LHV Ilmarise Kinnisvaraportfelli OÜ

2008 Annual Report

(translation of the Estonian original)

LHV Ilmarise Kinnisvaraportfelli OÜ

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LHV Ilmarise Kinnisvaraportfelli OÜ

Annual report	**01.01.2008 – 31.12.2008**
Business name	LHV Ilmarise Kinnisvaraportfelli OÜ
Commercial Registry no.	11050254
Legal address	Tartu mnt 2, Tallinn 10145
Phone	(372) 6 800 401
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Main activities	Finance lease
Management Board	Tarmo Jüristo
Auditor	AS PricewaterhouseCoopers

Table of contents

Management Report of LHV Ilmarise Kinnisvaraportfelli OÜ 4

Financial statements of LHV Ilmarise Kinnisvaraportfelli OÜ 5

Management Board's declaration 5
Balance sheet 6
Income statement 7
Cash flow statement 8
Statement of changes in equity 9
Notes to the financial statements 10
Note 1. Accounting policies and measurement bases adopted in the preparation of the financial statements 10
Note 2. Finance lease receivables 15
Note 3. Other receivables 16
Note 4. Bonds issued 16
Note 5. Equity of the company 17
Note 6. Segment reporting 17
Note 7. Operating expenses 17
Note 8. Transactions with related parties 17
Note 9. Risk management 18
Note 10. Trading statistics 19
Note 11. Contingent liabilities 19

Independent auditor's report 20

Profit allocation proposal 21

Signature of the Management Board to the 2008 Annual Report 22

Distribution of revenue according to EMTAK 2008 23

Management Report of LHV Ilmarise Kinnisvaraportfelli OÜ

LHV Ilmarise Kinnisvaraportfell OÜ was founded at 24.05.2004 and registered in the Commercial Register at 14.06.2004. The Company's main activity is real estate leasing (finance lease).

The Company's share capital is EEK 40 000. Until 30.06.2009 was its 100% owner AS LHV Pank (former name AS Lõhmus, Haavel & Viisemann). At 30.06.2009 the shares of the Company were bought by AS LHV Group, which is also the parent company to AS LHV Pank. The Company's shares are freely transferable. The amendments to the Company's articles of association are made pursuant to the procedure laid down in law and the shareholder appoints the members of the Company's Management Board. In July, 2009, the Management Board member was changed and the new member of Management Board is Hans-Sten Pisang. The Company does not have a Supervisory Board.

The Company launched its main operations in 2005, there have been no staff costs at the Company during its three years of operations. The parent LHV provides book-keeping services to the Company. The Company's Management Board has one member, neither remuneration nor any other benefits were paid to the member of the Management Board.

At 23.12.2004, a sales contract under the law of obligations concerning ownership of the apartments was entered into between LHV Ilmarise Kinnisvaraportfelli OÜ and OÜ Ilmarise Kvartal, including the transfer of the seller's rights and obligations, and transfer of the receivables related to the object of the contract on the basis of which LHV Ilmarise Kinnisvaraportfelli OÜ acquired the receivables of OÜ Ilmarise Kvartal arising from finance lease agreements with regard to finance lease payments by lessees. In the aforementioned sales contract under the law of obligations, the possibility of collection of these receivables was tied to the bond issue arranged by LHV Ilmarise Kinnisvaraportfelli OÜ and the conclusion of a real right contract concerning apartment ownerships.

At 21.01.2005, the aforementioned persons concluded a complementary contract to the sales contract under the law of obligations concerning apartment ownerships and a contract for the transfer of receivables and a real right contract. Thus, the receivables arising from the finance lease agreement and the ownership of apartments were transferred in real terms to LHV Ilmarise Kinnisvaraportfelli OÜ after the conclusion of the real right contract and the subsequent entry of LHV Ilmarise Kinnisvaraportfelli OÜ as the owner of the title to the apartments in the real estate register.

At 19 January 2005, AS LHV carried out a placement of securitised bonds backed by finance lease agreements in the total number of 185 295 bonds and in the amount of EEK 18 529 500 (EUR 1 184 251). LHV Ilmarise Kinnisvaraportfelli OÜ listed the bonds on the Tallinn Stock Exchange at 13.10.2005. The Company was specially founded to acquire the lease agreements and finance those. The Company does not plan to expand its business.

By the time of signing the annual report, 16 interest and redemption payments have been made to the bond holders. A total of 142 736 bonds for EEK 14 273 600 (EUR 912 248) have been redeemed of which 76 853 (EEK 7 685 300 / EUR 491 180) were redeemed in 2005, 62 346 (EEK 6 234 600 /EUR 398 464) were redeemed in 2006 and 2 097 (EEK 209 700 / EUR 13 402) were redeemed in 2007. The number of bonds after the redemption payments is 42 559 and the outstanding volume of the issue in the nominal value amounts to EEK 4 255 900 (EUR 272 002).

LHV Ilmarise Kinnisvaraportfelli OÜ is not significantly influenced by financial or operational risks. The main risk to be considered is credit risk arising from lease agreements. The Company has assessed affects of credit risk as well as liquidity and interest rate risk and global economical crisis to its activities. Detailed analysis on these risks and possible influences is presented in annual report Note 9.

To the best of management's knowledge, the management report gives a true and fair view of the Company's business activities and results, financial position, and includes a description of the principal risks and uncertainties.

Hans-Sten Pisang /signed/
24.07.2009

Financial statements of LHV Ilmarise Kinnisvaraportfelli OÜ

Management Board's declaration

The Management Board confirms the correctness and completeness of AS LHV Varahaldus 2008 financial statements as presented on pages 5 – 19.

The Management Board confirms that:

- the financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union;
- the financial statements present a true and fair view of the financial position, the results of the 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	14.04.2009	/signed/

Balance sheet

		EEK	EEK	EUR	EUR
	Note	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Assets					
Cash and cash equivalents		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					
Deferred income		8 949	0	572	0
Bonds issued	4	4 341 887	4 485 420	277 497	286 671
Total current liabilities		**4 350 836**	**4 485 420**	**278 069**	**286 671**
Equity					
Share capital	5	40 000	40 000	2 556	2 556
Reserve capital		2 638	2 638	169	169
Accumulated deficit		0	-1 850	0	-118
Profit 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**

The notes on pages 10-19 are an integral part of these financial statements.

Income statement

	Note	EEK 2008	EEK 2007	EUR 2008	EUR 2007
Interest income on finance lease	6	270 138	280 248	17 265	17 911
Interest expense on bonds		-252 523	-268 001	-16 139	-17 128
Net interest income		**17 615**	**12 247**	**1 126**	**783**
Other operating income	3	94 335	59 081	6 029	3 776
Operating expenses	7	-113 442	-85 988	-7 250	-5 496
Financial income and expense		1 492	16 510	95	1 056
Net profit for financial year		**0**	**1 850**	**0**	**119**
Average number of shares issued	5	1	1	1	1
Basic and diluted earnings per share		0	1 850	0	119

The notes on pages 10-19 are an integral part of these financial statements.

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Kuupäev/date 14.04.09
PricewaterhouseCoopers, Tallinn

Cash flow statement

	Note	EEK 2008	EEK 2007	EUR 2008	EUR 2007
Cash flows from operating activities					
Income related to operating activities		122 326	0	7 818	0
Expenses related to operating activities		-113 442	-85 988	-7 250	-5 496
Finance lease receivables collected	2	173 940	186 343	11 117	11 909
Interest received		270 997	281 828	17 320	18 012
Total cash flow from operating activities		**453 821**	**382 183**	**29 004**	**24 426**
Cash flows from financing activities					
Redeemed bonds	4	-141 900	-1 918 700	-9 069	-122 627
Interest paid	4	-254 156	-290 077	-16 244	-18 539
Net cash used in financing activities		**-396 056**	**-2 208 777**	**-25 313**	**-141 167**
Total cash flows		**57 764**	**-1 826 594**	**3 692**	**-116 741**
Cash and cash equivalents at beginning of the period		58 747	1 885 341	3 755	120 495
Cash and cash equivalents at end of the period		116 511	58 747	7 446	3 755
Net increase/decreases in cash and cash equivalents		**57 764**	**-1 826 594**	**3 692**	**-116 741**

The notes on pages 10-19 are an integral part of these financial statements.

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Statement of changes in equity

EEK	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2006	**40 000**	**2 638**	**-1 850**	**40 788**
Profit for 2007	0	0	1 850	**1 850**
Balance as at 31.12.2007	**40 000**	**2 638**	**0**	**42 638**
Profit for 2008	0	0	0	**0**
Balance as at 31.12.2008	**40 000**	**2 638**	**0**	**42 638**

EUR	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2006	**2 556**	**169**	**-119**	**2 606**
Profit for 2007	0	0	119	**119**
Balance as at 31.12.2007	**2 556**	**169**	**0**	**2 725**
Profit for 2008	0	0	0	**0**
Balance as at 31.12.2008	**2 556**	**169**	**0**	**2 725**

More detailed information is provided in Note 5.

The notes on pages 10-19 are an integral part of these financial statements.

Notes to the financial statements

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

The main activity of LHV Ilmarise Kinnisvaraportfell OÜ is real estate leasing (finance lease) and it operates in the Republic of Estonia.

These financial statements were approved by the Management Board at 14 April 2009.

Bases of preparation

The financial statements of LHV Ilmarise Kinnisvaraportfelli OÜ for the financial year 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all years presented unless described otherwise. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial year started at 1 January 2008 and ended at 31 December 2008. The financial data presented in the financial statements have been presented in Estonian kroons (which is the Company's functional and primary presentation currency) and in euros (which is supplementary financial information pursuant to the requirements of the Tallinn Stock Exchange), unless specifically referred differently

Several financial figures presented in the financial statements are based on management estimates and assumptions 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 the reporting period. 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 estimates have been primarily applied to recognition of impairment losses of receivables. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Changes in management's estimates are reported in the income statement of the period in which the change occurred.

Certain new International Financial Reporting Standards, amendments to existing standards and the interpretations of the standards have been published by the time of compiling these consolidated financial statements which became mandatory for the Company's accounting periods beginning on or after 1 January 2008. The overview of these standards and the Company management estimate of the potential impact of applying the new standards and interpretations is given below.

International Financial Reporting Standards, published amendments to existing standards and interpretations by International Financial Reporting Standars Committee (IFRIC), that became effective in 2008

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

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

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

IAS 1 (amendment) *– Presentation of Financial Statements (effective 1 January 2009):*

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

IAS 27 (revised) *– Consolidated and Separate Financial Statements (effective from 1 January 2009):*

The standard requires recognition of transactions with minority shareholders directly in equity under the condition that the parent retains control over the entity. In addition, the standard clarifies accounting for control ceased over the subsidiary or revaluation of shares to fair value whereby the differences are taken to profit or loss. The Company applies the amendments from 1 January 2009.

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

Standards, amendments and interpretations not yet effective but which may affect the Company's financial statements

IFRS 8 – Operating Segments (effective from 1 January 2009)

IAS 23 (amendment) – Borrowing Costs (effective from 1 January 2009)

IAS 32 and amendment to IAS 1 – Puttable Financial Statements and Obligations Arising on Liquidation (effective from 1 January 2009).

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

(d) Standards, amendments and interpretations not yet effective and not relevant to the Company's operations
IFRS 3 (amendment) – Business Combinations (effective from 1 July 2009)
IFRIC 12 – Service Concession Arrangement (effective from 1 January 2009)
IFRIC 13 – Customer Loyalty Programmes (effective from 1 January 2009)
IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2009)
IFRIC 15 – Agreements for the Construction of Real Estate (effective from 1 January 2009)
IFRIC 16 – Hedged of a Net Investment in a Foreign Operation (effective from 1 October 2008)
IFRIC 17 – Distribution of Non-Cash Assets to Owners (effective from 1 July 2009)
IFRIC 18 – Transfers of Assets from Customers (effective from 1 July 2009)
IFRS 1 – First-time Adoption of International Financial Reporting Standards (effective from 1 July 2009)
IFRS 1 and amendment to IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from 1 January 2009)
IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items (effective from 1 July 2009)

Functional and presentation currency

The presentation currency for the purpose of these financial statements is the Estonian kroon. Pursuant to the requirements of the Tallinn Stock Exchange, the financial information in these financial statements is also presented in euros in addition to the Estonian kroon. As the exchange rate between the Estonian kroon and the Euro is pegged by the Bank of Estonia at the rate of EUR 1 = EEK 15.6466, there appear no currency translation differences.

Foreign currency transactions and balances

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia prevailing at the transaction date. Monetary financial assets and liabilities and non-monetary financial assets and liabilities measured at fair value denominated in foreign currencies are translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Gains and losses on translation form monetary assets and liabilities are recorded in the income statement under the line "financial income and expense".

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, term deposits with original maturities of three months or less, that are available for use without any significant restrictions.

Cash flow statement

The cash flow statement has been prepared using the direct method and all receipts and payments related to operating activities are presented in gross amounts. As the leasing of real estate properties under the finance lease terms is the Company's main activity, the cash flows related to this activity are recognised as cash flows from operating activities.

Financial assets

Financial assets are any assets including cash, contractual rights to receive cash or another financial asset from another entity, contractual rights to exchange financial assets with another entity under the conditions which are favourable to the Company, or an equity instrument of another entity. The purchases and sales of financial assets are recognised at the value date.
The Company has only financial assets classified in the category of loans and receivables.

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, regardless of the fact that some of them may be recognised as costs through providing allowances for loans. After initial recognition, the Company recognises loans and receivables at amortised cost (less principal payments and any potential impairment losses, if necessary) and calculates interest income on the receivable in subsequent periods using the effective interest rate method. Accrued interest is shown in the balance sheet line finance lease receivables.

Finance lease receivables

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are transferred from the Company to the lessee. Legal ownership of assets may be transferred to the customer at the end of the lease term. Receivables arising from finance lease agreements are recognised at the net present value of the minimum lease payments receivable, less principal payments of receivables. Each lease payment received from the lessee is allocated between principal payment of the finance lease receivable and financial income. Financial income is allocated over the lease term with the assumption that the lessor's periodic rate of return is constant in relation to outstanding net investment of the finance lease at any point in time. In case initial service fees are collected at issuance, these are included into the calculation of effective interest rate and lessor's net investment.

Impairment of financial assets and finance lease receivables

The basis for assessing valuation of receivables is the timely fulfilment of contractual obligations, the estimated market price of the leased object and excess collateral, the financial position and credibility of the customer. The Company assesses at each balance sheet date whether there exists any objective evidence of impairment of financial assets. .A financial asset or a group of financial assets is impaired and impairment losses are recognised 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 amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. For these assessed incurred loan losses, the relevant allowance has been established. Any impairment losses are charged to the income statement. Doubtful receivables are written down in the balance sheet to the recoverable amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. Irrecoverable receivables are removed from the balance sheet against the related allowance for loan impairment.

Bonds issued

Bonds issued are initially recognised at cost which is the fair value of the consideration received for the financial liability. Initial cost includes expenditure directly attributable to acquisition. After initial recognition, bonds issued are measured at amortised cost, using the effective interest rate.

Statutory reserve capital

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

Provisions and contingent liabilities

Commitments arising from an obligating event before the balance sheet date that have either a legal or contractual basis or that have arisen from the Company's current operating practice (legal or constructive obligation) that require giving up of assets, whose realisation is probable (it is more likely than not that an outflow of resources will be required to settle the obligation) and whose cost can be estimated reliably but whose timing or amount are not 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 outflow (other than in very rare circumstances in which the cost related to the obligation cannot be measured reliably).

Promises, commitments and other obligations whose realisation is less probable than non-realisation or whose accompanying costs cannot be determined reliably, but which in certain circumstances may become obligations, are disclosed in the notes to the financial statements as contingent liabilities.

Income and expenses

Revenue generated from the Company's ordinary business activities is recognised at the amount of consideration received or receivable. Revenue is 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 Company and the amount of revenue can be measured reliably. Expenses are recognised when the Company has committed to the expense and/or received the goods or services, if the latter is earlier.
Interest income is recognised as "financial income" when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Interest income is recognised using the effective interest rate method.

Interest expenses on bonds issued is carried in the income statement line "financial expense" using the effective interest rate method. The effective interest rate method is a method for calculating the amortised cost of a financial asset or a financial liability, and for allocating the interest income or interest expense over the respective 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 Company 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, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of impairment, interest income is recognised using the same rate of interest used in discounting the future cash flows for the purpose of measuring the impairment loss.

Corporate 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 base and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax (until 31.12.2008: 21/79 and until 31.12.2007: 22/78) on the net dividend paid. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. Pursuant to the issue terms of the bonds issued, the Company's owner has elected not to pay dividends until the final redemption of bonds.

Earnings per share

Basic earnings per share are determined by dividing the net profit for the financial year by the average number of issued shares of the period. For calculating the diluted earnings per share, the net profit attributable to the shareholder and the weighted average is adjusted by the number of all diluted potential ordinary shares with a dilutive effect on the share. As the Company does not have financial instruments with a dilutive effect on basic earnings per share, the basic earnings per share and the diluted earnings per share are equal.

Note 2. Finance lease receivables

	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Net investment by due dates	**EEK**	**EEK**	**EUR**	**EUR**
up to 1 year	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 year	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 year	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 Kinnisvaraportfell OÜ acquired the portfolio of lease receivables arising from finance lease agreements against finance lessees concerning finance lease payments in the amount of EEK 18 529 thousand (EUR 1 184 248) (principal payments according to agreements). The underlying currency of finance lease agreements is the Estonian kroon. The annual interest rates on the finance lease agreements are between 6% and 8%. Interest rates are fixed. In addition, OÜ Ilmarise Kvartal made an irrevocable payment of EEK 141 019 (EUR 9 013) to cover the credit risks associated with these lease receivables and the customers in these lease agreements. This is effectively accounted for as part of the cost of these lease receivables and deducted from the net investment.

These finance lease agreements are concluded for the leasing of apartments by the lessees and upon payment of all lease payments according to the agreement, the lessees will become owners of these apartments. Upon the early payment of the full amount of the net investment of the lease agreement, the lessees are entitled to acquire the apartments before the end of the lease term.

In 2008, no apartment ownerships were transferred, principal payments totalled EEK 127 952 (EUR 8 178). In 2007, one apartment ownership was transferred for the total amount of EEK 70 642 (EUR 4 515) and principal payments were made in the amount of EEK 115 701 (EUR 7 395). In 2006, 8 apartment ownerships were transferred in the amount of EEK 5 827 068 (EUR 372 418) and principal payments totalled EEK 431 529 (EUR 27 580). By the time of preparing the financial statements, 8 apartment ownership have not been transferred.

All finance lease receivables have been pledged as collateral for the bonds issued. Danske Bank A/S Estonian Branch acts as an underwriting agent and custodian of the pledged assets (see Note 4). For receivables past due, see the credit risk table in Note 9.

Note 3. Other receivables

According to the agreement, both AS Lõhmus, Haavel & Viisemann that arranged the bond issue and AS GILD Financial Advisory Services that had been de-merged from the former, participated equally in covering of the loss of LHV Ilmarise Kinnisvaraportfelli OÜ. In the reporting period, income allocated for the purpose of covering the loss totalled EEK 94 335 thousand (EUR 6 029), of which the remaining receivables from these entities totalled EEK 31 089 (EUR 1 987) as at the year-end.

Note 4. Bonds issued

Distribution of liabilities by maturities	31.12.2008 EEK	31.12.2007 EEK	31.12.2008 EUR	31.12.2007 EUR
up to 1 year	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 liabilities to bond holders	**4 341 887**	**4 485 420**	**277 497**	**286 671**

At 19 January 2005, AS LHV carried out a placement of securitised bonds backed by finance lease agreements in the total amount of EEK 18 529 thousand (EUR 1 184 251).

Bonds are coupon bonds, on which interest is 5.8% per annum. This also represents the effective interest rate of these bonds. The redemption payments of bonds and interest payments to bond holders take place on a quarterly basis in the month following the end of the quarter. As no transactions have been performed with the bonds in the secondary market (Note 10), the determination of the fair value of bonds is practically impossible, as a result of which this value is not disclosed here separately.

The following principal and interest payments have been made to the bond holders in 2007-2009:

(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**
19.01.2009	366	36 600	14 273 600	62 241	1 865 346

(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**
19.01.2009	366	2 338	912 246	3 978	119 218

Note 5. Equity of the company

From the time of its establishment, the share capital of the private limited company is EEK 40 000 (2 556 EUR), which consists of one share. The 100% parent is AS Lõhmus, Haavel & Viisemann, which in turn is a wholly-owned subsidiary of AS LHV Group. The ultimate controlling party of AS LHV Group is Rain Lõhmus with 67% of the voting rights. Andres Viisemann has significant influence with 33% of the voting rights. The share capital has been paid in cash.

LHV Ilmarise Kinnisvaraportfelli OÜ is a private limited company specifically set up for issuing bonds and for meeting obligations related to them. After the issue, the share of the private limited company has been given to the custody of a underwriting agent which is Danske Bank A/S Estonian Branch. The custody of the share has been performed in such a way that on the basis of the contract with the underwriting agent, the 100% share of the issuer has been transferred to the securities account at Danske Bank A/S Estonian Branch and subsequent to the transfer to the securities account, Danske Bank A/S Estonian Branch has blocked the securities' account for the use and disposal until the expiry of the contract with the underwriting agent or arising the need to dispose of the share.

Note 6. Segment reporting

The Company's total revenue has been generated by the sole activity of the Company which is the finance lease and all real estate properties leased out under the finance lease are located in Estonia. Due to this, the Company has only one operating and one geographical segment. In 2008, interest income was earned on the finance lease in the amount of EEK 270 138 (2007: EEK 280 248).

Note 7. Operating expenses

	2008 EEK	2007 EEK	2008 EUR	2007 EUR
Bookkeeping and auditing	81 892	57 820	5 234	3 695
Other operating expenses	31 550	28 168	2 016	1 801
Total	**113 442**	**85 988**	**7 250**	**5 496**

Note 8. Transactions with related parties

In preparing the financial statements of LHV Ilmarise Kinnisvaraportfelli OÜ, the following entities have been considered related parties:

- owners (parent and owners of the parent);

- other entities in the same consolidation group (incl. fellow subsidiaries and associates);
- management and supervisory boards;
- close relatives of the persons mentioned above and the entities related to them.

During 2008, services (i.e. book-keeping) were purchased from the parent AS Lõhmus, Haavel & Viisemann for EEK 28 320 (EUR 1 810). During 2007, the same services were purchased for EEK 28 320 (EUR 1 810).
Neither remuneration nor other benefits were paid to the member of the Management Board in 2008 and 2007.

Note 9. Risk management

The Company's business is exposed to finance and operating risks. The overall risk management system attempts to minimise possible unfavourable effects on the Company's financial activities. The Company's Management Board and the finance department of LHV are responsible for management of the Company's risks.

9.1. Financial risks

- Credit risk
- Liquidity risk
- Market risk

Credit risk

The Company constantly monitors the adherence of the payment of receivables by the customers. The legal title of the property leased under finance lease agreements remains with the Company until lease receivables have been collected in full. Therefore, the Company does not have significant credit risk under the assumption that prices do not decrease significantly in the real estate market due to which the value of collateral would fall below the nominal value of the amount of receivables. The prices in the real estate market which had significantly increased until now have fallen to the year 2004 level when according to the assessment reports, the collaterals were adequate to cover the finance lease receivables and there were no risks arising from the collateral.

Allocation of finance lease receivables by due dates:	**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 receivables	**4 245 873**	**4 410 230**

As at 31.12.2008, past due receivables have been written down in the amount of EEK 11 930 (EUR 762), as at 31.12.2007, no receivables had been written down.

Liquidity risk

The maturities of the Company's bonds issued match the scheduled collections arising from finance lease agreements. In order to avoid the liquidity risk related to the delay in rental payments, the Company has an additional guarantee from AS Lõhmus, Haavel & Viisemann in order to enable performing the contractual payments related to the bonds issued on time. A payment for special purposes has also been collected from OÜ Ilmarise Kvartal, (see Note 2), from which the real estate lease portfolio was taken over. See also Note 9.2.

Undiscounted cash flows of bonds issued by due dates:	**31.12.2008**	**31.12.2007**
up to 1 year	415 483	403 940
between 1 and 5 years	1 630 811	1 629 211
over 5 years	4 914 605	5 332 414
Total	**6 960 898**	**7 365 564**

Market risk

Due to the Company's business, interest rate risk can be considered the Company's main market risk. For hedging the interest rate risk, floating interest rates have not been used when concluding finance lease agreements, all finance lease agreements and also bonds issued have fixed interest. The interest rates of finance lease agreements are between 6-8% and the interest rate on bonds issued is 5.8%. Bonds are redeemed according to the scheduled collections arising from finance lease agreements. When customers wish to terminate finance lease agreements prematurely, the Company is entitled to redeem the bonds issued in the amount of the additional collection. Therefore, the Company does not bear major interest risk.

All contracts of the Company have been concluded in Estonian kroons; therefore, there is no foreign currency risk.
There are no financial instruments with price risk in the Company's balance sheet.

9.2. Fair value of financial assets and financial liabilities

The fair values of the expected cash flows of finance lease receivables and bonds issued may differ from their carrying amounts. The lessees are entitled to terminate their agreement practically any time during the lease term; therefore it would not be appropriate to consider these cash flows from current agreements as expected cash flows on the basis of the schedules established in the agreement. Therefore, the Management Board has evaluated and concluded that the combined fair value of lease receivables and bonds issued does not significantly differ from their carrying amount as at 31.12.2008 and 31.12.2007. During the period between the conclusion of finance lease agreements and the issue of bonds until the balance sheet date, the 6-month EURIBOR has moved from 2.253% 2.971%, which gives an indication of the overall change in market interest rates during the period.

9.3. Operating risk

Operating risk is a potential loss caused by inadequate or nonperforming processes, employees and information systems, or external factors. Pursuant to the policy established at the parent LHV, the principle of segregation of duties is used in the working procedures of LHV Ilmarise Kinnisvaraportfelli OÜ, according to which there should be an approval by at least two employees or units in order to carry out a transaction or procedure.

9.4 Effects of the economic crisis

The Company has evaluated the effects of the global liquidity crisis and the related overall economic crisis on its business. An important factor impacting the Company's activities is the solvency of its customers. The Company has not noticed a decline in customer solvency. Management cannot reliably predict the effect of the economic crisis on the Company's activities and financial position in 2009. Management believes that it has applied all necessary measures to ensure the sustainability of the Company's operations.

Note 10. Trading statistics

Since their first quotation on the stock exchange at 13.10.2005 until 31.12.2008, there have been no transactions with the bonds of LHV Ilmarise Kinnisvaraportfelli OÜ and therefore, there is no information available on price movements.

Note 11. Contingent liabilities

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

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of LHV Ilmarise Kinnisvaraportfelli OÜ

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

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

/signed/

Tiit Raimla
AS PricewaterhouseCoopers

/signed/

Relika Mell
Authorised Auditor

14 April 2009

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

Profit allocation proposal

The profit for 2008 was EEK 0, therefore no profit allocation proposal has been prepared.

Signature of the Management Board to the 2008 Annual Report

	Name	Date	Signature
Management Board:			
Member of the Management Board	Tarmo Jüristo	14.04.2009	/signed/

Distribution of revenue according to EMTAK 2008

EMTAK	Area of activity	2008
64911	Financial leasing	270 138
	Total revenue	**270 138**