010: 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 "Foreign exchange rate gains/losses". 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 in the statement of comprehensive income under the line "Foreign exchange rate gains/losses".

2.4 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits 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

The Bank classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss
- held-to-maturity financial investments
- loans and receivables

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 at the settlement date in the balance sheet. Financial instruments included in this category are initially recognised 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 gains/losses from financial assets measured at fair value". In accounting for financial assets at fair value through profit or loss, the change in the value of assets between the trade date and the settlement date are taken to profit or loss, similarly to the recognition of similar assets in the ownership of the Bank. Dividend income on financial assets measured at fair value through profit or loss are recognised in the line "Dividend income" of the statement of comprehensive income when the right to receive dividends by the Bank is established.

In case of listed securities (i.e. the securities which have an active market), the current 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.

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 trade 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 the fair value. Otherwise, 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 gains/losses from financial assets measured at fair value". Derivatives are carried 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 the balance sheet are not netted. The Bank does not use hedge accounting to account for its derivative financial instruments.

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 recognised in the profit or loss of the reporting period in the statement of comprehensive income.
Financial assets and financial liabilities are designated at fair value through profit or loss when 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) Held-to-maturity financial investments

Held-to-maturity financial investments are financial instruments quoted in an active market with a fixed due date and which the Management Board of the bank has an intention and opportunity to hold until their maturity. They do not include:
(a) investments designated as fair value through profit or loss upon their initial recognition;
(b) investments classified as available-for-sale assets; and
(c) investments which meet the criteria of loans and receivables.

These investments are initially recognised at fair value, net of all directly and indirectly attributable expenditures and they are subsequently measured at amortised cost using the effective interest rate method. Interest income on held-to-maturity investments is included within interest income in the statement of comprehensive income. Impairment losses are deducted from the carrying amount of the investments and the impairment charge is recorded in the line "Net profit/loss from financial assets" in the statement of comprehensive income.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised in the balance sheet when the cash is paid to the customer and are initially recognised at fair value plus transaction costs, and are derecognised only when they are repaid or written-off. After initial recognition, the Bank recognises loans and receivables at amortised cost (less principal repayments and any potential impairment losses, if necessary) and calculates interest income on the receivable in subsequent periods using the effective interest rate method.

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are immediately transferred from the Bank to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of minimum lease payments (plus any unguaranteed residual value of the leased asset). Each lease payment received from the lessee is allocated between the receivable and finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. When there are service fees attributable to the conclusion of lease agreements, they are included in the calculation of the effective interest rate of the lease and calculation of a finance lease receivable. The basis for assessing receivables is the timely fulfilment of contractual obligations, the estimated market price of the leased asset and excess collateral, the financial position and reliability of the customer. Impairment of receivables is shown as a negative amount within the respective asset category in the balance sheet.

Loan receivables which have been acquired as a pool (portfolio of consumer loans of Finnish individuals) are recognised at fair value at the time of acquisition. When the nominal value of the acquired portfolio is higher than its fair value (i.e. the portfolio is acquired at a discount because some of the credit losses have already been incurred by the time of acquisition), the nominal amount and the respective impairment loss are recognised in the contra-asset account. The portfolio of receivables acquired as a pool is subsequently recognised on the portfolio basis, using the effective interest rate determined at the time of acquisition of the pool of assets. In case the actual cash flows earned on the portfolio differ from the estimated cash flows at the time of acquisition, the difference is discounted at the initial effective interest rate either as an impairment loss of the asset (actual cash flows are lower than estimated ones) or income (actual cash flows are higher than the estimated ones) in the statement of comprehensive income.

Trade receivables arise from provision of services to the customers and are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (less repayments and a possible provision for impairment).

The impairment of loans and receivables is assessed in accordance with the principles described in clause 2.5.

2.6 Impairment of financial assets

The Bank 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.

The Bank assesses the risks conservatively, taking into consideration all known information about the solvency of the debtor and whether there are any objective circumstances indicating impairment (the buyer's financial difficulties, bankruptcy or inability to meet its obligations to the Bank). The Bank assesses individually whether there is any objective evidence of impairment of financial assets which are individually significant, and individually or jointly of those financial assets which are not individually significant.

Corporate loans are assessed individually, based on the financial position of the company, industry situation, reliability of the borrower, the competence of its management, timely fulfilment of obligations laid down in loan contracts and other factors. Margin loans backed by securities both to legal as well as physical persons are assessed individually, using primarily the market value of collateral as the basis. Consumer loans issued to individuals as borrowers are assessed as a group. Physical persons who are borrowers are assessed in terms of their timely fulfilment of obligations, solvency, value of the collateral, age, education, length of employment, savings habits and other factors impacting credit risk.

For the purpose of recognition of group-based impairment losses, financial assets are grouped on the basis of homogeneous credit risk features. Future cash flows of loan groups assessed as a group are assessed on the basis of contractual cash flows of assets and historical losses of these assets. Historical loan losses are adjusted on the basis of current observable data, to account for the effect of conditions at the time, which did not impact that period on which historical losses are based and to eliminate those effects of previous periods, which are currently absent. The Bank regularly reviews future cash flow assessment methods and assumptions, in order to reduce potential differences between loss estimates and actual losses.

For assessment of loan losses, the probability of collecting the loan and interest payments over the coming periods (excluding future loan losses that have not been incurred), 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), which together help assess the amount of a loss incurred of the loan. In case estimating future cash flows cannot be conducted reliably, the market price indication of a comparable loan portfolio is used as an alternative method to assess loan losses. 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.

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 reversal of the impairment loss is recognised as income in the line "Loan losses" in the statement of comprehensive income.

If the loan is uncollectible, it is written off against the respective impairment loss of the loan. Such loans are written off after implementation of all required procedures and determination of the loss amount. The loans, the due dates of which have been extended, are not considered to be past due loans, but regular ones.

Interest income on loans is presented on the statement of comprehensive income under "Interest income".

2.7 Tangible assets

Tangible assets are non-current assets used in the operating activities of the Bank 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 Bank 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% p.a. or amortization throughout the rental period, depending on which is shorter. Depreciation is calculated starting from the month of acquisition until the carrying amount reaches the residual value of the asset. In case the residual value is greater than the carrying amount 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. The Bank performs an impairment test when there are circumstances indicating impairment. 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 an impairment loss in the 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.

2.8 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 is assessed. The Bank 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 recognised 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.

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

Loans received, bonds issued and similar subordinated loans are initially recognised at fair value, less transaction costs (cash received less transaction costs). The subordinated loans are those liabilities, which in case of a termination of a credit institution or declaration of bankruptcy, are settled after the satisfaction of the justifiable claims of other creditors. Other financial liabilities (trade payables, accrued expenses and other borrowings) are initially recognised at fair value.

Recognition a financial liability (derivative) at fair value through profit or loss is disclosed under accounting policy 2.5. a). 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 expenses".

2.10 Financial guarantees
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specific 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 at the date the guarantee was given. Subsequent to initial recognition, the liabilities under such guarantees are recognised at the outstanding value of the guarantee stated as the higher of unamortised fees and a 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 at the date it becomes evident that it is probable that the guarantee is to be disbursed.

2.10 Payables to employees
Payables to employees include a 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 a 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 statement of comprehensive income.

Social tax includes payments to the state pension fund. Bank has no existing legal nor factual obligations to make pension or similar payments supplementary to social tax.

2.11 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, the realisation of which is probable (it is more likely than not that an outflow of resources will be required to settle the obligation) and the amount of which can reliably be estimated but for which the 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 an expense from the change in the carrying amount of provisions are included within expenses in the accounting period. Provisions are not set up to cover future losses.

When it is probable that a provision is will be realised 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 contingent or existing liabilities (guarantees, other than financial guarantees, and other commitments) the realisation of which is less probable than non-realisation or related 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).

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

Financial assets from which resources are expected to flow to the Bank within 12 months are recognised as current assets. The portion of financial assets with expected inflows later than 12 months after the balance sheet date is recognised as non-current assets.

Financial liabilities are classified as current when they are due within twelve months after the balance sheet date or if the Company 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 portion is separately disclosed in respective disclosure to these financial statements.

2.13 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 Bank, the amount of the revenue can be measured reliably and services were rendered by the Bank. Revenue from services rendered in the ordinary course of business by the Bank is recognised at the fair value of the fee received or receivable. Expenses are recognised when the Bank has incurred an obligation for the respective expense and/or the Bank has received goods or services, and the latter occurs at an earlier data.

Fee and commission income (incl. custody and portfolio management fees) are recognised on an accrual basis when the service has been provided and the Company 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. Commissions and fees arising from provision of advisory services to third parties (purchase or sale of businesses, acquisitions, etc.) are generally recognised upon completion of the underlying transaction or when a service is provided over a longer period of time, based on the stage of completion method. Portfolio management, other consultation fees and management fees related to investment funds are recognised according to the agreement, usually over the period during which the service is provided. The same principle is applied to wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled or based on the stage of completion. Other one-time service revenues and other revenues are recognised on an accrual basis at the moment of executing the respective transaction.

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

Interest income and expense is recognised in the statement of comprehensive income for all financial instruments carried at amortised cost using the effective interest rate method or for bonds measured at fair value through profit or loss. Amortisation of transaction costs of bonds measured at fair value through profit or loss is not recognised as interest income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and 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 Bank 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 Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flows 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 recognised 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.

2.14 Asset management services

The Bank is engaged in providing asset management services. Such assets that have been given to the Bank to be managed by third parties and that the Bank 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 Bank.

2.15 Leases - Bank 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 and 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 Company 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 Bank primarily uses an operating lease for renting the premises. A rental expense is recognised in the statement of comprehensive income as "Operating expenses".

2.16 Taxation and deferred income tax

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying amounts 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 the 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.

2.17 Offsetting

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

2.18 Statutory reserve capital

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

NOTE 3 Risk management

The principles of identification, management and control of risks at LHV Pank are set out in the policies and procedures approved by the Supervisory Board and daily risk management is organised 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 the 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 regularly reviewed at least once a year and updated in case of a need.

3.1 Capital management

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

- ✓ comply with capital requirements as established by supervision authorities;
- ✓ ensure continuity of the Bank's business and ability to generate return 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 about the compliance with prudential and capital requirements for covering the risks are submitted monthly to supervision authorities. LHV Pank does not use internal rating based (IRB) models for calculating capital requirements.

Capital adequacy

Capital base	**31.12.2011**	**31.12.2010**
Paid-in share capital	17 700	6 500
Accumulated deficit	-826	37
Intangible assets (subtracted)	-503	-215
Net loss for accounting period	- 6 481	-863
Total Tier 1 capital	**9 892**	**5 459**
Subordinated loans	3 000	3 032
Subordinated loans and preference shares which exceed the limits	0	0
Total Tier 2 capital	**3 000**	**2 729**
Net own funds for capital adequacy calculation	**12 892**	**8 188**
Capital requirements		
Central government and central banks under standard method	181	0
Credit institutions and investment companies under standard method	846	821
Companies under standard method	2 748	0
Retail claims under standard method	2 186	2 509
Overdue claims under standard method	451	0
Other assets under standard method	177	292
Total capital requirements for covering the credit risk and counterparty credit risk	**6 588**	**3 623**
Capital requirement against foreign currency risk	57	44
Capital requirement against interest position risk	1 085	438
Capital requirement against equity portfolio risks	6	9
Capital requirement for operational risk under base method	530	587
Total capital requirements for adequacy calculation	**8 266**	**4 700**
Capital adequacy (%)	**15.60**	**17.42**
Tier 1 Capital Ratio (%)	**11.97**	**11.61**

The net capital 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). Capital adequacy level, i.e. the ratio of the bank's own funds to risk-weighted assets shall be at least 10%. Each year, the Bank's Supervisory Board confirms the goals of capitalization and the target level of capital adequacy to cover potential risks arising from fast growth. Each year, an internal capital adequacy evaluation process is performed, the goal of which is to identify potential capital needs in addition to regulatory capital requirements.

3.2 Credit risk

Credit risk is the potential loss which would arise from the counterparty's inability to meet its obligations to the Bank. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks and other financial institutions, bonds, 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.

3.2.1 Distribution of credit risks

LHV Pank classifies the financial assets exposed to credit risk in the following key categories:

a) bonds
b) loans and advances to credit institutions and investment companies (referred to as "banks" in the tables)
c) leverage loans (margin loans backed by securities)
d) corporate loans
e) consumer loans with cash flows as collateral

a) Bonds

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

The bank's debt securities according to ratings given by Standard & Poor's or equivalent:

Rating	31.12.2011	31.12.2010
AAA	4 091	0
AA- to AA+	11 419	3 975
A- to A+	32 045	7 402
BBB- to BBB+	19 118	2 528
B- to BB+	4 418	3 121
Without a rating	4 611	0
Total (Note 10 and 11)	**75 702**	**17 026**

b) Loans and advances to credit institutions and investment companies

Management estimates that the credit risk exposure from cash and cash equivalents, held at the central bank, other correspondent banks and investment institutions has inherently low credit risk. The funds of LHV Pank according to ratings given by Standard & Poor's or equivalent (central bank without a rating) are held as follows:

Rating	31.12.2011	31.12.2010
Central bank	52 556	45 431
AA- to AA+	3 449	4 803
A- to A+	28 530	17 701
Lower than A-	0	0
Without a rating	516	813
Total (Note 8)	**85 051**	**68 747**

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c) Leverage loans

LHV Pank gives margin loans backed by securities to its customers, i.e. financial leverage. The maximum amount of the loan depends on the market value of the assets held as collateral in the investment account, and on the general limit set by LHV Pank which is currently 100 thousand euros (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 Credit Committee. The list of acceptable marketable financial instruments and the levels of the required collateral are published on LHV Pank's 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. The Bank has set sufficiently conservative limits to the ratio of the loan and the collateral assets value. When the value of 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.

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

d) Corporate loans

Since 2009, LHV Pank also issues corporate 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. In general, the pledged assets need to be secured, the life of the collateral needs to be longer than the due date of the loan and the market value of the collateral needs to exceed the outstanding loan balance. After issuing the loan, follow-up monitoring of each customer's financial position is performed at least once a quarter. Problem loans are monitored continuously.

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 amount of the loan principal and interest payments. Due to the small size of the bank's corporate loan portfolio, LHV Pank evaluates these loans individually. In case of individual evaluation, the amount of the impairment loss is the difference between the residual value of the receivable and expected cash flows discounted at the effective interest rate. In 2011 and 2010, no impairment losses were recognised for corporate loans. Furthermore, as at 31.12.2011 as well as at 31.12.2010, there were no past due loan contracts, therefore the impact of financial collaterals on such loans has not been disclosed in more detail.

e) Consumer loans

At 28.06.2010, LHV Pank purchased a consumer loan portfolio of Finnish individuals with a 20% discount from its nominal value. The majority of the portfolio was past due and submitted to the bailiff for proceedings. Over the following months, LHV Pank upgraded the credit scoring model for issuing the loans of the acquired portfolio that had been in use previously, and started issuing new loans in September 2010. In addition to the customer's previous payment behaviour and income, the new credit scoring model also takes into account other statistical parameters, which have previously been collected by types of customer in order to evaluate potential disruptions in the payment behaviour of the scoring group. Different maximum limits for the loans to be issued have been set for various scoring groups. Consumer loans are issued only to individuals and using cash flows as collateral.

Consumer loans are homogeneous loans and they are not assessed individually, but they are provisioned on a group basis. For the purpose of recognition of group-based impairment losses, the receivables are grouped into subclasses on the basis of homogeneous credit risk features, considering customers' payment practice, past due time and the time passed from initiation of proceedings by the bailiff. For the receivables that have been grouped, the amount of the impairment loss is the multiple of the carrying amount of the receivables in the group and the group's percentage rate of impairment loss. The model for assessment of homogeneous receivables and setting up of provisions currently in use at the bank was developed in the second half of 2010 and renewed in 2011. As at 31.12.2011, the group-based impairment reserve makes up 19% of consumer loans and the related interest receivables (31.12.2010 18%). In 2010 and 2011, receivables, in respect of which the bailiff has sent a notice regarding the termination of the proceedings, have been written off the balance sheet against the impairment loss of the acquired portfolio.

The bank accounts for the acquired loan portfolio on a gross basis, i.e. showing contractual receivables from customers at nominal value, considering the actual effective interest rate of the contract and the impairment loss in the contra asset account.

3.2.2 Credit quality

Maximum credit risk exposure	**31.12.2011**	**31.12.2010**
Balances with banks and investment companies (Note 8)	85 051	68 747
Other financial assets designated at fair value (bonds) (Note 10)	45 700	17 026
Held-to-maturity financial investments (Note 11)	30 001	0
Loans and advances to customers (Note 12)	66 680	38 073
Other receivables from customers (Note 13)	154	1 839
Other assets (Note 14)	9	13
Total assets	**227 595**	**125 699**
Off-balance sheet liabilities (Note 23)	7 338	3 517
Total maximum credit risk exposure	**234 913**	**129 216**

Loans and advances to customers and banks as at 31.12.2011	Receivables not impaired and not past due	Receivables impaired and not past due	Receivables impaired and past due	**Total**	Impair-ment booked*	**Net**
Loans to legal person						
Leverage loans	4 850	0	0	4 950	0	**4 850**
Corporate loans	45 690	0	0	45 690	0	**45 690**
Finance lease	46	0	0	46	0	**46**
Loans to individuals						
Leverage loans	3 230	0	0	3 230		**3 230**
Consumer loans	0	4 248	11 464	15 712	-3 042	**12 670**
Housing loans and finance lease	128	0	0	128	0	**128**
Credit card loans	66	0	0	66	0	**66**
Total loans and advances to customers	**54 010**	**4 248**	**11 464**	**69 722**	**-3 042**	**66 680**
Loans and advances to banks	85 051	0	0	85 051	0	**85 051**
Total (Notes 8 and 12)	**139 061**	**4 248**	**11 464**	**154 773**	**-3 042**	**151 731**

* Impairment of a homogeneous portfolio, there are no receivables that have been impaired individually.

Distribution of loans and advances to customers as at 31.12.2011 by internal ratings	No past due payments, receivables not impaired	No past due payments, receivables impaired	Payments past due, receivables impaired
Excellent	8 078	0	0
Good and very good	11 582	4 248	0
Satisfactory	27 480	0	2 981
Weak or doubtful	6 870	0	8 483
Total	**54 010**	**4 248**	**11 464**

Loans and advances to customers and banks as at 31.12.2010	Receivables not impaired and not past due	Receivables impaired and not past due	Receivables impaired and past due	**Total**	Impair-ment booked*	**Net**
Loans to legal person						
Leverage loans	5 024	0	0	5 024	0	**5 024**
Corporate loans	17 163	0	0	17 163	0	**17 163**
Finance lease	48	0	0	48	0	**48**
Loans to individuals						
Leverage loans	4 589	0	0	4 589		**4 589**
Consumer loans	0	2 813	10 740	13 553	-2 439	**11 113**
Housing loans and finance lease	135	0	0	135	0	**135**
Total loans and advances to customers	**26 960**	**2 813**	**10 740**	**40 513**	**-2 439**	**38 073**
Loans and advances to banks	68 747	0	0	68 747	0	68 747
Total (Notes 8 and 12)	**95 708**	**2 813**	**10 740**	**109 260**	**-2 439**	**106 821**

* Impairment of a homogeneous portfolio, there are no receivables that have been impaired individually.

Distribution of loans and advances to customers as at 31.12.2011 by internal ratings	No past due payments, receivables not impaired	No past due payments, receivables impaired	Payments past due, receivables impaired
Excellent	9 614	0	0
Good and very good	1 948	2 813	0
Satisfactory	8 946	0	2 899
Weak or doubtful	6 452	0	7 841
Total	**26 960**	**2 813**	**10 740**

Distribution of internal ratings:

- Excellent – margin loans backed by securities and corporate loans with very low business risk.
- Good and very good – corporate loans with lower business risks and consumer loans, with no past due payments.
- Satisfactory – corporate loans with average business risk and consumer loans up to 60 days past due.
- Weak or doubtful – all remaining consumer loans (past due more than 60 days and portfolio in proceedings by the bailiff) and corporate loans carrying high business risk.

In addition to the loans granted, loan contracts have been concluded and signed whereby the unused loan commitment was EUR 4 911 thousand as at 31.12.2011 (as at 31.12.2010, EUR 2 828 thousand), see also Note 23. There are no restructured loans and receivables.

A portfolio of consumer loans of individuals makes up a quarter of the loan portfolio of LHV Pank, which is unsecured (issued for cash flows).

Structure of collateral of secured leveraged and corporate loans	**2011**	**2010**
Listed securities	12%	33%
Unlisted equity securities	10%	15%
Mortgages	24%	26%
Surety of KredEx and Rural Development Foundation	16%	11%
Pledges of rights of claim or deposit	11%	9%
Others	28%	6%

Loans, for which interest or principal payments had not been paid as at 31.12.2011, are divided to past due categories according to the past due time from the last scheduled payment as follows:

Structure of loans impaired according to past due time	31.12.2011	Impairment	Net
No past due payments	4 248	-45	4 203
Past due receivables	11 464	-2 997	8 467
1-30 days	*2 059*	*-56*	*2 003*
31-60 days	*922*	*-26*	*896*
61-90 days	*422*	*-39*	*383*
91-180 days	*615*	*-71*	*544*
181-360 days	*1 079*	*-129*	*950*
More than 360 days	*6 367*	*-2 676*	*3 691*
Total	**15 712**	**-3 042**	**12 670**

Structure of loans impaired according to past due time	31.12.2010	Impairment	Net
No past due payments	2 813	-21	2 792
Past due receivables	10 740	-2 418	8 321
1-30 days	*1 245*	*-24*	*1 221*
31-60 days	*597*	*-18*	*579*
61-90 days	*276*	*-16*	*259*
91-180 days	*528*	*-53*	*475*
181-360 days	*1 447*	*-284*	*1 163*
More than 360 days	*6 647*	*-2 024*	*4 623*
Total	**13 553**	**-2 439**	**11 113**

As at 31.12.2011 as well as at 31.12.2010, there were no other past due loans apart from consumer loans.

Credit quality of other receivables	31.12.2011	31.12.2010
Receivables not impaired and not past due	146	183
Receivables past due (not impaired)	8	5
incl. receivables from individuals	8	2
incl. receivables from legal persons	0	3
Impaired receivables acquired at net value	0	1 651
incl. receivables from individuals	0	1 651
Total (Note 13)	**154**	**1 839**

Credit quality of off-balance sheet liabilities	31.12.2011	31.12.2010
Excellent	0	0
Good and very good	2 125	1 675
Satisfactory	4 503	1 507
Weak or doubtful	710	336
Total (Note 23)	**7 338**	**3 517**

3.3 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. 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. The bank does not hold an active trading portfolio and the liquidity portfolio is very short-term, therefore, there is no major risk due to trading and the VaR method is primarily used for assessment of collateral value of margin loans.

3.3.1 Foreign currency risk

Foreign currency risk may arise from acquisition of securities mostly denominated in foreign currencies or foreign currency receivables and liabilities. The 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, such as 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, Latvian lats, Lithuanian litas) cannot exceed 5% of net own funds
- Open currency positions of the Latvian lats and Lithuanian litas are without limits, as the litas is 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 and SEK.

Open currency exposures

The following tables present the risks arising from open currency exposures. Assets and liabilities denominated in foreign currencies have been presented in EUR 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 bank at the balance sheet date do not significantly differ from the average exposure during the year.

As at 31.12.2011	EUR	LTL	LVL	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and inv. companies	78 978	636	598	297	3 324	1 218	85 051
Securities	74 362	0	0	0	1 355	0	75 717
Loans granted	64 795	162	380	320	961	61	66 680
Receivables from customers	118	0	0	0	7	29	154
Other assets	216	0	0	0	595	1	813
Total assets bearing currency risk *	**218 468**	**798**	**979**	**618**	**6 242**	**1 310**	**228 415**
Liabilities bearing currency risk							
Loans received and deposits from customers	208 887	602	687	409	5 219	1 251	217 055
Deferred income	389	0	0	0	0	0	389
Accrued expenses and other liabilities	1 297	-2	9	191	1	445	1 941
Total liabilities bearing currency risk *	**210 574**	**600**	**696**	**600**	**5 219**	**1 696**	**219 385**
Off balance sheet contingencies at contractual amounts *	1 000	0	0	0	0	0	1 000
Off balance sheet commitments at contractual amounts *	0	0	0	0	1 000	0	1 000
Open foreign currency position	**8 895**	**199**	**282**	**18**	**22**	**-386**	**9 030**

* the balances of total assets and total liabilities bearing currency risk above do not 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 9); also, the table does not include the assets (tangible and intangible assets) and liabilities (provisions) not bearing currency risk and equity.

As at 31.12.2010	EUR	LTL	LVL	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and inv. companies	67 124	454	50	144	685	291	68 747
Securities	15 053	0	18	1	1 998	1	17 071
Loans granted	35 653	567	197	85	1 375	196	38 073
Receivables from customers	1 778	1	1	0	41	18	1 839
Other assets	179	0	0	0	576	1	757
Total assets bearing currency risk *	**119 787**	**1 022**	**266**	**230**	**4 675**	**507**	**126 487**
Liabilities bearing currency risk							
Loans received and deposits from customers	115 675	655	126	321	2 831	395	120 003
Deferred income	185	0	0	0	0	0	185
Accrued expenses and other liabilities	1 007	24	16	0	1	0	1 048
Total liabilities bearing currency risk *	**116 867**	**679**	**142**	**321**	**2 832**	**395**	**121 236**
Off balance sheet contingencies at contractual amounts *	1 875	0	0	0	0	0	1 875
Off balance sheet commitments at contractual amounts *	0	0	0	0	1 875	0	1 875
Open foreign currency position	**4 795**	**343**	**124**	**-91**	**-32**	**112**	**5 251**

* the balances of total assets and total liabilities bearing currency risk above do not 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 9); also, the table does not include the assets (tangible and intangible assets) and liabilities (provisions) not bearing currency 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	Change	2011	Change	2010
USD exchange rate	10%	2	10%	-3
	-10%	-2	-10%	3
SEK exchange rate	10%	2	10%	-9
	-10%	-2	-10%	9

3.3.2 Price risk

Financial instruments bearing price risk at LHV Pank are securities held in the trading portfolio and investment portfolio (Note 10). 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 the 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	Change	2011	Change	2010
Shares	20%	0	20%	6
	-20%	0	-20%	-6
Fund units	15%	2	15%	2
	-15%	-2	-15%	-2
Bonds	3.6%	1 648	5%	851
	-3.6%	-1 648	-5%	-851

CBOE Nasdaq Index VIX, which measures the volatility of stock markets, has continued to fall as compared to previous years and fluctuates at around 15-20%, which has been used to test the effect of changes on the market value of equity positions. The bank does not hold significant amounts of shares and fund in its position, due to which the sensitivity to change in the market value of these positions is marginal. The bank's bond portfolio recognised at the market price is short-term and of high quality, therefore, the effect of the changes in market risk premiums on the market value of the bond portfolio should remain at around 3.6%.

3.3.3 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 economical 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 up to 3.7% in 2011 (up to 4.5% in 2010). The interest rate on loans granted was between 3.2%-24% in 2011 (4.5-23% in 2010). The interest rates for leverage loans granted are changed at most once a month according to fluctuations in market interest rates. In 2011, the interest rate on loans received for specific purposes was 1.5% (2010: the same) and the effective interest rate of subordinated loans was 9% (2010: the same).

As at 31.12.2011, an increase of 1% in interest rates would affect the Bank's annual net interest income by EUR -31 thousand (2010: EUR +16 thousand). A 1% increase in market interest rates would lower the Bank's economical value by EUR -373 thousand (2010: EUR -191 thousand). The effect on the bank's economical value is negative due to the longer than average duration of interest-earning assets than the average duration of interest-bearing liabilities.

The table below shows the structure of the interest-earning assets and interest-bearing liabilities of LHV Pank according to the recalculation dates of interest rates at the principal amounts of receivables and liabilities. Leveraged loans are treated as a one-month product maturing at the next interest fixing date.

As at 31.12.2011	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with other banks and inv. companies	75 859	9 000	0	0	**84 859**
Financial investments and securities	29 960	13 741	22 425	9 332	**75 458**
Loans granted	17 562	18 088	24 907	5 259	**65 816**
Total	**123 381**	**40 829**	**47 332**	**14 591**	**226 133**
Interest-bearing liabilities					
Loans received and deposits from customers	114 215	77 826	16 532	3 818	**212 391**
Subordinated loans *	0	3 000	0	0	**3 000**
Total	**114 215**	**80 826**	**16 532**	**3 818**	**215 391**
Interest pricing gap	**9 166**	**-39 997**	**30 800**	**10 773**	**10 742**

*The contractual term of subordinated loans is 7 years, but after two years from receiving the loan, interest rate will be changed annually.

As at 31.12.2010	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with other banks and inv. companies	67 869	0	0	0	**67 869**
Financial investments and securities	0	596	11 412	4 004	**16 012**
Loans granted	13 263	8 778	12 569	2 960	**37 570**
Total	**81 132**	**9 374**	**23 980**	**6 964**	**121 450**
Interest-bearing liabilities					
Loans received and deposits from customers	64 996	43 061	6 417	1 761	**116 234**
Subordinated loans *	0	0	3 000	0	**3 000**
Total	**64 996**	**43 061**	**9 417**	**1 761**	**119 234**
Interest pricing gap	**16 136**	**-33 687**	**14 563**	**5 204**	**2 216**

*The contractual term of subordinated loans is 7 years, but after two years from receiving the loan, interest rate will be changed annually.

3.4 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, the concentration of bank's liabilities by maturities is also monitored. As at 31.12.2011 and 31.12.2010, the Bank 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 the 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).

Explanation of the fair value of these financial assets and liabilities is presented in Note 3.6. LHV Pank has a sufficient supply of liquid resources to enable issuing standby loans. To enable covering unexpected monetary outflows, it is possible to sell security investments, but the bank does not hold them for the purpose of ensuring liquidity, instead, they are held for investing purposes. Furthermore, the majority of the financial investments and securities in the Bank's bond portfolio can be used as collateral to raise a short-term loan from the central bank.

As at 31.12.2011	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	115 653	81 341	19 129	4 285	**220 408**
Subordinated loans	0	150	1 041	3 294	**4 485**
Other liabilities	1 472	0	13	0	**1 485**
Unused loan commitments	1 533	3 078	300	0	**4 911**
Financial guarantees by contractual amounts	396	1 714	297	0	**2 407**
Interest rate swaps	0	441	0	0	**441**
Total liabilities	**119 054**	**86 574**	**20 780**	**7 579**	**234 546**
Assets held for managing liquidity risk by contractual maturity dates					
Balances with other banks and inv. companies	75 947	9 187	0	0	**85 134**
Financial investments and securities	8 309	22 339	44 849	7 616	**83 113**
Loans granted	6 003	16 974	38 450	11 125	**72 552**
Receivables from customers	154	0	0	0	**154**
Total assets held for managing liquidity risk	**90 413**	**48 500**	**83 299**	**18 741**	**240 953**
Maturity gap from assets and liabilities	**-28 641**	**-38 074**	**62 519**	**11 162**	**7 407**

As at 31.12.2010	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	70 477	39 506	7 780	589	**118 351**
Subordinated loans	0	150	1 005	3 570	**4 725**
Other liabilities	1 040	0	13	0	**1 053**
Unused loan commitments	2 828	0	0	0	**2 828**
Financial guarantees by contractual amounts	443	179	67	0	**689**
Total liabilities	**74 788**	**39 835**	**8 864**	**4 159**	**127 646**
Assets held for managing liquidity risk by contractual maturity dates					
Balances with other banks and inv. companies	68 747	0	0	0	**68 747**
Financial investments and securities	294	1 294	12 941	5 596	**20 126**
Loans granted	11 768	10 301	14 742	5 271	**42 082**
Receivables from customers	601	413	825	0	**1 839**
Total assets held for managing liquidity risk	**81 410**	**12 009**	**28 508**	**10 867**	**132 794**
Maturity gap from assets and liabilities	**6 622**	**-27 826**	**19 644**	**6 708**	**5 149**

3.5 Risk concentration

Distribution of assets and liabilities by geographic region is presented below:

As at 31.12.2011	Estonia	Latvia	Lithuania	Sweden	Finland	Denmark	USA	Other	Total
Asset distribution by geography									
Balances with banks and inv. companies	59 191	862	1 704	55	3 502	6 013	4 432	9 292	**85 051**
Financial investments, incl. derivatives	3 558	1 546	1 747	6 092	7 080	2 118	6 823	46 753	**75 717**
Loans granted	49 344	664	864	0	12 668	0	0	3 140	**66 680**
Receivables from customers	146	3	5	0	0	0	0	0	**154**
Other assets	189	5	3	0	0	0	615	0	**812**
Tangible and intangible assets	1 111	1	0	0	264	0	0	0	**1 376**
Total assets	**113 539**	**3 081**	**4 323**	**6 147**	**23 514**	**8 131**	**11 870**	**59 186**	**229 791**
Distribution of liabilities by geography									
Loans and deposits from customers	203 994	1 151	1 209	22	502	0	74	6 922	**213 874**
Subordinated loans	3 181	0	0	0	0	0	0	0	**3 181**
Other liabilities	2 081	18	38	0	204	0	1	1	**2 343**
Total liabilities	**209 256**	**1 169**	**1 247**	**22**	**706**	**0**	**75**	**6 923**	**219 398**

Unused loan commitments to Estonian residents amount to EUR 4 911 thousand (2010: EUR 2 828 thousand).

As at 31.12.2010	Estonia	Latvia	Lithuania	Sweden	Finland	Denmark	USA	Other	Total
Asset distribution by geography									
Balances with banks and inv. companies	52 122	141	1 244	49	4 211	6 798	2 515	1 666	**68 747**
Financial investments, incl. derivatives	1 374	1 597	1 323	2 009	2 145	2 702	422	5 499	**17 071**
Loans granted	24 479	803	1 392	0	11 113	0	0	287	**38 073**
Receivables from customers	161	8	9	0	1 651	0	0	10	**1 839**
Other assets	172	5	3	0	0	0	576	0	**749**
Tangible and intangible assets	432	4	0	0	0	0	0	0	**436**
Total assets	**78 710**	**2 558**	**3 971**	**2 058**	**19 866**	**9 500**	**3 513**	**7 462**	**126 923**
Distribution of liabilities by geography									
Loans and deposits from customers	115 039	318	874	0	38	7	295	400	**116 971**
Subordinated loans	3 032	0	0	0	0	0	0	0	**3 032**
Other liabilities	1 081	18	64	0	83	0	0	0	**1 242**
Total liabilities	**122 179**	**336**	**938**	**0**	**121**	**7**	**295**	**402**	**121 249**

As at 31.12.2011, the loans issued to 8 customers had a large risk exposure (i.e. more than 10% of the net own funds (NOF) of LHV Pank either individually or via group risk), totalling 103% of NOF. The bank has invested in the bonds of 10 issuers with a large risk exposure, totalling 139% of NOF. As at 31.12.2010, 7 loans issued with a large risk exposure totalled 87% of NOF. As at 31.12.2010, the bank did not have a large risk exposure to the issuers of bonds.

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Distribution of loans (corporate loans, consumer loans and leverage loans) granted by industry (gross):

	31.12.2011	%	31.12.2010	%
Individuals	21 436	30.74%	18 277	45.12%
Manufacturing	6 584	9.44%	4 569	11.28%
Wholesale and retail	5 870	8.42%	3 149	7.77%
Administration and support services	3 415	4.90%	2 265	5.59%
Health and social care	2 818	4.04%	1 292	3.19%
Real estate	1 828	2.62%	2 246	5.54%
Construction	1 595	2.29%	1 377	3.40%
Professional, scientific and technical activities	1 505	2.16%	1 982	4.89%
Financial services	1 018	1.46%	2 665	6.58%
Accommodation and catering	917	1.32%	636	1.57%
Information and communication	574	0.82%	849	2.10%
Other services	1 241	1.78%	356	0.88%
Other areas at activities	20 921	30.01%	849	2.10%
Total	**69 722**	**100%**	**40 512**	**100%**

3.6 Fair value of financial assets and financial liabilities

The Management Board of LHV Pank has assessed the fair value of assets and liabilities carried at amortised cost in the balance sheet. For identification of fair value, the future cash flows are discounted on the basis of the market interest yield curve.

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 corporate loans is too small due to the bank's early stage of business, each customer is reviewed separately and interest rates vary on the basis of customer's risk level, as a result of which a homogeneous interest rate based on similar transactions cannot be used for discounting the future cash flows of these loans. As the bank competes with other credit institutions when issuing loans and offers higher interest rates for customers than its competitors, the Management Board estimates that the loans have been issued at market conditions and their fair value is definitely not lower than their carrying amount as at 31.12.2011 and 31.12.2010. The effective interest rate of consumer loans issued is at the same level as the interest rate of the loan product offered in the market and it can be stated that the carrying amount of loans does not significantly differ from their fair value (at 31.12.2010, fair value was 2.37% lower).

As at 31.12.2011, the fair value of held-to-maturity financial investments was EUR 631 thousand lower than their carrying amount, taking into consideration the quoted market price for respective instruments. One month after the balance sheet date, the fair value of instruments did not differ from their carrying amount.

Trade receivables (other than the receivables related to consumer loans, which have been included within loans for assessment of fair value), and accrued expenses and other liabilities have been incurred in the course of ordinary business and are payable in the short-term, therefore, the management estimates that their fair value does not significantly differ from their carrying amount. These receivables and liabilities are interest-free.

Customer deposits with fixed interest rates are primarily short-term and market conditions are followed when pricing deposits. In 2011, the market yield curve did not change significantly; as a result, the fair value of deposits determined using the discounted future cash flows did not significantly differ from their carrying amount.

For the term structure of financial assets and financial liabilities, refer to Note 3.4.

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

	Level 1	Level 2	Level 3	31.12.2011	Level 1	Level 2	Level 3	31.12.2010
Financial assets at fair value through profit or loss								
shares	2	0	0	**2**	29	0	0	**29**
fund units	14	0	0	**14**	16	0	0	**16**
bonds	45 700	0	0	**45 700**	17 026	0	0	**17 026**
Total financial assets	**45 716**	**0**	**0**	**45 716**	**17 071**	**0**	**0**	**17 071**
Financial liabilities at fair value through profit or loss								
interest rate swaps	441	0	0	**441**	0	0	0	**0**
Total financial liabilities	**441**	**0**	**0**	**441**	**0**	**0**	**0**	**0**

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 (e.g. discounted cash flow method) with judgemental inputs

3.7 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 of cases collected into the database enables LHV Pank to identify the flaws in rules of procedure, 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 the risks of non-compliance of the activities of LHV Pank with 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.

NOTE 4 Significant management estimates and assumptions

In accordance with IFRS, several financial figures presented in the 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 applied to valuation of loans, receivables and investments (Notes 3.2, 8, 10, 11 and 12).

According to IAS 39, the Bank classifies a portion of its bond portfolio as a held-to-maturity portfolio. When making investments, the Bank evaluates the intention of holding the respective investment until maturity. When the Bank is unable to hold the investment until maturity for any reason whatsoever, the total portfolio classified in this category shall be reclassified as a held-for-sale portfolio, investments shall be valued at fair value instead of amortised cost and the difference between the current carrying amount and fair value is recognised in the statement of comprehensive income.

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 prospectively in the statement of comprehensive income.

In 2011, the Bank changed the presentation of the income statement. Interest income on bonds in the trading portfolio are now included in interest income, they had previously been included within finance income. Revenue from customers' foreign currency translation is now included within fee and commission income, previously they had been included in finance income. The comparatives for 2010 have been r accordingly. The changes have no effect on the results of the Bank.

NOTE 5 Net interest income

Interest income	**2011**	**2010**
From balances with credit institutions and investment companies	277	285
From balances with central bank	373	46
From bonds	1 694	318
incl. bonds held-to-maturity	*603*	*0*
incl. bonds at fair value through profit or loss	*1 091*	*318*
Finance lease	12	6
Margin loans and lending of securities (Note 12)	1 225	705
Consumer loans (Note 12)	1 652	637
Other loans (Note 12)	2 357	973
incl. loans to related parties (Note 25)	0	9
Total	**7 590**	**2 969**
Interest costs		
Loans received and deposits from customers (Note 16)	-4 013	-1 635
incl. loans from related parties (Note 25)	-299	-34
Total	**-4 013**	**-1 635**
Net interest income	**3 577**	**1 334**

Interest income of loans by customer location:	**2011**	**2010**
Estonia	3 256	1 466
Finland	1 652	637
Latvia	64	40
Lithuania	274	177
Total	**5 246**	**2 320**

NOTE 6 Net fee and commission income

Fee and commission income	2011	2010
Financial advisory services	60	31
Security brokerage and commissions	2 488	2 461
incl. related parties (Note 25)	*13*	*14*
Asset management and similar fees	585	572
incl. related parties (Note 25)	*0*	*3*
Other fee and commission income	408	410
Total	**3 541**	**3 474**
Fee and commission expense		
Financial advisory and other similar services purchased	-12	-1
Security brokerage and commissions paid	-497	-586
Collection costs	-243	-124
Total	**-752**	**-711**
Net fee and commission income	**2 789**	**2 763**

Fee and commission income by customer location:	2011	2010
Estonia	2 810	2 709
Finland	113	124
Latvia	145	173
Lithuania	473	468
Total	**3 541**	**3 474**

NOTE 7 Operating expenses

Staff costs	Note	2011	2010
Wages, salaries and bonuses		2 877	1 999
Social security and other taxes		889	634
Total		**3 766**	**2 632**
IT expenses		782	493
Information services and bank services		261	212
Marketing expenses		1 333	359
Office expenses		387	195
Transportation and communication costs		132	84
Training and travelling expenses of employees		230	111
Other outsourced services		1 125	675
Other administrative expenses		504	223
Depreciation	15	230	209
Operating lease payments	21	629	331
Provision expense	18	0	-8
Other operating expenses		65	28
Total operating expenses		**9 444**	**5 544**

NOTE 8 Balances with central bank, credit institutions and investment companies

	31.12.2011	31.12.2010
Demand deposits *	17 179	15 003
Term deposits with original maturity less than 3 months *	6 125	8 309
Term deposits with maturity more than 3 months	9 000	0
Statutory reserve capital at central bank	1 784	7 014
Other receivables from central bank *	50 772	38 408
Accrued interest	191	13
incl. from central bank	*0*	*9*
Total	**85 051**	**68 747**
* cash and cash equivalents in the statement of cash flows	74 076	61 720

Distribution of receivables by countries is presented in Note 3.5. Balances with investment companies amounting to EUR 4 915 thousand (2010: EUR 2 934 thousand) are included under demand deposits. All other demand and term deposits are held at credit institutions or the central bank. Mandatory banking reserve as at 31.12.2011 was 1% (2010: 2%) of all financial resources taken in (loans received and deposits from customers). The reserve requirement is to be fulfilled as a monthly average in euros or in the foreign securities preapproved by the central bank.

NOTE 9 Currency derivatives

Balance as at 31.12.2011	Asset / liability (fair value)	Contractual amount as off-balance sheet asset	Contractual amount as off-balance sheet liability
Foreign currency future contract (USD)	0	1 000	1 000
Total derivatives	**0**	**1 000**	**1 000**
Balance as at 31.12.2010			
Foreign currency future contract (USD)	0	1 875	1 875
Total derivatives	**0**	**1 875**	**1 875**

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. LHV Pank uses foreign currency futures for hedging the currency risk arising from open foreign currency exposures. All contracts are with maturity of 3 months.

NOTE 10 Financial assets and liabilities at fair value through profit or loss

Securities held for trading:	31.12.2011	31.12.2010
Shares	2	29
Fund units	14	16
Bonds	45 700	0
Designated as at fair value through profit or loss upon initial recognition:		
Bonds	0	17 026
Total financial assets	**45 716**	**17 071**
Interest rate swaps	441	0
Interest rate swaps	**441**	**0**

Bid price is the indication of fair value for quoted financial investments and securities.
In 2011, financial loss of EUR 433 thousand resulted from revaluation of bonds and EUR 477 thousand from revaluation of interest rate swaps.

NOTE 11 Held-to-maturity financial investments

In 2011, the bank set up a held-to-maturity bonds portfolio, which is carried at amortised cost in the balance sheet. The portfolio volume as at 31.12.2011 totalled EUR 30 001 thousand of which EUR 10 861 thousand had a floating coupon interest rate and EUR 19 140 thousand had a fixed coupon interest rate. Fair value estimates of these instruments are disclosed in Note 3.6.

NOTE 12 Loans granted

	31.12.2011	31.12.2010
Loans to legal persons	**50 586**	**22 236**
incl. leveraged loans	4 850	5 024
incl. corporate loans	45 690	17 163
incl. finance lease	46	48
Loans to individuals	**19 136**	**18 277**
incl. leveraged loans	3 230	4 589
incl. consumer loans	15 712	13 553
incl. finance lease and housing loans	128	135
Incl. credit card loans	66	0
Total	**69 722**	**40 513**
Impairment loss	-3 042	-2 439
Total	**66 680**	**38 073**

The impairment provision has been set up for the portfolio of consumer loans acquired with a discount and for newly issued consumer loans.

Changes in impairments in 2011	**Loans 31.12.2011**	**Other related receivables 31.12.2011**
Balance as at January 1	-2 439	0
Impairment provisions set up during the year	-956	-1 651
Written off during the year	353	1 651
Balance as at December 31 (Note 13)	**-3 042**	**0**

In 2011, the average effective interest rate of consumer loans (excluding acquired loan portfolio of net value of EUR 5.3 EUR as at 31.12.2011) issued to individuals was between 20-24%. Interest income on the acquired portfolio is calculated on the basis of the effective interest rate of 10% which was the expected rate of return of the portfolio at the time of acquisition. Interest receivables from customers are accounted for using the effective interest rate calculated on the basis of the customer's contractual payments, and the difference between the customer's effective interest rate and the effective interest rate found upon acquisition is adjusted in the impairment account under assets. Interest income on new consumer loans issued is recognised in the income statement using their actual effective interest rate.

The contractual interest rate of leveraged loans issued to individuals is generally equal to their effective interest rate, because no other significant fees have been received upon their issue.

As at 31.12.2011 and 31.12.2010, no loans have been issued to related parties. Deferred income includes service fees of loans in the amount of EUR 389 thousand (2010: EUR 185 thousand), which are released to interest income over the loan term and the current portion of which totals EUR 110 thousand (2010: 107 thousand) and the non-current portion totals EUR 279 thousand (2010: EUR 78 thousand).

For interest income on loans granted, see Note 5.
For credit risk exposures and loan collateral, see Note 3.2.
Distribution of loans granted by currencies is disclosed in Note 3.3.
Distribution of loans granted by due dates is disclosed in Note 3.4.
The regional distribution of loans granted is disclosed in Note 3.5.

NOTE 13 Receivables from customers

	31.12.2011	31.12.2010
Securities brokerage fees from intermediaries	13	17
Asset management fees from customers	46	70
Other fees for providing services to customers	78	101
incl. related parties (Note 25)	*19*	*30*
Payments in transit	17	0
Other receivables related to collection of receivables	0	1 651
Total	**154**	**1 839**

All fees, other than other receivables related to collection of receivables are receivable within 12 months of the balance sheet date, and are considered as current assets. Other receivables related to collection of receivables have been assessed as uncollectable and therefore have been written off (see Note 12).

NOTE 14 Other assets

	31.12.2011	31.12.2010
Guarantee deposits of Baltic stock exchanges	9	13
Guarantee deposit of MasterCard	615	576
Prepayments to Financial Supervision Authority	70	55
Other prepayments *	118	112
Total	**812**	**757**

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

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 the deposit of MasterCard to guarantee credit card transactions, and should therefore both be considered non-current assets.

NOTE 15 Tangible and intangible assets

	Tangible assets	Intangible assets	Total
Balance as at 31.12.2009			
Cost	730	77	808
Accumulated depreciation and amortisation	-446	-41	-487
Carrying amount	**284**	**37**	**321**
Changes occurred in 2010:			
Purchase of non-current assets	127	197	324
Depreciation/amortisation charge	-190	-19	-209
Balance as at 31.12.2010			
Cost	857	275	1 132
Accumulated depreciation and amortisation	-636	-60	-696
Carrying amount	**221**	**215**	**436**
Changes occurred in 2011:			
Purchase of non-current assets	824	346	1 170
Depreciation/amortisation charge	-172	-58	-230
Balance as at 31.12.2011			
Cost	1 681	621	2 302
Accumulated depreciation and amortisation	-808	-118	-926
Carrying amount	**873**	**503**	**1 376**

In 2011 and 2010, there was no indication of impairment of tangible and intangible assets.

NOTE 16 Loans received and deposits from customers

	Individuals	Legal entities	Public sector	31.12.2011 total	Individuals	Legal entities	Public sector	31.12.2010 total
Demand deposits	17 424	17 049	655	**35 128**	7 163	11 160	42	**18 365**
Term deposits	96 982	67 414	8 349	**172 745**	44 164	43 883	7 659	**95 706**
Loans received	0	172	4 347	**4 519**	0	243	1 920	**2 163**
Accrued interest liability	975	452	55	**1 482**	414	271	52	**737**
Total	**115 381**	**85 087**	**13 406**	**213 874**	**51 741**	**55 557**	**9 674**	**116 971**
incl. related parties (Note 25)	*57*	*50*	*0*	*107*	*47*	*46*	*0*	*93*

Loans received from public sector are from Maaelu Edendamise Sihtasutus (Rural Development Foundation) with an 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 3.3.
Distribution of loans received and deposits from customers by maturity is presented in Note 3.4.
Distribution of loans received and deposits from customers by geography is presented in Note 3.5.

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.

NOTE 17 Accrued expenses and other liabilities

	31.12.2011	31.12.2010
Trade payables	203	258
Tax liabilities	363	232
Payables to employees	446	379
Financial guarantee contracts issued	28	8
Payments in transit	460	171
Total	**1 500**	**1 048**

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 the number of employees during the year. Payments in transit consist of foreign payments and payables to customers related to intermediation of securities transactions. All liabilities, except for financial guarantees, are payable within 12 months and are therefore recognised as current liabilities.

NOTE 18 Provisions

In the balance sheet, a provision has been recognised in the amount of EUR 13 thousand, the cost of which is included within operating expenses (see Note 7). Provision is recognised as a long-term liability. In 2010, some of the provisions were paid out and the amount of provisions was partially corrected by reducing it.

NOTE 19 Subordinated loans

As at 31.12.2011, subordinated loans include bonds issued in the amount of EUR 3 000 thousand (31.12.2010: EUR 3 000 thousand). The parent LHV Group purchased these securities, having issued subordinated bonds itself and deposited the proceeds received from the issue to the bank under the same conditions with the goal of including subordinated bonds within the bank's net own funds. The interest rate on subordinated bonds is 5% in the first two-year period and

7.5% + 12-month Euribor in the subsequent five-year period, with the due date at 15.10.2017. In two years, the issuer has the right to prematurely redeem the bonds. Interest expenses on subordinated bonds in the amount of EUR 299 thousand (2010: EUR 32 thousand) are included within interest expenses in the income statement. As at 31.12.2011, the accrued interest liability of subordinated bonds was EUR 181thousand (31.12.2010: EUR 32 thousand).

NOTE 20 Shareholders' equity in the public limited company

The sole shareholder of the Bank is a company registered in Estonia, AS LHV Group. Rain Lõhmus who owns 46% of the voting rights and Andres Viisemann who owns 13% of the voting rights in AS LHV Group have significant influence over the company.

	31.12.2011	**31.12.2010**
Share capital *(in EUR thousand)*	17 700	6 500
Number of shares (pcs)	17 700 000	6 500 000
Par value of a share	1 EUR	1 EUR

According to the Company's articles of association, the minimum share capital is EUR 5 million and the maximum share capital is EUR 20 million. The share capital has been fully paid in for. The share capital of AS LHV Pank was increased three times in 2011: in April, July and October. In all cases, the bank's sole shareholder LHV Group made a monetary contribution of EUR 0,4 million, EUR 2,0 million and EUR 8,8 million, respectively, to share capital. The bank's share capital increased to EUR 17,7 million by the year-end 2011.

As at 31.12.2011, the accumulated deficit of the Bank totalled EUR -7 307 thousand. As at 31.12.2010, accumulated deficit of the Bank totalled EUR -826 thousand. Thus, it is not possible to pay dividends to the shareholders.

NOTE 21 Operating lease

LHV Pank leases office premises 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 EUR 1 873 thousand (2010: EUR 1 488 thousand), the current portion of which amounts to EUR 673 thousand (2010: EUR 401 thousand) and the non-current portion amounts to EUR 1 200 thousand (2010: EUR 1 087 thousand). In 2011, the operating lease payments for office premises in the amount of EUR 629 thousand are included within operating expenses. In 2010, the operating lease payments for office premises in the amount of EUR 331 thousand were included within operating expenses.

NOTE 22 Assets under management

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

	31.12.2011	**31.12.2010**
Cash balance of customers	4 374	5 246
incl. shareholders of the parent company and related entities	0	0
Securities of customers	182 534	189 989
incl. parent company	*22 810*	11 445
incl. shareholders of the parent company and related entities	*5 198*	7 200
Total	**186 908**	**195 235**

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), with 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 23 Contingent liabilities

Irrevocable transactions	Unused loan commitments	Financial guarantees	Total
Liability in contractual amount 31.12.2011	4 911	2 427	**7 338**
Liability in contractual amount 31.12.2010	2 828	689	**3 517**

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 2010 - 2011. 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 24 Events after the balance sheet date

After the end of the financial year, no significant events have occurred at AS LHV Pank which would have an effect on the condition of the bank's assets and liabilities as at 31.12.2011.

NOTE 25 Transactions with related parties

In preparing the 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	2011	2010
Interest income from related parties	**6**	**0**	**9**
incl. parent company		0	9
Interest expenses to related parties	**6**	**299**	**34**
incl. management		*0*	*1*
incl. parent company		*299*	*32*
Net interest income/expense		**-299**	**-24**
Fee and commission income		**3**	**17**
incl. ultimate controlling party and related entities	*5*	*3*	*17*
Other income		**68**	**167**
incl. ultimate controlling party and related entities		*68*	*167*

Balances	Note	31.12.2011	31.12.2010
Loans and receivables as at the year-end		**19**	**30**
incl. ultimate controlling party and related entities	*13*	*19*	*30*
Loans received and liabilities as at the year-end		**3 288**	**3 125**
incl. management		*107*	*93*
incl. parent company		*3 181*	*3 032*

Receivables have originated from rendering services, they do not bear interest and have been received by the time of compiling the annual report.

The term deposits due to management as at 31.12.2011 are with maturities in March to December 2012 and with interest rates 1.8-3% (31.12.2010 with maturities January to May 2011, interest 1.5 - 3.3%). The subordinated loans received have the interest rate of 5% during the first two years and 6 months EURIBOR + 7.5% onwards, i.e. the same interest rate as the parent is paying on its own subordinate loan received from a third party, and it deposited the funds at the bank.

In 2011, salaries and other compensations paid to the management of LHV totalled EUR 280 thousand (2010: EUR 268 thousand). As at 31.12.2011, remuneration for December and accrued holiday pay in the amount of EUR 64 thousand (as at 31.12.2010: EUR 70 thousand) is reported as a payable to management (Note 17). The Company did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31.12.2011 and 31.12.2010 (pension liabilities, termination benefits, etc). In 2011, the remuneration paid to the members of the Supervisory Board totalled EUR 11 thousand (2010: EUR 8 thousand).

Information on assets of related parties held as an account manager is presented in Note 22.

Signatures of the Management Board to the annual report

The Management Board has prepared the management report and the financial statements of AS LHV Pank for the financial year ended on 31 December 2011. The financial statements present a true and fair view of the Bank's financial position, the results of operations and its cash flows.

10.04.2012

Chairman of the Management Board
Erki Kilu /signed/

Members of the Management Board:

Kerli Lõhmus /signed/

Indrek Nuume /signed/

Jüri Heero /signed/

Erki Kert /signed/

Independent auditor's report

Proposal for covering of loss

The Management Board of LHV Pank proposes to the General Meeting of Shareholders to add the loss for reporting period in the amount of EUR 6 481 thousand to the accumulated deficit.

LHV pank

Signatures of the Supervisory Board to the annual report

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

20.04.2012

Rain Lõhmus	/signed/	**Andres Viisemann**	/signed/
Tiina Mõis	/signed/	**Hannes Tamjärv**	/signed/
Raivo Hein	/signed/	**Heldur Meerits**	/signed/

LHV pank

Allocation of income according to EMTA classificators

EMTAK	Activity	2011	2010
66121	Security and commodity contracts brokerage	3 073	3 033
64191	Credit institutions (banks) (granting loans)	7 986	3 374
66191	Financial consultancy services	60	31
64911	Finance lease	12	6
	Total income	**11 131**	**6 444**