

**OPEN-END INVESTMENT FUND**  
**“Citadele Baltic Sea Equity Fund”**

**FINANCIAL STATEMENTS FOR THE PERIOD FROM 20.11.2013. TO 31.12.2013.**  
(the 1<sup>st</sup> financial year)

**PREPARED IN ACCORDANCE WITH FCMC REGULATIONS ON “ANNUAL ACCOUNTS OF INVESTMENT FUNDS”  
AND INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION**

**Riga, 2014**

**OIF “Citadele Baltic Sea Equity Fund”  
Annual report for the year ended 31 December 2013  
Information on the investment fund**

Information on the Investment fund	3
Investment management company report	4
Statement of responsibility of the Board of the investment management company	6
Custodian bank report	7
Financial Statements:	
Statement of financial position	8
Statement of comprehensive income	9
Statement of changes in net assets	10
Statement of cash flows	11
Notes	12
Auditors' Report	22

**OIF “Citadele Baltic Sea Equity Fund”**  
**Annual report for the year ended 31 December 2013**  
**Table of Contents**

Name of fund	Citadele Baltic Sea Equity Fund
Type of fund	Open-end investment fund
Registration date of fund:	7 March 2013
Registration date of fund:	20 November 2013
Number of fund:	FL/27-098/258
Name of the investment management company:	“Citadele Asset Management” IPAS
Registered office of the investment management company:	Republikas laukums 2, Rīga, LV-1010, Latvia
Registration number of the investment management company:	40003577500
Licence number of the investment management company:	06.03.07.098/285
Name of the custodian bank:	“Citadele banka” AS
Registered office of the custodian bank:	Republikas laukums 2, Rīga, LV-1010, Latvia
Registration number of the custodian bank:	40103303559
Names and positions of Council Members and Board Members of the investment management company:	<p><i>Council of the investment management company:</i>  Chairman of the Council – Juris Jākobsons – appointed on 30.09.2010.  Deputy Chairman of the Council – Vladimirs Ivanovs – appointed on 01.11.2012.  Member of the Council – Philip Nigel Allard – appointed on 01.11.2012.</p> <p><i>Board of the investment management company:</i>  Chairman of the Board – Uldis Upenieks – appointed on 01.11.2012.  Member of the Board – Zigurds Vaikulis – appointed on 30.03.2007.  Member of the Board – Sergejs Zaicevs – resigned on 25.01.2013.  Member of the Board – Sergejs Zaicevs – resigned on 28.06.2013.</p> <p><i>All the duties of the Council and Board members stated in the legislation of the Republic of Latvia and the Statutes of the investment management company are performed by the Council and Board members.</i></p>
The related rights and obligations of the management of the investment fund	
Names of Fund managers (members of the investment committee):	Kristiāna Janvare – appointed on 15.08.2008 Andris Kotāns – appointed on 26.01.2011. Elchin Jafarov – appointed on 25.09.2011. Igors Lahtadirs – appointed on 21.11.2013.
The related rights and obligations of the management of the fund	All the duties of the Fund managers stated in the legislation of the Republic of Latvia, Statutes of the investment management company and Fund prospectus are performed by the Fund managers.
Auditor:	KPMG Baltics SIA Vesetas iela 7, Rīga Rīga, LV-1013 License No 55 Latvia

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**  
**Investment management company report**

The assets of the open-end fund "Citadele Baltic Sea Equity Fund" (hereinafter – the Fund) are managed by the asset management company "Citadele Asset Management" having its registered office at Republikas laukums 2a, Riga, LV-1010 (hereinafter - the Company) and registration number 40003577500.

The Company holds a licence No. FL/27-098/258 for investment operations, last re-registered on 7 March 2013.

On 20 November 2013 "Citadele Baltic Sea Countries Equity Fund" (ISIN LT0000950008) registered in Lithuania was merged with „Citadele Baltic Sea Equity Fund" (ISIN LV0000400794) registered in Latvia via cross-border merger. After the merger "Citadele Baltic Sea Countries Equity Fund" registered in Lithuania ceased to exist but all investors received the same number of share of the fund registered in Latvia.

The Fund aims to achieve long-term capital appreciation by investing principally in shares of issuers which are registered or operate in the Baltic Sea region. The Fund derives income in the form of share appreciation and dividends. The Fund's functional currency is euro.

In 2013 the European stock markets continued their growth. The growth was based on the overall positive mood of the investors due to the regional recovery features and results of the companies and their future perspectives, which was even slightly prudent. With such forecasts there was a place left for possible positive surprises the effect of which consequently would be even more obvious. Stock markets were also supported by news that the USA government downtime in the end of the year has not caused material losses. Therefore value of shares index STOXX Europe 600, which is considered a representative regional market index, including the largest companies from 18 European countries, in 2013 increased by 1.7%. At the same time, USA S&P500 stock market index increased by 1.1%. As regards the Fund's investments in the stock markets of the region, in 2013 the most rapid increase in value in their quoted currencies was experienced by the Danish, German and Swedish stock markets, increasing by 4.8%, 3.8% and 3.0% respectively. On the other hand the most rapid downturn was experienced by the Polish stock market that lost 7.5% of its value as there were still doubts about the planned pension reforms and their impact on the market. The Baltic stock market index that includes Latvian, Lithuanian and Estonian companies during the same period lost 1.6% of its value. The other stock market indices increased by 0.6% and 1.3% (Finnish and Norwegian), while the Russian RTSI lost 0.3% of its value.

The Fund's net asset in the end of 2013 amounted to 2,349,592. The Fund's share price in 2013 decreased by 0.12 LVL and amounted to 29.77 LVL at year end. Value of the Fund's share in 2013 increased by 0.40% denominated in lats and increased by 0.79% in Fund's case currency.

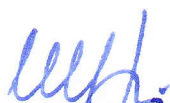
Overall the most positive contribution to the Fund performance was provided by investments in shares of German Deutsch Post (+7.4%), Bayer (+8.2%) and Daimler (+5.9%), as well as Danish TDC (+9.9%) and DSV (+10.8%). The negative contribution is related to investments in Scandinavian shares – Norwegian Seadrill (-10.4%) and Subsea 7 (-8.3%), Swedish Tele2 (-9.1%) and LM Ericsson (-4.8%), as well as Estonian Tallink (-6.8%). From the point of view of sectors, the biggest contribution to the Fund's results was from consumer services, logistics and financial services sectors, while pharmacy, utilities and IT sectors had the largest negative contribution.

Assets by sectors in 2013 were not changed much and sectors with the largest proportion in the Fund as at the end of the year was logistics sector, followed by financial services and consumer services sectors. Sectors with the smallest proportion in the Fund in 2013 was utilities, telecommunication services and IT sectors. In general changes in proportions in 2013 were slight, as a result free cash resources in the Fund increased from 7.9% to 9.9% and the only sector whose proportion in the Fund changed for more than one percent was energy sector. In 2013 changes were experienced by German companies, as there were positive forecasts regarding recovery of Europe - shares of raw materials sector company HeidelbergCement were added to the Fund, as well as proportion in the consumer services sector company Daimler was increased, which at the yearend was the item with the largest proportion. Such position reveal also the Fund's vision as regards the renewal of consumer's purchasing capacity not only in Europe but also in China and other developing countries. Geographically the Fund's structure in 2013 was dominated by the German issuers where there were almost a third of the Fund's assets (31.9%), therefore revealing the significance of the largest European economy in the Fund's structure. As the second, third and fourth country with the largest exposition as at the end of 2013 was Norway (11.7%), Russia (10.7%) and Sweden (10.1%) respectively. Exposition in the Baltics, including the free cash resources in total amounted to 21.0% of the Fund's assets. The smallest proportion in the Fund was that of the Polish shares that amounted to 2.3% including only two companies. Changes in the proportions of countries in 2013 were slight, as a result exposition to German companies increased from 30.7% to 31.9%. Exposition to Norwegian and Russian companies decreased by the largest amount, from 12.7% to 11.7% and 11.6% to 10.7% respectively.

OIF "Citadele Baltic Sea Equity Fund"  
Annual report for the year ended 31 December 2013  
Investment management company report

Management costs in the amount of EUR 1,685 or 0.05% of the average value of net assets in the period that does not exceed the maximum value of 4.00% provided in the Fund's prospects, were covered in the reporting period using the Fund's assets.

Based on the estimated growth tempo of economics and comparative evaluations, as well as economic recovery in the European periphery countries, the Investment Plan's manager believes that the European shares have reasonable potential to continue their growth of the previous year. In addition, it is expected that there will be improvements in the consumers' behaviour (purchasing capacity) and availability of loans both to the businessmen and inhabitants. Regardless of the above factors, the Investment Plan's manager sees also potential risks that might threaten the results of the European businessmen that would consequently cause ambiguous growth of the shares prices. These risks include unimpressive inflation forecasts for Eurozone and increasing value of euro exchange rate against USD and other currencies to which there is a considerable exposition of sales volumes of the local businessmen. It has to be noted that additional risk for part of the European businessmen might be caused by their realization volumes exposition towards the developing countries that might impact the profit indices of companies, if the estimated growth tempo in these regions would decrease.

  
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Uldis Upenieks  
Chairman of the Board  
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Andris Kotāns  
Member of the Investment  
Committee  
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Igors Lahtadirs  
Member of the Investment  
Committee  
\_\_\_\_\_  
Elchin Jafarov  
Member of the Investment  
Committee

In Riga  
25 April 2014

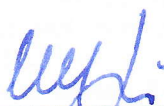
**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**  
**Statement of responsibility of the Board of the investment management company**

The Board of the investment management company (hereinafter - the Company) is responsible for the preparation of the financial statements of the investment fund Citadele Baltic Sea Equity Fund (hereinafter - the Fund).

The financial statements set out on pages 9 to 22 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2013 and the results of its operations for the respective periods then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Accounts of Investment Funds, on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

The Board of the Company is responsible for the maintenance of proper accounting records, the safeguarding of the assets of Citadele Baltic Sea Equity Fund - USD and the prevention and detection of fraud and other irregularities in the Fund. The Board is also responsible for operating the Fund in compliance with the Law of the Republic of Latvia on Investment Management Companies, regulations of the Financial and Capital Market Commission (FCMC), and other laws and regulations of the Republic of Latvia.



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Uldis Upenieks  
Chairman of the Board

In Riga  
25 April 2014



## REPORT OF THE CUSTODIAN BANK

for the period of time: as of February 05, 2013 till December 31, 2013

The "Citadele Baltic Sea Equity Fund"

Hereby AS "Citadele banka", registered in the Commercial Register of the Register of Enterprises of the Republic of Latvia (RL) on 30.06.2010 with a unified registration number No. 40103303559, registered address: Riga, Republikas laukums 2A, certifies that:

- according to the Custodian Bank Agreement signed on February 05, 2013, AS "Citadele banka" (hereinafter – the Custodian Bank) is performing the functions of custodian bank for the open investment fund "Citadele Baltic Sea Equity Fund" (hereinafter – the Fund) established by IPAS "Citadele Asset Management" (hereinafter – the Company) ;
- the Custodian Bank performs the functions of the custodian bank according to the law "On Investment Management Companies", provisions of the Financial and Capital Markets Commission and other applicable legal acts of RL.

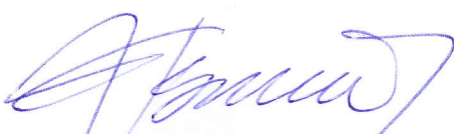
The Custodian bank is liable for the fulfilment of Custodian Bank Agreement and requirements of legal acts of RL applicable to the custodian banks. Main obligations of the Custodian Bank are the following:

- to hold the assets of the Fund, as well as documents certifying the property rights pursuant to the requirements of legal acts of RL;
- to maintain the Funds accounts, to ensure the acceptance and execution of the Company's orders, as well as the settlement of orders pursuant to the legal acts of RL, the Custodian Bank Agreement and the current market practice;
- to provide the Company with regular reports on the assets of the Fund and its value (prices of securities);
- to follow the accuracy of determination of the Fund's value and the value of the Fund's shares performed by the Company and its compliance with the legal acts of RL;
- to follow the accuracy and lawfulness of the emission, sale and redemption of the investment certificates performed by the Company;

For the period from February 05, 2013 till December 31, 2013:

- emission, sale and redemption of investment certificates had been performed pursuant to requirements of the law "On Investment Management Companies", the Fund's prospectus and the Fund Management Regulations;
- the holding of the Fund's assets had been performed pursuant to the requirements of the law "On Investment Management Companies" and the Custodian Bank Agreement;
- calculation of the Fund's net asset value had been performed according to the requirements of the law "On Investment Management Companies", regulations of the Financial and Capital Markets Commission (FCMC), the Fund's prospectus and the Fund Management Regulations;
- orders of the Company and the transactions performed with the assets of the Fund had been performed according to the requirements of the law "On Investment Management Companies", the Fund's prospectus, the Fund Management Regulations and Custodian Bank Agreement.

No errors or incompliances were detected in Company's actions handling Fund's assets over the reporting period.

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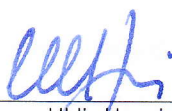
Guntis Beļavskis  
Chairman of the Executive Board, *p.p.*

Riga, March 31, 2014

OIF "Citadele Baltic Sea Equity Fund"  
Annual report for the year ended 31 December 2013  
Statement of financial position  
(LVL)

Note		<u>31.12.2013.</u>
	<b>Assets</b>	
3	Demand deposits with credit institutions	236,577
	Financial assets held for trading	
4	Shares	<u>2,116,916</u>
	<b>Total assets</b>	<u><b>2,353,493</b></u>
	<b>Liabilities</b>	
	Financial liabilities held for trading	
5	Accrued liabilities	<u>(3,901)</u>
	<b>Total liabilities</b>	<u><b>(3,901)</b></u>
	<b>Net assets</b>	<u><b>2,349,592</b></u>

The accompanying notes on pages 13 to 24 form an integral part of these financial statements.

  
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Uldis Upenieks  
Chairman of the Board

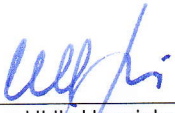
In Riga  
25 April 2014



**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**  
**Statement of financial position**  
**(LVL)**

Note	<u>2013</u>
<b>Income</b>	
Dividend income	2,641
<b>Total income</b>	<u>2,641</u>
<b>Expenses</b>	
Investment management company fee	(4,625)
Custodian bank fee	(416)
Other fund management expenses	(43)
<b>Total expenses</b>	<u>(5,084)</u>
<b>Increase in investment value</b>	
6 Realized increase in investment	37,682
7 Non-realized increase of investments	<u>37,071</u>
<b>Total increase in investment</b>	<u>74,753</u>
Loss from revaluation of foreign exchange	<u>(7,938)</u>
<b>Comprehensive income</b>	<u><u>64,372</u></u>

The accompanying notes on pages 13 to 22 form an integral part of these financial statements.

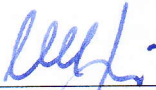
  
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 Uldis Upenieks  
 Chairman of the Board

In Riga  
 25 April 2014

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**  
**Statement of changes in net assets**  
**(LVL)**

	<u>2013</u>
Net assets as at the beginning of the period	-
Comprehensive income	2,067,987
Transactions with investment certificates	
<i>Inflow from sale of investment certificates</i>	326,977
<i>Outflow on redemption of investment certificates</i>	<u>(45,372)</u>
Net asset increase from transactions with investment certificates	<u>281,605</u>
Increase in net assets for the period	<u>2,349,592</u>
<b>Net assets as at the end of the reporting period</b>	<b><u>2,349,592</u></b>
Issued investment certificates as at the beginning of the reporting period	-
Issued investment certificates as at the end of the reporting period	<u>78,925</u>
Net asset value per investment certificate as at the beginning of the reporting period	-
<b>Net asset value per investment certificate as at the end of the reporting period</b>	<b><u>29.77</u></b>

The accompanying notes on pages 13 to 22 form an integral part of these financial statements.

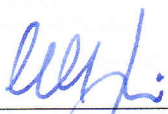
  
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 Uldis Upenieks  
 Chairman of the Board

In Riga  
 25 April 2014

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**  
**Statement of cash flows**  
**(LVL)**

	<u>2013</u>
Dividend income	2,641
Investment management expenses	(1,183)
Acquisition of financial assets	(83,996)
Disposal of financial assets	37,624
Foreign currency translation result	(7)
<b>Increase/ (decrease) in cash from operating activities</b>	<b><u>(44,921)</u></b>
Inflow from sale of investment certificates	326,977
Outflow on redemption of investment certificates	<u>(45,372)</u>
<b>Increase in cash from financing activities</b>	<b><u>281,605</u></b>
<b>Increase in cash</b>	<b><u>236,684</u></b>
<b>Cash as at the beginning of the reporting period</b>	<b>-</b>
<b>Result of revaluation of cash denominated in foreign currencies</b>	<b><u>(107)</u></b>
<b>Cash as at the end of the reporting period</b>	<b><u>236,577</u></b>

The accompanying notes on pages 13 to 22 form an integral part of these financial statements.

  
 \_\_\_\_\_  
 Uldis Upenieks  
 Chairman of the Board

In Riga  
 25 April 2014

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**  
**Notes**  
**(LVL)**

## **1. General information**

Name of fund	Citadele Baltic Sea Equity Fund
Type of fund	Open-end investment fund
Fund's business activity:	Investments mainly in equity shares of corporate entities incorporated or mainly operating in Russian Federation.
Name of the investment management company:	"Citadele Asset Management" IPAS Republikas laukums 2, Rīga, LV-1010, Latvia

## **2. Summary of significant accounting policies**

### ***Basis of preparation***

The financial statements of OIF Citadele Baltic Sea Equity Fund – EUR have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (hereinafter - FCMC) No.99 on Annual Accounts of Investment Funds.

The financial statements are prepared on a historical cost basis, as modified for the measurement at fair value of held-for-trading financial instruments.

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 20 November 2013 to 31 December 2013.

On 20 November 2013 "Citadele Baltic Sea Countries Equity Fund" (ISIN LT0000950008) registered in Lithuania was merged with „Citadele Baltic Sea Equity Fund" (ISIN LV0000400794) registered in Latvia via cross-border merger. After the merger "Citadele Baltic Sea Countries Equity Fund" registered in Lithuania ceased to exist but all investors received the same number of share of the fund registered in Latvia.

### ***Critical accounting estimates and judgements***

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires investment management company's management to make assumptions and exercise its judgement in the process of applying the Fund's accounting policies. IFRS requires that in preparing the financial statements, the management makes estimates and assumptions that affect the reported amounts of assets and liabilities and required disclosure at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

### ***Income and expense recognition***

Interest income and expense items are recognised on an accruals basis.

Interest income and expense are recognized in the statement of comprehensive income by taking into account the effective interest rate of assets/liabilities. Interest income and expense include amortization of discount or premium or other differences between the accounting amount of an initial interest bearing instrument and its amount at the moment of redemption, calculated by the effective interest rate method.

Dividend income is recognised at the moment of receipt. In some situations dividend income can be recognized when share price decreases after the issuer's announcement on payment of dividends.

Remuneration to investment management company of the Fund and the custodian bank is calculated at a fixed rate of the Fund's assets and is accrued daily, but paid out once a month.

### ***Foreign currency revaluation***

The Fund's functional currency is the euro but, according to the FCMC requirements, the Fund ensures accounting also in Latvian lats. These financial statements are prepared based on transaction accounting in Latvian lats (LVL), which is the presentation currency of the Fund.

Transactions denominated in foreign currencies are translated in Latvian lats (LVL) at the official exchange rate established by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats (LVL) at the official exchange rate established by the Bank of Latvia at the last day of the reporting period.

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**  
**Notes**  
**(LVL)**

## **2. Summary of significant accounting policies (continued)**

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Any gain or loss resulting from exchange rates fluctuations is included in the statement of comprehensive income as gain or loss from the revaluation of foreign currency positions.

The exchange rates established by the Bank of Latvia (LVL to 1 foreign currency unit) and mainly applied when preparing the statement financial position of the Fund can be specified as follows:

<u>Currency</u>	<u>31.12.2013.</u>
DKK	0.0942
NOK	0.0837
PLN	0.1690
SEK	0.0781
USD	0.5150

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for the Latvian lat against the euro, i.e. 0.702804. Since that date, the Bank of Latvia has undertaken to ensure that the market rate will not differ from the fixed rate by more than 1%. Therefore, the Fund's profit or loss due to fluctuations of the euro exchange rate will not be material. See Note 15 on the Republic of Latvia adopting euro as of 1 January 2014.

### **Cash**

Cash comprises Fund's demand deposits with credit institutions.

### **Financial instruments**

Financial instruments are classified at fair value through profit or loss and loans and receivables. The classification depends on the purpose of financial instrument acquisition. The management determines classification of financial instruments at the moment of their initial recognition.

#### **Financial assets and liabilities at fair value through profit or loss**

Financial instruments at fair value through profit or loss include financial assets held for trading. All financial assets at fair value through profit and loss, belonging to the Fund, are classified as financial assets held for trading.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans and receivables include deposits with credit institutions. Deposits with credit institutions are carried at amortized cost, using effective interest rate less provisions for impairment, if applicable.

Impairment provisions are created when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for impairment is the difference between the amortized cost and the recoverable amount.

#### **Investments in securities**

All investments in securities are classified as held-for-trading securities, i.e. securities are acquired for generating a profit from short-term fluctuations in price or dealer's margin.

Held-for-trading securities are recognised at fair value based on available market prices. The result of re-measuring trading securities at fair value is included in the statement of comprehensive income as increase / (decrease) in investment.

Securities are revaluated on the basis of Bloomberg's available financial information on the bid prices of securities. Unlisted securities are evaluated on the basis of the custodian bank's information on transactions, but in case such information is not available, respective securities are evaluated at their amortised cost. Securities purchase and sale transactions are recognised on the date of settlements. The cost of securities sold is defined using FIFO (first in, first out) method.

#### **Derivatives**

For currency risk management purposes, the Fund is involved in forward foreign exchange transactions – forwards and swaps. For the accounting purposes, all derivatives are classified as held-for-trading and accounted as follows.

Subsequent to initial recognition and measurement, outstanding forward foreign exchange contracts are carried in the statement of financial position at their fair value. The fair value of these instruments is recognised in the statement of financial position under "Derivatives". The notional amounts of these instruments are reported in the notes of the financial statements.

Gains or losses from changes in assets and liabilities arising on forward foreign exchange contracts are recognised in the statement of comprehensive income as foreign currency revaluation result.



**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**

**Notes**  
**(LVL)**

**2. Summary of significant accounting policies (continued)**

***Fair value of financial assets and liabilities***

The fair value of financial assets and liabilities represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. The fair value of liabilities represent default risk.

When available, the Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. Market is considered active if transitions with assets or liabilities occur often enough and in the sufficient amount to be able to obtain information on the prices.

If a price quoted in active market is not available, the Fund applies valuation methods in which there are observable market data used as much as possible but unobservable input data usage is reduced to minimum. The selected valuation method includes all factors that would be considered by the market participants when determining the transaction price.

During the initial recognition the best evidence of fair value of a financial instrument is the transaction price, i.e. fair value of price received or paid. If the Fund determines that the fair value as at the initial recognition differs from the transaction price and fair value cannot be confirmed by identical quoted price of asset or liabilities in active market or valuation methods using only observable data, results, financial instrument is initially assessed in the fair value that is adjusted to represent difference between the fair value as at the date of initial recognition and transaction price. Later this difference is recognized in the profit or loss considering the expected period of use but not later than as at the date when the value can be completely based on observable market data or the transaction is completed.

Portfolios of financial assets and financial liabilities exposed to market risk and credit risk managed by the Fund on the basis of net exposure either to market risk or credit risk are evaluated considering price that would be paid to sell the net long position (or paid to transfer the net short position) for certain risks. These adjustments on the portfolio level are attributed to certain assets and liabilities on the basis of relative risk adjustments as regards each separate instrument in the portfolio.

IFRS 7 states the hierarchy of valuation techniques based on if the technique employs market data that can be monitored or market data that cannot be monitored. The Fund classifies all financial assets using valuation techniques listed in the 1<sup>st</sup> category of this hierarchy. Prices quoted in active market (unadjusted) are used in the valuation technique. This level includes shares quoted in stock exchange as well as debt securities and other financial instruments sold in the stock exchange.

***Taxes***

The Fund's income is subject to income tax in the country of its origin. Basically, the Fund's income is exempt from income taxes. The Fund is not a Latvian corporate income tax payer.

On 1 December 2009 Saeima has approved changes to the law "On personal income tax", stating that starting with 1 January 2010 capital gains are subject to 15% income tax charge. For investment funds capital gain is a difference between selling and purchase value of investment certificates. In accordance with transition norms of the law "On personal income tax", in order to calculate income from sale of investment certificates purchased before endorsement of the law (before 01.01.2010) one has to apportion difference between selling and purchase value to the number of months investment held and multiply this by number of months investment held from 01.01.2010 until the settlement date. Changes in the law are applicable only to private persons being residents of the Republic of Latvia.

***Change in accounting policies***

The Fund has applied the accounting policies described in the note to all reporting periods disclosed in these financial statements, except for the following changes.

The Fund has adopted the following new standards and amendments to standards, including the consequent amendments in other standards the initial application date of which was 1 January 2013.

*(i) Fair value measurement*

IFRS 13 introduces a common structure for fair value measurement and disclosures on fair value determination in cases when it is required or permitted according to other IFRS. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard replaces and adjusts requirements of other IFRS, including IFRS 7, as regards disclosures on measurement of fair value.

According to IFRS 13 transitional provisions, the Fund has applied the new fair value measurement guidelines prospectively and no comparable information is provided for the new information disclosed.

*(ii) Other amendments to standards*

The following amendments to standards that became effective on 1 January 2013 have not impacted these financial statements.

- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IFRS 7 - Offset of financial assets and liabilities
- Amendments to IAS 19 (2011) – Employee Benefits.
- Amendments to IAS 12 – Deferred tax: recovery of assets.

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**  
**Notes**  
**(LVL)**

## 2. Summary of significant accounting policies (continued)

### *New standards and interpretation effective after 1 January 2013*

Several new standards, amendments to standards and interpretations effective after 1 January 2013 that have not been applied to these financial statements. Standards and interpretations application of which will not affect the financial statements are listed below.

- (i) IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of interests in other entities (2011).
- (ii) IAS 27 (2011) Separate financial statements (effective for annual periods beginning on or after 1 January 2014),
- (iii) IAS 28 (2011) Investments in associated and joint ventures (effective for annual periods beginning on or after 1 January 2014).
- (iv) Amendments to IAS 32 "Financial Instruments: *Presentation*" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- (v) Amendments to IFRS 10 and 12 and IAS 27 as regards investment companies (effective for annual period beginning on or after 1 January 2014).
- (vi) Amendments to IAS 36 as regards disclosures about recoverable amount of non-financial assets (effective for annual period beginning on or after 1 January 2014).
- (vii) Amendments to IAS 39 as regards renewal of financial instruments and continuing of hedge accounting (effective for annual period beginning on or after 1 January 2014).

## 3. Demand deposits with credit institutions

	31.12.2013.	% of Fund's net assets as at 31.12.2013.
Demand deposits with credit institutions, JSC Citadele banka	236,577	10.07%
<b>Total demand deposits with credit institutions</b>	<b>236,577</b>	<b>10.07%</b>

The Fund receives interest on demand deposits at fixed rates.

## 4. Shares

	31.12.2013.	% of Fund's net assets as at 31.12.2013.
<b>Equity shares</b>		
OECD region equity shares	1,719,637	73.19%
Non-OECD region equity shares	283,259	12.06%
Latvia	114,020	4.85%
<b>Total shares</b>	<b>2,116,916</b>	<b>90.10%</b>

All shares are classified as securities held for trading.

As at 31 December 2013, all the Fund's shares were traded on regulated markets

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**

**Notes**  
**(LVL)**

**4. Shares (continued)**

The table below presents shares by the issuer's country of residence:

Financial instrument	ISIN code	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2013	% of Fund's net assets as at 31.12.2013.
<b>Financial instruments traded on regulated markets</b>				<b>83,995</b>	<b>2,116,916</b>	<b>90.10%</b>
<b>German issuers</b>				<b>45,620</b>	<b>749,577</b>	<b>31.90%</b>
DAIMLER AG	DE0007100000	EUR	1,700	12,620	75,342	3.21%
SIEMENS AG	DE0007236101	EUR	1,050	1	73,544	3.13%
DEUTSCHE POST AG	DE0005552004	EUR	3,500	1	65,529	2.79%
ALLIANZ SE	DE0008404005	EUR	700	1	64,004	2.72%
VOLKSWAGEN AG	DE0007664039	EUR	400	1	57,293	2.44%
LINDE AG	DE0006483001	EUR	470	1	50,621	2.15%
BAYER AG	DE000BAY0017	EUR	700	2	50,451	2.15%
LPKF LASER & ELECTRONICS AG	DE0006450000	EUR	3,074	1	40,465	1.72%
SAP AG	DE0007164600	EUR	900	1	39,191	1.67%
ADIDAS AG	DE000A1EWWW0	EUR	600	2	38,702	1.65%
HUGO BOSS AG	DE000A1PHFF7	EUR	500	2	36,444	1.55%
DEUTSCHE LUFTHANSA AG	DE0008232125	EUR	3,300	2	35,624	1.52%
BASF SE	DE000BASF111	EUR	650	1	35,573	1.51%
HEIDELBERGCEMENT AG	DE0006047004	EUR	850	32,980	32,522	1.38%
DEUTSCHE BANK AG	DE0005140008	EUR	1,200	2	29,214	1.24%
HENKEL AG & CO KGAA	DE0006048432	EUR	420	2	25,058	1.07%
<b>Norwegian issuers:</b>				<b>19,623</b>	<b>274,932</b>	<b>11.71%</b>
STATOIL ASA	NO0010096985	NOK	5,400	1	66,893	2.85%
DNB ASA	NO0010031479	NOK	5,900	1	53,976	2.30%
GJENSIDIGE FORSIKRING ASA	NO0010582521	NOK	5,000	2	48,420	2.06%
SUBSEA 7 SA	LU0075646355	NOK	4,200	19,616	40,357	1.72%
MARINE HARVEST ASA	NO0003054108	NOK	60,000	2	36,460	1.55%
SEADRILL LTD	BMG7945E1057	NOK	1,400	1	28,826	1.23%
<b>Russian issuers:</b>				<b>18,721</b>	<b>251,809</b>	<b>10.72%</b>
LUKOIL	US6778621044	USD	1,750	1	55,697	2.37%
NOVATEK OAO	US6698881090	USD	800	2	55,455	2.36%
SBERBANK	US80585Y3080	USD	8,400	18,712	54,032	2.30%
MOBILE TELESYSTEMS OJSC	US6074091090	USD	3,300	2	36,386	1.55%
SEVERSTAL OAO	US8181503025	USD	5,000	1	25,068	1.07%
MAGNIT OAO	US55953Q2021	USD	750	2	25,164	1.07%
SIBENERGOHOLDING	RU000A0JPW04	USD	44,385	1	7	0.00%
<b>Swedish issuers:</b>				<b>12</b>	<b>237,468</b>	<b>10.11%</b>
ELECTROLUX AB	SE0000103814	SEK	4,100	2	54,019	2.30%
INVESTOR AB	SE0000107419	SEK	2,800	2	48,525	2.07%
NORDEA BANK AB	SE0000427361	SEK	6,500	2	43,633	1.86%
ATLAS COPCO AB	SE0000101032	SEK	2,300	2	31,974	1.36%
TELEFONAKTIEBOLAGET LM ERICSSON	SE0000108656	SEK	5,000	2	30,810	1.31%
TELE2 AB	SE0005190238	SEK	5,000	2	28,507	1.21%
<b>Danish issuers:</b>				<b>8</b>	<b>201,647</b>	<b>8.58%</b>
AP MOELLER - MAERSK A/S	DK0010244508	DKK	9	2	49,723	2.12%
COLOPLAST A/S	DK0060448595	DKK	1,200	2	40,649	1.73%
TDC A/S	DK0060228559	DKK	8,000	1	39,338	1.67%
DSV A/S	DK0060079531	DKK	2,150	1	36,374	1.55%
NOVO NORDISK A/S	DK0060102614	DKK	380	2	35,563	1.51%
<b>Estonian issuers:</b>				<b>3</b>	<b>115,772</b>	<b>4.93%</b>
OLYMPIC ENTERTAINMENT GROUP	EE3100084021	EUR	41,000	1	52,731	2.24%
TALLINK GROUP LTD	EE3100004466	EUR	63,436	1	38,921	1.66%
SILVANO FASHION GROUP AS	EE3100001751	EUR	13,000	1	24,120	1.03%
<b>Latvian issuers:</b>				<b>3</b>	<b>114,020</b>	<b>4.85%</b>
OLAINFARM	LV0000100501	LVL	11,000	1	54,560	2.32%
GRINDEKS	LV0000100659	LVL	6,000	1	37,860	1.61%
VALMIERAS STIKLA SKIEDRA JSC	LV0000100485	LVL	15,000	1	21,600	0.92%
<b>Finnish issuers:</b>				<b>2</b>	<b>86,243</b>	<b>3.67%</b>
FORTUM OYJ	FI0009007132	EUR	4,000	1	46,807	1.99%
KESKO OYJ	FI0009000202	EUR	2,100	1	39,436	1.68%
<b>Polish issuers:</b>				<b>3</b>	<b>53,998</b>	<b>2.29%</b>
KGHM POLSKA MIEDZ SA	PLKGHM000017	PLN	1,500	2	29,229	1.24%
POWSZECHNY ZAKLAD UBEZPIECZEN	PLPZU0000011	PLN	320	1	24,769	1.05%

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**

**Notes**  
**(LVL)**

Financial instrument	ISIN code	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2013	% of Fund's net assets as at 31.12.2013.
<b>Lithuanian issuers:</b>				<b>0</b>	<b>31,450</b>	<b>1.34%</b>
CITY SERVICE AB	LT0000127375	EUR	25,000	0	31,450	1.34%
<b>Total shares:</b>				<b>83,995</b>	<b>2,116,916</b>	<b>90.10%</b>

**5. Accrued liabilities**

	31.12.2013.
Accrued commission fees payable to investment management company	(3,539)
Accrued commission fees payable to custodian bank	(319)
Accrued fees payable for professional services	(43)
<b>Total accrued liabilities</b>	<b>(3,901)</b>

**6. Realized increase in investment**

	20.11.2013 – 31.12.2013
Income from sale of investments	37,683
Cost of investments sold during the reporting period	(1)
<b>Total realized increase in investment</b>	<b>37,682</b>

**7. Non-realized increase of investments**

	2013
From shares	37,071
<b>Total unrealised increase in investment value</b>	<b>37,071</b>

**8. Change in investments during the reporting period**

	20.11.2013.	Increase during the reporting period	Decrease during the reporting period	Foreign exchange revaluation result	Fair value revaluation result	31.12.2013.
Financial assets held for trading						
Shares	-	83,996	(37,624)	(7,824)	2,078,368	2,116,916
<b>Total investments</b>	<b>-</b>	<b>83,996</b>	<b>(37,624)</b>	<b>(7,824)</b>	<b>2,078,368</b>	<b>2,116,916</b>

**9. Pledged assets**

During the reporting period, no guarantees or collaterals have been issued by the Fund, neither has it pledged or otherwise caused any encumbrance or lien on its assets.

**10. Fair values of financial assets and liabilities**

The management of the investment management company believes that the carrying amounts of financial assets and liabilities approximate to their fair values. The fair value is determined according to the market quotation method, based on available quotes of stock exchanges and brokers.

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**

**Notes**  
**(LVL)**

## **11. Risk management**

Investment process risk can be defined as probability of undesirable result occurrence that might materialize in the certain market economy in the certain time period. Risk management is characterized as risk identification, measurement and its possible assessment. Investment process may be impacted by currency exchange rate risk, interest rate risk, price change risk, as well as as a result of liquidity and other – including operational risks. The investment strategy of the Fund is aimed at minimising the above mentioned risks, however, the Company cannot guarantee that these risks can be completely avoided in the future.

### ***Risk management structure***

Risk identification and measurement are the responsibility of an independent unit – the Risk Management Division which prepares and presents information about risks to the Fund Manager. Fund Manager decides specifically whether it would be necessary to minimise risks.

The risk measurement process employs several models based on historical data and adjusted to consider for the current economic situation. Specific models are used to forecast changes in risk factors in ordinary and extraordinary market situations.

To mitigate the investment risks, the Fund Manager follows the risk diversification and hedging principles to reduce investment risks developed in line with the management policy. When investing on behalf of the Fund, the Fund Manager acquires sufficient information on potential or current investment objects, as well as supervises financial and economic position of issuers of the securities in which the Fund's property has been or is to be invested.

The Company, when developing the Fund's investment strategy and stating limits, performs an analysis of the Fund's investments by maturity, geographic and currency profile, as well as assesses the risks inherent to each of the above factors. The Fund Manager acts in strict compliance with the Prospectus of the Fund, Fund Management Regulations, as well as regulations and restrictions imposed by legislation of the Republic of Latvia.

### ***Market risk***

Market risk is a risk that the Fund's value will reduce as a result of changes in any of the following market factors: securities prices (equity price risk), exchange rates (currency risk), interest rates (interest rate risk) etc. Evaluated below are the sources of market risk, however they cannot be eliminated completely.

### ***Equity price risk***

Changes in equity prices depend on the following two groups of factors: changes in stock indices of a respective country (for instance, RENCASIA Central Asia region companies stock index) and the financial position of issuer (prospects of earnings profit). The first factor is usually referred to as systematic risk and the second – as specific risk.

Systematic risk is managed on the basis of forecasts of the overall economic development in specific geographic regions and industries. Specific risk management is performed by conducting a detailed analysis of the issuer's financial position and profitability, as well as other factors affecting the equity price, based on the published issuer's reports and mass media information. Equity price deviations and correlations are also a matter of particular focus. Therefore it is possible to calculate the total price risk exposure for all shares in the portfolio only based equity price history.

### ***Currency risk***

Currency risk arises when the nominal value of Fund's securities or other instruments differs from the Fund's currency (EUR). Exchange rate fluctuations may result in a gain or loss, depending on the trend of the fluctuations and the Fund's currency position. Currency risk is minimised by the diversification effect, which arises in situations when the Fund has several currencies, and changes in exchange rates of those currencies are not closely interrelated.

Effect of the currency exchange rate changes on the Fund's value is represented in the tables below. Changes in exchange rates are annualised standard deviation of a respective rate.

Effect of currency exchange rate (2013)			
Currency	Density in Fund (% of net assets)	Exchange rate against EUR	Effect on Fund value
EUR	51.70%	0.00%	0.00%
NOK	11.74%	8.32%	0.98%
USD	10.66%	7.38%	0.79%
SEK	10.14%	7.15%	0.73%
DKK	8.60%	0.41%	0.03%
LVL	4.85%	1.15%	0.06%
PLN	2.30%	6.39%	0.15%
<b>Total</b>	<b>100.00%</b>		<b>2.73%</b>



**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**

**Notes**  
**(LVL)**

**11. Risk management (continued)**

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2013:

	EUR	USD	SEK	NOK	Other currencies	Total
<b>Assets</b>						
Demand deposits with credit institutions	232 452	629	-	2 918	578	236 577
Financial assets held for trading						
Shares	983 042	251 809	237 468	274 932	369 665	2 116 916
<b>Total assets</b>	<b>1 215 494</b>	<b>252 438</b>	<b>237 468</b>	<b>277 850</b>	<b>370 243</b>	<b>2 353 493</b>
<b>Liabilities</b>						
Accrued liabilities	(3 901)	-	-	-	-	(3 901)
<b>Total liabilities</b>	<b>(3 901)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3 901)</b>
<b>Net assets</b>	<b>1 211 593</b>	<b>252 438</b>	<b>237 468</b>	<b>277 850</b>	<b>370 243</b>	<b>2 349 592</b>
<i>% of net assets</i>	<b>51.57%</b>	<b>10.74%</b>	<b>10.11%</b>	<b>11.83%</b>	<b>15.75%</b>	<b>100%</b>

As at 31 December 2013 all other currencies are as follows: DKK – LVL 202,225, LVL – 114,020 and PLN – LVL 53,998.

**Risk concentration**

The issuer's industry and geographic position are additional risk factors, which can affect the price of the issuer's securities or the issuer's solvency. Therefore, it is vital to identify concentration risk, i.e. to which extent the Fund's value depends on changes in specific regions or industries. Risk concentration by geographic profile (based on the country most affecting the issuer's solvency) and industry profile is presented in the table below.

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2013:

	Latvia	OECD region countries	Other non-OECD region countries	Total
<b>Assets</b>				
Demand deposits with credit institutions	236,577	-	-	236,577
Financial assets held for trading				
Shares	114,020	1,719,637	283,259	2,116,916
<b>Total assets</b>	<b>350,597</b>	<b>1,719,637</b>	<b>283,259</b>	<b>2,353,493</b>
<b>Liabilities</b>				
Accrued liabilities	(3,901)	-	-	(3,901)
<b>Total liabilities</b>	<b>(3,901)</b>	<b>-</b>	<b>-</b>	<b>(3,901)</b>
<b>Net assets</b>	<b>346,696</b>	<b>1,719,637</b>	<b>283,259</b>	<b>2,349,592</b>

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2013 (based on the issuer's country of incorporation):

Country	Carrying amount as at 31.12.2013	% of Fund's net assets as at 31.12.2013.
Germany	749,577	31.90%
Norway	274,932	11.70%
Russia	251,809	10.72%
Latvia	346,696	14.76%
Sweden	237,468	10.11%
Estonia	115,772	4.93%
Denmark	201,647	8.58%
Finland	86,243	3.67%
Lithuania	31,450	1.34%
Poland	53,998	2.29%
<b>Total</b>	<b>2,349,592</b>	<b>100.00%</b>

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**

**Notes**  
**(LVL)**

**11. Risk management (continued)**

The following table shows the Fund's securities portfolio by industry profile:

Sector	Carrying amount as at 31.12.2013	% of Fund's net assets as at 31.12.2013.
Logistics	384,739	16.37%
Consumer services	338,651	14.41%
Energy resources	247,228	10.52%
Pharmacy	219,083	9.32%
Financial services	185,718	7.90%
Commercial banks	180,855	7.70%
Raw materials	173,013	7.36%
Consumer goods	126,118	5.37%
IT services	110,466	4.70%
Telecommunication services	104,231	4.44%
Public utilities	46,814	1.99%
<b>Total</b>	<b>2,116,916</b>	<b>90.10%</b>

**Liquidity risk**

Liquidity risk is a risk that the Fund will have difficulties in meeting its financial obligations. The Fund Manager strives to maintain such asset structure which would ensure a possibility of selling securities in due time and with no significant losses.

Investments in the Caspian Sea region market are associated with an increased risk that various assets may have a temporarily illiquid market. This may give rise to a situation that financial instruments or other assets cannot be sold at all or can be sold at a lower value.

Table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2013:

	Within 1 month	1 – 6 months	No maturity	Total
<b>Assets</b>				
Demand deposits with credit institutions	236,577	-	-	236,577
Financial assets held for trading				
Shares	-	-	2,116,916	2,116,916
<b>Total assets</b>	<b>236,577</b>	<b>-</b>	<b>2,116,916</b>	<b>2,353,493</b>
<b>Liabilities</b>				
Accrued liabilities	(3,858)	(43)	-	(3,901)
<b>Total liabilities</b>	<b>(3,858)</b>	<b>(43)</b>	<b>-</b>	<b>(3,901)</b>
<b>Net assets</b>	<b>232,719</b>	<b>(43)</b>	<b>2,116,916</b>	<b>2,349,592</b>
<i>Net position %</i>	<i>9.90%</i>	<i>0.00%</i>	<i>90.10%</i>	<i>100.00%</i>

**12. Information on holders of investment certificates**

The table below specifies the proportion of investment certificates held by related parties out of total investment certificates issued:

	31.12.2013.	% of total certificates as at 31.12.2013
Investment certificates held by related parties	19	0.02%
Investment certificates held by other persons	78,906	99.98%
<b>Issued investment certificates as at the end of the reporting period</b>	<b>78,925</b>	<b>100.00 %</b>

**OIF "Citadele Baltic Sea Equity Fund"**  
**Annual report for the year ended 31 December 2013**  
**Notes**  
**(LVL)**

**13. Related party transactions**

The majority of the Fund's investments are acquired with the mediation of the custodian bank JSC Citadele banka. The Custodian bank receives remuneration as the custodian bank, as disclosed in the statement of comprehensive income (see also Note 5), as well as Citadele banka AS is holding the Fund's resources (see Note 3).

The remuneration paid to the investment management company during the reporting period is disclosed in the statement of comprehensive income (see also Note 5). Since 10.11.2012 the amount of remuneration paid to the investment management company was changed, it was set at 0.18%. From the moment an amendment has entered into force in accordance with LR law regulations and Directive 2009/65/EK, the remuneration fee is calculated as a share of the fund's net asset value to two decimal places.

During the reporting year the related parties of the Fund have not make any transactions with the Fund's investment certificates. Transactions with the Fund's investment certificates are calculated taking into account only the investment certificates held by those related parties, who have been classified as the Fund's related parties both as of 31 December 2013 and 31 December 2012.

**14. Dynamics of net asset value**

	31.12.2013.	20.11.2013
<b>Fund's net assets (LVL)</b>	<b>2 349 592</b>	<b>2,204</b>
Number of Fund's shares	78 925	74,704
Value of Fund's shares	29.77	29.51
Fund's profitability**	8.12%	9.57%

	31.12.2013.	20.11.2013
<b>Fund's net assets (EUR)*</b>	<b>3 339 965</b>	<b>3,136,915</b>
Number of Fund's shares	78 925	74,704
Value of Fund's shares	42.32	41,99
Fund's profitability**	7.22%	9,56%

\* The net asset value in euro is determined, based on exchange rates fixed at financial markets at the end of each day.

\* Performance is calculated supposing that a year consists of 365 days.

**15. Subsequent events**

On 1 January 2014 the Republic of Latvia joined eurozone and Latvian lat was replaced by euro. As a result, the Fund converted its financial accounting to euros as of 1 January 2014 and the financial statements for subsequent periods will be prepared and presented in euros. Future comparative information will be translated into euros using the official exchange rate of LVL 0.702804 to EUR 1.



## **Independent Auditors' Report**

### **To the shareholders of Open investment fund “Citadele Baltic Sea Equity Fund”**

#### **Report on Financial Statements**

We have audited the accompanying separate financial statements of Open investment fund “Citadele Baltic Sea Equity Fund” (“the Fund”), which is managed by the asset management company “Citadele Asset Management” (“the Manager”), which comprise the separate statement of financial position as at 31 December 2013, the separate statements of comprehensive income, changes in net assets and cash flows for the period from 20 November 2013 to 31 December 2013, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 21.

#### *Management's Responsibility for the Financial Statements*

Management of investment managing company 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 and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.



### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Open investment fund "Citadele Baltic Sea Equity Fund" as at 31 December 2013 and of its financial performance and its cash flows for the period from 20 November 2013 to 31 December 2013 in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Report on Other Legal and Regulatory Requirements**

In addition, our responsibility is to assess whether the accounting information included in the investment management company report, as set out on page 4, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the investment management company report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the Management Report is consistent with the financial statements.

KPMG Baltics SIA  
Licence No 55

Ondrej Fikrle  
Partner pp. KPMG Baltics SIA  
Riga, Latvia  
25 April 2014

Inga Lipšāne  
Sworn Auditor  
Certificate No. 112

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.