

LHV Ilmarise Kinnisvaraportfelli OÜ

II half-year interim report for period

01.07.2008-31.12.2008

(unaudited)

(Translation of the Estonian original)

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LHV Ilmarise Kinnisvaraportfelli OÜ

Interim report for **01.07.2008 – 31.12.2008**

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Commercial Registry no. *11050254*

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Main activities *Capital lease, EMTAK 64911*

Management Board *Tarmo Jüristo*

Auditor *AS PricewaterhouseCoopers*

Table of contents

Management Report	4
Financial Statements of LHV Ilmarise Kinnisvaraportfelli OÜ	5
<i>Declaration of the Management Board</i>	5
<i>Balance Sheet</i>	6
<i>Income statement</i>	6
<i>Cash flow statement</i>	7
<i>Statement of changes in equity</i>	8
<i>Notes to the financial statements</i>	9
<i>Note 1. Accounting policies and measurement basis used in the preparation of the financial statements</i>	9
<i>Note 2. Finance lease receivables</i>	9
<i>Note 3. Other receivables</i>	10
<i>Note 4. Issued bonds</i>	10
<i>Note 5. Shareholder's equity</i>	11
<i>Note 6. Segment reporting</i>	11
<i>Note 7. Operating expenses</i>	11
<i>Note 8. Related party transactions</i>	11
<i>Note 9. Risk management</i>	12
<i>Note 10. Trading statistics</i>	13
<i>Note 11. Contingent liabilities</i>	13

Management Report

LHV Ilmarise Kinnisvaraportfell OÜ was established at 24.05.2004 and was registered in the Commercial Registry at 14.06.2004. The main activities of the Company are real estate leasing (finance lease).

Share capital of the company is 40 000 kroons and the 100% owner is AS Lõhmus, Haavel & Viisemann (LHV). The shares of the company are easily disposable. Amendments to the statutes of the Company are made according to regulatory acts and the management board members are appointed by the shareholder. The Company does not have a supervisory board.

The Company started its main business activities in 2005 and it has not incurred any staff costs in 2005 or 2006. All accounting and administration services are provided by the parent company AS Lõhmus Haavel & Viisemann. Company's management board has one member, there is no remuneration, compensation or any other benefits paid to the management board.

At 23.12.2004, a purchase-sale contract under the law of obligations was entered into between LHV Ilmarise Kinnisvaraportfelli OÜ and OÜ Ilmarise Kvartal for the sale of apartment ownerships together with the transfer of the seller's rights and obligations and the cession of finance lease receivables related to the subject apartments of the contract. On the basis of that agreement LHV Ilmarise Kinnisvaraportfelli OÜ acquired from OÜ Ilmarise Kvartal the finance lease receivables arising from the finance lease agreements with lessees of the apartments. In this purchase-sale contract under the law of obligations, the realisation of these lease receivables was contingent on the arrangement of a bond issue by LHV Ilmarise Kinnisvaraportfelli OÜ and on the conclusion of a real right contracts for the sale of the apartment ownerships.

At 21.01.2005, these persons (lessees) entered into a supplement to the initial contract under the law of obligations for the sale of apartment ownerships, a contract for the transfer of claims and a real right contract. Thus, the receivables arising from finance lease agreements and the title to apartments' ownerships were transferred to LHV Ilmarise Kinnisvaraportfelli OÜ upon the conclusion of the real right contract and the subsequent entry of LHV Ilmarise Kinnisvaraportfelli OÜ as the owner of apartment ownerships in the land register.

At 19 January 2005, AS LHV carried out a placement of securitised bonds backed with the above mentioned finance lease agreements. 185 295 bonds were issued in the amount of 18 529 500 kroons (EUR 1 184 251). At 13.10.2005, LHV Ilmarise Kinnisvaraportfell OÜ listed its bonds at Tallinn Stock Exchange.

By the time of signing these financial statements, there have been sixteen redemption and interest payments to bond holders. A total of 142 736 bonds were redeemed for the amount of 14 273 600 kroons (912 248 EUR), of which 76 853 (7 685 300 EEK / 491 180 EUR) were redeemed in 2005, 62 346 (6 234 600 EEK / 398 464 EUR) were redeemed in 2006 and 2 097 (209 700 EEK / 13 402 EUR) were redeemed in 2007. The number of bonds outstanding after redemptions is 42 559 and the nominal value of the issue is 4 255 900 kroons (EUR 272 002).

Financial Statements of LHV Ilmarise Kinnisvaraportfelli OÜ

Declaration of the Management Board

The Management Board confirms the correctness and completeness of LHV Ilmarise Kinnisvaraportfelli OÜ interim report financial statements as presented on pages 5-13.

The Management Board confirms that:

- the financial statements have been prepared in compliance with International Financial Reporting Standards as adopted by the European Union;
- the financial statements present a true and fair view of the financial position, the results of its operations and the cash flows of the Company;
- LHV Ilmarise Kinnisvaraportfelli OÜ is a going concern.

Date

Signature

Management Board:

Member of the Management Board

Tarmo Jüristo

27.02.2009



Balance Sheet

	Note	EEK 31.12.2008	EEK 31.12.2007	EUR 31.12.2008	EUR 31.12.2007
Assets					
Cash and bank		116 511	58 747	7 446	3 755
Finance lease receivables	2	4 245 873	4 410 230	271 361	281 865
Other receivables	3	31 090	59 081	1 987	3 776
Total assets		4 393 474	4 528 058	280 794	289 396
Liabilities					
Prepayments		8 949	0	572	0
Issued Bonds	4	4 341 887	4 485 420	277 497	286 671
Total liabilities		4 350 836	4 485 420	278 069	286 671
Equity					
Share capital	5	40 000	40 000	2 556	2 556
Statutory reserve capital		2 638	2 638	169	169
Retained earnings		0	-1 850	0	-118
Net profit/loss for financial year		0	1 850	0	118
Total equity		42 638	42 638	2 725	2 725
Total liabilities and equity		4 393 474	4 528 058	280 794	289 396

Income statement

	Note	EEK 6 months 2008	EEK 6 months 2007	EUR 6 months 2008	EUR 6 months 2007
Interest income from the finance lease	6	133 951	138 354	8 561	8 842
Interest expense from bonds		-125 360	-129 662	-8 012	-8 287
Net interest income		8 591	8 692	549	555
Operating expenses	7	-34 242	-24 283	-2 188	-1 552
Other financial income		25 652	15 591	1 639	997
Net profit / loss for financial year		0	0	0	0
Average number of issued shares	5	1	1	1	1
Basic and diluted earnings per share		0	0	0	0

The notes of pages 9 to 13 are an integral part of these financial statements.

Cash flow statement

		EEK	EEK	EUR	EUR
		6 months	6 months	6 months	6 months
	Note	2008	2007	2008	2007
Cash flow from operating activities					
Expenses related to operating activities		-34 466	-24 283	-2 203	-1 552
Proceeds from settlement of finance lease receivables	2	94 729	61 307	6 054	3 918
Interest received		134 398	138 756	8 590	8 868
Total cash flow from operating activities		194 661	175 780	12 440	11 234
Cash flow from financing activities					
Redeemed bonds	4	-72 200	-139 600	-4 614	-8 922
Interests paid	4	-126 059	-131 118	-8 057	-8 380
Total cash flow from financing activities		-198 259	-270 718	-12 671	-17 302
Total cash flow		-3 599	-94 938	-230	-6 068
Cash and cash equivalents at beginning of the period		120 110	153 685	0	9 822
Cash and cash equivalents at end of the period		116 511	58 747	-230	3 755
Net increase in cash and cash equivalents		-3 599	-94 938	-230	-6 068

As investing is the core activity of the Company, then regular cash flows relating to investing activities are included in cash flows from operating activities.

The notes of pages 9 to 13 are an integral part of these financial statements.

Statement of changes in equity

	Share capital	Statutory reserve capital	Retained earnings	Total
EEK				
Balance as at 31.12.2006	40 000	2 638	-1 850	40 788
<i>Net profit for I half-year 2007</i>	<i>0</i>	<i>0</i>	<i>1 850</i>	<i>1 850</i>
Balance as at 30.06.2007	40 000	2 638	0	42 638
<i>Net profit for II half-year 2007</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Balance as at 31.12.2007	40 000	2 638	0	42 638
<i>Net profit for I half-year 2008</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Balance as at 30.06.2008	40 000	2 638	0	42 638
<i>Net profit for II half-year 2008</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Balance as at 31.12.2008	40 000	2 638	0	42 638
EUR				
Balance as at 31.12.2006	2 556	169	-119	2 606
<i>Net profit for I half-year 2007</i>	<i>0</i>	<i>0</i>	<i>119</i>	<i>119</i>
Balance as at 30.06.2007	2 556	169	0	2 725
<i>Net profit for II half-year 2007</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Balance as at 31.12.2007	2 556	169	0	2 725
<i>Net profit for I half-year 2008</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Balance as at 30.06.2008	2 556	169	0	2 725
<i>Net profit for II half-year 2008</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Balance as at 31.12.2008	2 556	169	0	2 725

More detailed information about sharecapital and equity is provided in Note 5.

The notes of pages 9 to 13 are an integral part of these financial statements.

Notes to the financial statements

Note 1. Accounting policies and measurement basis used in the preparation of the financial statements

Basis of preparation

The interim report for 01.07.08 - 31.12.08 of LHV Ilmarise Kinnisvaraportfelli OÜ been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The same accounting policies are followed in the interim financial statements as were followed in annual report of 2007.

The financial figures have been presented in Estonian kroons (which is the presentation currency of the Company) and Euros (for supplementary financial information according to the Stock Exchange requirements in Estonia) unless referred otherwise.

Note 2. Finance lease receivables

	31.12.2008	31.12.2007	31.12.2008	31.12.2007
	EEK	EEK	EUR	EUR
Net investment by due dates				
Up to 1 aasta	161 230	165 793	10 304	10 596
Between 1 and 5 years	711 515	668 689	45 474	42 737
Over 5 years	3 373 128	3 575 748	215 582	228 532
Total net investment	4 245 873	4 410 230	271 360	281 865
Future interest income by due dates				
Up to 1 aasta	260 910	270 138	16 675	17 265
Between 1 and 5 years	938 876	982 131	60 005	62 770
Over 5 years	1 509 536	1 727 191	96 477	110 388
Total future interest income	2 709 322	2 979 460	173 157	190 423
Gross investment by due dates				
Up to 1 aasta	422 140	435 931	26 980	27 861
Between 1 and 5 years	1 650 391	1 650 820	105 479	105 507
Over 5 years	4 882 664	5 302 939	312 059	338 920
Total gross investment	6 955 195	7 389 690	444 518	472 288

At 21.01.2005, LHV Ilmarise Kinnisvaraportfelli OÜ acquired from a third party OÜ Ilmarise Kvartal the portfolio of lease receivables arising from finance lease agreements against finance lessees concerning finance lease payments in the amount of 18 529 454 kroons (EUR 1 184 248) (principal payments according to contracts). The underlying currency of finance lease agreements is the Estonian kroun. The annual interest rate on the finance lease agreements is between 6% and 8%. Interest rate is fixed. In addition OÜ Ilmarise Kvartal also made an irrecoverable payment in the amount of 141 019 kroons (9 013 EUR) to cover the credit risks associated with these lease receivables and the clients in these lease contracts.

These lease contracts are on leasing of apartments by the lessees and upon payment of all lease payments according to the contract the lessees will become owners of these apartments. They additionally have right upon early payment of the full amount of net investment of the lease contract to acquire the apartment before the end of the lease term.

01.07.2008-31.12.2008 non of the apartments were bought out and principal payments were made for the apartments not yet transferred in the amount of 65 398 kroons (4 180 EUR). 01.01.2008 – 30.06.2008 non of the apartments were bought out by

lessees and principal payments were made for the apartments not yet transferred in the amount of 62 554 kroons (3 998EUR). In 2007 1 apartment for the total amount of 70 642 kroons (4 515 EUR) were bought out by lessees and principal payments were made for the apartments not yet transferred in the amount of 115 701 kroons (7 394 EUR). In 2006 ownerships of 8 apartments were transferred (purchased out by lessees) for the total amount of 5 827 068 kroons (EUR 372 418) and principal payments were made for the apartments not yet transferred in the amount of 431 529 kroons (EUR 27 580). By the time of compiling this report, 8 apartments are yet not bought out.

All finance lease receivables have been pledged to secure issued bonds. Danske Bank A/S Estonia branch acts as a guarantee agent and custodian of pledged assets. See Note 4.

Note 3. Other receivables

According to agreement the company that arranged the bond issue – AS Lõhmus, Haavel & Viisemann – and AS GILD Financial Advisory Services, that de-merged from the latter, participate equally in covering the loss of LHV Ilmarise Kinnisvaraportfelli OÜ. Receivable as at the end of accounting period amounted to 31 089 kroons (1 987 EUR).

Note 4. Issued bonds

	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Maturities of liabilities	EEK	EEK	EUR	EUR
Up to 1 aasta	226 323	208 090	14 465	13 300
Between 1 and 5 years	716 901	673 871	45 818	43 068
Over 5 years	3 398 663	3 603 459	217 214	230 303
Total issued bonds	4 341 887	4 485 420	277 497	286 671

At 19 January 2005, AS LHV carried out a placement of securitised bonds backed with finance lease agreements in the amount of 18 529 500 kroons (EUR 1 184 251), disclosed in Note 2.

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

In 2007-2008 the following principal and interest payments have been made to bonds holders:

(EEK)

Date	Number of bonds	Amount of principal payment	Cumulative principal payment	Amount of interest payment	Cumulative interest payment
19.01.2007	17 435	1 743 500	13 919 900	92 120	1 350 992
19.04.2007	356	35 600	13 955 500	66 839	1 417 831
19.07.2007	1 054	105 400	14 060 900	66 323	1 484 154
19.10.2007	342	34 200	14 095 100	64 795	1 548 949
Total redeemed in 2007	19 187	1 918 700	14 095 100	290 077	1 548 949
19.01.2008	345	34 500	14 129 600	64 299	1 613 248
19.04.2008	352	35 200	14 164 800	63 799	1 677 046
19.07.2008	357	35 700	14 200 500	63 288	1 740 334
19.10.2008	365	36 500	14 237 000	62 771	1 803 105
Total redeemed in 2008	1 419	141 900	14 237 000	254 156	1 803 105

(EUR)

Date	Number of bonds	Amount of principal payment	Cumulative principal payment	Amount of interest payment	Cumulative interest payment
19.01.2007	17 435	111 430	889 645	5 888	86 346
19.04.2007	356	2 275	891 920	4 271	90 617
19.07.2007	1 054	6 736	898 656	4 239	94 856
19.10.2007	342	2 186	900 842	4 141	98 997
Total redeemed in 2007	19 187	122 627	900 842	18 539	98 997
19.01.2008	345	2 204	903 046	4 109	103 106
19.04.2008	352	2 250	905 296	4 077	107 183
19.07.2008	357	2 282	907 578	4 045	111 228
19.10.2008	365	2 332	909 908	4 012	115 240
Total redeemed in 2008	1 419	9 068	909 908	16 243	115 240

Note 5. Shareholder's equity

Since its foundation, the share capital of the private limited company is 40 000 (2 556 EUR) kroons, which is made up of one share. The 100% parent company is AS Lõhmus, Haavel & Viisemann, which in turn is a 100% subsidiary of AS LHV Group, who is effectively the ultimate controlling party. The share capital has been paid for in cash.

LHV Ilmarise Kinnisvaraportfelli OÜ is a private limited company specifically set up for issuing bonds related to earning rental income and related liabilities. After the issue, the share of the private limited company has been transferred to custody of a guarantee agent, Danske Bank A/S Estonia branch. The granting of custody of the share has been arranged in such a way that pursuant to the guarantee agent's contract, the 100% share of the issuer has been transferred to the securities account of AS Lõhmus, Haavel & Viisemann at Danske Bank A/S Estonia branch and after transferring the share to the securities account, Danske Bank A/S Estonia branch has blocked the use and disposal of the securities account until the expiry of the contract with the guarantee agent or the need to dispose of the share.

Note 6. Segment reporting

The only activity of the Company is real estate leasing as a lessor. All real estate properties leased out under the finance lease terms are located in Estonia. Due to the above, the Company has only one business and one geographical segment. In II half-year 2008 intrests earned form capital lease amounted to 133 951 kroons (in II half-year 2007: 138 354).

Note 7. Operating expenses

	EEK 6 months 2008	EEK 6 months 2007	EUR 6 months 2008	EUR 6 months 2007
Accounting and audit	14 160	14 160	905	905
Other operating expenses	20 082	10 123	1 283	647
Total	34 242	24 283	2 188	1 552

Note 8. Related party transactions

In compiling this report, the following entities have been considered as related parties:

- owners (parent company and owners of the immediate and ultimate parent company);
- other firms belonging to the same consolidation group (incl. fellow subsidiaries and associates);
- management and supervisory boards;

- close relatives of the persons mentioned above and the companies related to them.

In second half of the year 2008 the services from parent company AS Lõhmus, Haavel & Viisemann have been bought for 14 160 kroons (905 EUR). In fsecond half on the year 2007 the services were also bought for 14 160 kroons (905 EUR).

There were no remunerations, compensations nor other benefits paid or accrued to the management board in 2008 and 2007.

Note 9. Risk management

The risks threatening the Company's business activities include are financial risks and operating risk. The Company's overall risk management system attempts to minimise potential unfavourable effects on the Company's financial activities. Management board and LHV Finance Department are responsible for company's risk management.

9.1 Financial risks

- Credit risk
- Liquidity risk
- Market risks

Credit risk

The Company regularly monitors the adherence of customers to the terms of agreements. The legal title of leased property remains to the Company until lease receivables have been collected in full. Therefore the Company does not have any significant credit risk assuming that prices do not decrease significantly in the real estate market due to which the value of collateral would fall below the nominal value of the amount of all receivables. According to the assessment reports of apartments from 2004, the collaterals are adequate to cover the capital lease receivables.

Consequent with credit risk the capital lease receivables are divided as follows:

	31.12.2008	31.12.2007
Current and not impaired	4 238 164	4 393 589
Past due but not impaired	7 709	16 641
Total	4 245 873	4 410 230

Impairemet of recivables as at 31.12.2008 has been made in amount 11 930 kroons (762 EUR) and 31.12.2007 there were no impairments of tne receivables made.

Liquidity risk

The maturities of bonds issued by the Company match the scheduled collections of finance lease agreements. In order to avoid liquidity risk caused by delayed lease payments, the Company has an additional guarantee of the parent company AS Lõhmus, Haavel & Viisemann to make the contractual payments of issued bonds on time. Also a payment to guarantee reserve was received from OÜ Ilmarise Kvartal (Note 2) from which the real estate lease portfolio was taken over.

Market risks

The main market risk arising from company's activities is **interest rate risk**. In order to hedge market risk there are not used floating interest rates in contracting the capital lease agreements, all the agreements and issued bonds are at fixed interest rate. The Company's finance lease receivables are with fixed interest rates of 6-8% and issued bonds are at 5.8%. The redemption of bonds is performed in accordance with a scheduled collection of finance lease receivables. If customers wish to terminate finance lease agreements before maturity date then the Company has the right to redeem the issued bonds in the additionally collected amount. Due to this, the Company lacks significant interest risk.

All Company's agreements have been concluded in Estonian kroons, as a result of which there is no foreign **currency risk**.

9.2. Fair value

As at 31 December 2008, the carrying amounts of the Company's financial assets and financial liabilities do not significantly differ from their fair values.

9.3. Operating risk

Operating risk is a potential loss caused by insufficient or non-functioning processes, employees and information systems or external factors. As per politics of parent company AS LHV also in LHV Ilmarise Kinnisvaraportfelli OÜ there is implemented the principle of duality, according to which there should be an approval by at least two employees independent of each other to execute the transaction.

Note 10. Trading statistics

There have been no transactions with the bonds of LHV Ilmarise Kinnisvaraportfelli OÜ since their first quotation on stock exchange on 13.10.2005 until 31.12.2008, thus there is no information on price movements.

Note 11. Contingent liabilities

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