

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

**HALF-YEAR REPORT 2014 (UNAUDITED)**

(at June 30<sup>th</sup>, 2014)

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

Translation from Latvian original\*

\*This version of financial statements is a translation from the original, which was prepared in Latvian. 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 financial statements takes precedence over this translation.

**Riga, 2014**

**OIF “Citadele Baltic Sea Equity Fund”  
Half-year report 2014  
Table of contents**

Information on the investment fund	3
Investment management company report	5
Financial statements:	
Statement of financial position	7
Statement of comprehensive income	8
Statement of changes in net assets	9
Notes	10

**OIF "Citadele Baltic Sea Equity Fund"**  
**Half-year report 2014**  
**Information on the investment fund**

Name of fund:	Citadele Baltic Sea Equity Fun
Type of fund:	Open-end investment fund
Registration date of the fund:	7 March 2013
Start-up date of the fond	20 November 2013
Number of the fund:	FL/27-098/258
Name of the investment management company:	"Citadele Asset Management" IPAS
Registered office of the investment management company:	Republikas laukums 2a, Riga, 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" JSC
Registered office of the custodian bank:	Republikas laukums 2a, Riga, LV-1010, Latvia
Registration number of the investment management company:	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 06.11.2012.  Deputy Chairman of the Council – Vladimirs Ivanovs – appointed on 06.11.2012.  Member of the Council – Philip Nigel Allard – appointed on 06.11.2012.  Member of the Council – Philip Nigel Allard – resigned on 04.07.2014  Member of the Council – Aldis Paegle – appointed on 06.11.2012.</p> <p><i>Board of the investment management company:</i>  Chairman of the Board – Uldis Upenieks – appointed on 06.11.2012.  Member of the Board – Zigurds Vaikulis – appointed on 30.04.2013.</p>
The related rights and obligations of the management of the investment fund:	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.
Names of Fund Managers:	Kristiāna Janvare – appointed on 20.11.2013. Andris Kotāns – appointed on 20.11.2013. Elchin Jafarov – appointed on 20.11.2013. 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.

**OIF "Citadele Baltic Sea Equity Fund"**  
**Half-year report 2014**  
**Information on the investment fund**

Auditor:

KPMG Baltics SIA  
Certified audit company licence No. 55  
Veetas street 7  
LV-1013, Riga

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 license 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.

The Fund’s net assets in the end of the first half of the year 2014 amounted to EUR 3,305,631. The Fund’s share price in the reporting period increased by EUR 1.12 and amounted to EUR 43.48. Value of the Fund’s share denominated in euro increased by 2.64% in the first six months of 2014 (5.40% per annum).

The first half of the year 2014 was mainly dominated by concerns about the eventual scenarios of geopolitical developments in Eastern Europe and the impact of both implemented and planned Western European and U.S. sanctions against Russia on sustainability and further development of the economic growth rates of all the parties involved. Apart from the ongoing tension in the region, during the first six months of the year Europe was struggling with the effects of the relatively expensive euro and unimpressive inflation levels jeopardizing the prompt economic recovery of the old continent from the recent recession. Because of the slow recovery, the European Central Bank (ECB) implemented a set of measures aiming to enhance improvement of the overall economic situation in the region. Among other measures already implemented or only contemplated by the ECB the most significant are cutting refinancing rates, decreasing its bank deposit rates into negative territory, suspending sterilization program and unleashing a credit facility of about EUR 400 billion available to banks. As a result, value of stock index STOXX Europe 600, which is considered a representative regional market index, including the largest European companies rose by 4.1% in the first half of the year 2014. At the same time, the U.S. S&P500 stock market index rose by 6.1%, as the U.S. FED continued winding down their quantitative easing program. As regards the Fund’s investments in the stock markets of the region, they yielded very different results (in their quoted currencies). By far the most considerable growth was achieved in Denmark (20.4%) and Norway (12.6%), with the biggest loss suffered by the RTS representing Russian market falling by 5.3%. The yields generated by the other markets in the first half of the year are relatively homogenous with Sweden growing by 3.3%, Finland by 3.0% and Germany by 2.9%. German market (exporters) were rather significantly affected by the sanctions imposed against Russia, which explains the modest growth rate of the biggest European economy. In the same period of time, the Baltic stock market index that includes Latvian, Lithuanian and Estonian companies grew by modest 1.9%, while the Polish market reached the end of the six month period almost unchanged, rising by only 0.3%.

Overall the most positive contribution to the Fund performance in the first half of 2014 was provided by investments in shares of Norwegian Statoil (+31.3%), Danish Coloplast (+37.3%), Latvian Valmieras Stikla Šķiedras (+66.8%), as well as Finnish Fortum (+26.4%) and German Daimler (+12.4%). The largest negative contribution to the Fund performance was mainly related to investments in German companies - adidas (-19.0%), Deutsche Bank (-24.5%) and LPKF Laser & Electronics (-17.9%), as well as Russian Sberbank (-28.8%) and Latvian Grindex (-17.8%). From the point of view of sectors, the biggest contribution to the Fund’s results was from industrial, health care and energy resources while IT and financial services sectors had the largest negative contribution. From the point of view of the countries involved, the most positive contribution to the Fund’s performance was provided by the Scandinavian region - Denmark, Norway, Sweden and Finland while Russia was the only country providing negative contribution.

Sectors with the largest proportion in the Fund as at the end of the reporting period were industrial, financial services, consumer goods manufacturing and energy resources sectors. Sectors with the smallest proportion in the Fund at the end of the first half of 2014 were utilities, IT, telecommunication services and consumer staples sectors. Free cash resources in the Fund at the end of the reporting period constituted 9.4%. In the first six months of 2014 the sectors whose proportion increased most significantly were the above mentioned industrial sector (from 16.4% to 19.8%); likewise the proportion of health care sector increased from 9.3% to 10.3%. In the same period of time the sectors whose proportion was most significantly reduced were the consumer goods manufacturing (from 14.4 to

12.0%) and information technology sector (from 4.7% to 3.6%). Among the five items with the largest proportion in the Fund four were German companies while the largest one was Norwegian Statoil (3.7%). Geographically the Fund's structure was dominated by the German issuers whose proportion at the end of the reporting period was further increased (from 31.9% to 32.9%), therefore revealing their explicit significance in the Fund's structure. Countries with the next largest exposition were Scandinavian countries - Norway (from 11.6% at the beginning of the year to 12.9% at the end of the first half-year), Sweden (10.5%) and Denmark (from 8.6% at the beginning of the year to 10.2% at the end of the first half-year). The smallest proportion in the Fund was retained by the Polish shares (2.4%). Due to the tension and instability in the region, exposition in Russia was most significantly reduced; Russian companies at the end of the reporting period constituted 6.0% (10.6% at the beginning of the reporting period). On the other hand, exposition in Finland grew to a relatively large extent (from 3.7% at the beginning of the year to 6.1% at the end of the half-year). At the end of the first half of 2014 exposition in the Baltics, including the free cash resources in total amounted to 19.4%.

Management costs in the amount of EUR 35,712 or 2.20% 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

While at the beginning of the year the high exchange rate of euro was considered one of the risks jeopardizing further development of Eurozone, it seems that at the moment to some extent this argument starts losing its significance. Apart from it and the unimpressive inflation forecasts, major geopolitical risk now has to be considered affecting not only Eastern European countries but also such economies as Finland, for instance. Likewise several German companies are facing consequences of the sanctions imposed, for example sportswear manufacturer Adidas, Lufthansa airline or Siemens manufacturing company. Sentiment indexes of the largest European economies show that recent events have affected sentiments, expectations and economic growth prospects of both - investors and businessmen. On the other hand, the Fund's Management Company expects the relative evaluation (compared to the U.S.) as well as the economic recovery of the periphery countries of the Eurozone may drive the growth of the stock prices in Europe. Moreover, financial performance of the largest European companies has exceeded the forecasts of investors and analysts providing reasons to hope that the remaining year can bring positive surprises at least at the company level.

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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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Igoris Lahtadirs  
Member of the investment committee

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Elchin Jafarov  
Member of the investment committee

Riga, 28 August 2014

**OIF "Citadele Baltic Sea Equity Fund"**  
**Half-year report 2014**  
**Statement of financial position**  
**(EUR)**

Note		<u>30.06.2014.</u>	<u>31.12.2013.</u>
	<b>Assets</b>		
1	Demand deposits with credit institutions	309,125	336,620
	Financial assets held for trading		
2	Debt securities and other fixed income securities	<u>3,002,999</u>	<u>3,012,100</u>
	<b>Total assets</b>	<u><b>3,312,124</b></u>	<u><b>3,348,720</b></u>
	<b>Liabilities</b>		
	Financial liabilities held for trading		
	Accrued liabilities	(6,493)	(5,551)
	<b>Total liabilities</b>	<u><b>(6,493)</b></u>	<u><b>(5,551)</b></u>
	<b>Net assets</b>	<u><u><b>3,305,631</b></u></u>	<u><u><b>3,343,169</b></u></u>

The accompanying notes set out on pages 10 to 12 form an integral part of these financial statements.

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Uldis Upenieks  
Chairman of the Board

Riga, 28 August 2014

**OIF "Citadele Baltic Sea Equity Fund"**  
**Half-year report 2014**  
**Statement of comprehensive income**  
**(EUR)**

	<b>01.01.2014.- 30.06.2014.</b>
<b>Income</b>	
Dividends income	70,093
<b>Total income</b>	<b>70,093</b>
<b>Expenses</b>	
Investment management company fee	(33,150)
Custodian bank fee	(2,984)
Other fund management expenses	(521)
<b>Total expenses</b>	<b>(36,655)</b>
<b>Increase in investment value</b>	
Realised increase in investment value	(62,400)
Unrealised (decrease) / increase in investment value	115,540
<b>Total (decrease) / increase in investment value</b>	<b>53,140</b>
Foreign currency revaluation gain	(9,647)
<b>Total comprehensive income</b>	<b>76,931</b>

The accompanying notes set out on pages 10 to 12 form an integral part of these financial statements.

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Uldis Upenieks  
Chairman of the Board

Riga, 28 August 2014

**OIF "Citadele Baltic Sea Equity Fund"**  
**Half-year report 2014**  
**Statement of changes in net assets**  
**(EUR)**

	<b>01.01.2014.-</b>
	<b>30.06.2014.</b>
Net assets as at the beginning of the period	3,343,169
Total comprehensive income	76,931
Transactions with investment certificates:	
Inflow from sale of investment certificates	193,971
Outflow on redemption of investment certificates	(308,440)
(Decrease)/ increase in net assets from transactions with investment certificates	<b>(114,469)</b>
Decrease in net assets for the reporting period	(37,538)
<b>Net assets as at the end of the reporting period</b>	<b>3,305,631</b>
Issued investment certificates as at the beginning of the reporting period	78,925
Issued investment certificates as at the end of the reporting period	76,033
Net asset value per investment certificate as at the beginning of the reporting period	42.36
<b>Net asset value per investment certificate as at the end of the reporting period</b>	<b>43.48</b>

The accompanying notes set out on pages 10 to 12 form an integral part of these financial statements.

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Uldis Upeniņš  
Chairman of the Board

Riga, 28 August 2014

## OIF "Citadele Baltic Sea Equity Fund"

Half-year report 2014

Notes

(EUR)

## 1. Demand deposits with credit institutions

	30.06.2014.	31.12.2013.	% no Fonda neto aktiviem 30.06.2014.
Demand deposits with credit institutions, JSC Citadele banka	309,125	336,620	9.35%
<b>Total demand deposits with credit institutions</b>	<b>309,125</b>	<b>336,620</b>	<b>9.35%</b>

The Fund receives interest on demand deposits at fixed rates.

## 2. Debt securities and other fixed income securities

All debt securities and other fixed income securities are classified as held-for-trading securities.

All fixed income securities are listed, except for securities with the book value EUR 737,497 (2013: EUR 353,540).

The table below presents debt securities by the issuer's country of residence as at 30 June 2014:

Financial instrument	ISIN	Currency	Amount	Acquisition value	Carrying amount as at 30.06.2013.	% of Fund's net assets as at 30.06.2013.
<b>Financial instruments traded on regulated markets</b>				<b>419,927</b>	<b>3,002,999</b>	<b>90.84%</b>
<b>German issuers:</b>				<b>133,189</b>	<b>1,089,257</b>	<b>32.94%</b>
DAIMLER AG	DE0007100000	EUR	1,700	17,956	116,144	3.50%
SIEMENS AG	DE0007236101	EUR	1,050	2	101,503	3.07%
DEUTSCHE POST AG	DE0005552004	EUR	3,500	2	92,593	2.80%
ALLIANZ SE	DE0008404005	EUR	700	2	85,470	2.59%
VOLKSWAGEN AG	DE0007664039	EUR	400	2	76,460	2.31%
BASF SE	DE000BASF111	EUR	870	17,387	74,159	2.24%
LINDE AG	DE0006483001	EUR	470	2	73,024	2.21%
BAYER AG	DE000BAY0017	EUR	700	2	72,170	2.18%
HUGO BOSS AG	DE000A1PHFF7	EUR	500	2	54,715	1.66%
MUNICH RE	DE0008430026	EUR	330	50,895	53,101	1.61%
HEIDELBERGCEMENT AG	DE0006047004	EUR	850	46,926	52,771	1.60%
DEUTSCHE LUFTHANSA AG	DE0008232125	EUR	3,300	2	51,975	1.57%
SAP AG	DE0007164600	EUR	900	2	50,931	1.54%
ADIDAS AG	DE000A1EWWW0	EUR	600	2	44,412	1.34%
HENKEL AG & CO KGAA	DE0006048432	EUR	420	2	35,280	1.07%
DEUTSCHE BANK AG	DE0005140008	EUR	1,200	2	30,852	0.93%
LPKF LASER & ELECTRONICS AG	DE0006450000	EUR	1,574	1	23,697	0.72%
<b>Norwegian issuers:</b>				<b>82,616</b>	<b>422,258</b>	<b>12.78%</b>
STATOIL ASA	NO0010096985	NOK	5,400	2	121,514	3.67%
DNB ASA	NO0010031479	NOK	5,900	2	78,002	2.36%
GJENSIDIGE FORSIKRING ASA	NO0010582521	NOK	5,000	2	65,627	1.99%
MARINE HARVEST ASA	NO0003054108	NOK	6,000	54,698	59,689	1.81%
SUBSEA 7 SA	LU0075646355	NOK	4,200	27,911	57,126	1.73%
SEADRILL LTD	BMG7945E1057	NOK	1,400	1	40,300	1.22%

**OIF "Citadele Baltic Sea Equity Fund"**  
**Half-year report 2014**  
**Notes**  
**(EUR)**

Financial instrument	ISIN	Currency	Amount	Acquisition value	Carrying amount as at 30.06.2013.	% of Fund's net assets as at 30.06.2013.
<b>Swedish issuers:</b>				<b>67,164</b>	<b>347,571</b>	<b>10.51%</b>
INVESTOR AB	SE0000107419	SEK	2,800	2	77,017	2.33%
ASSA ABLOY	SE0000255648	SEK	1,850	67,154	68,305	2.07%
NORDEA BANK AB	SE0000427361	SEK	6,500	2	66,904	2.02%
ATLAS COPCO AB	SE0000101032	SEK	2,300	2	48,626	1.47%
TELEFONAKTIEBOLAGET LM ERICSSON	SE0000108656	SEK	5,000	2	44,000	1.33%
TELE2 AB	SE0005190238	SEK	5,000	2	42,719	1.29%
<b>Danish issuers:</b>				<b>77,397</b>	<b>336,140</b>	<b>10.17%</b>
COLOPLAST A/S	DK0060448595	DKK	1,200	2	79,333	2.40%
AP MOELLER - MAERSK A/S	DK0010244508	DKK	45	77,391	81,602	2.47%
NOVO NORDISK	DK0060534915	DKK	1,900	-	63,531	1.92%
TDC A/S	DK0060228559	DKK	8,000	2	60,517	1.83%
DSV A/S	DK0060079531	DKK	2,150	2	51,157	1.55%
<b>Finnish issuers:</b>				<b>59,537</b>	<b>200,128</b>	<b>6.05%</b>
FORTUM OYJ	FI0009007132	EUR	4,000	2	78,360	2.37%
KONE	FI0009013403	EUR	2,000	59,533	61,120	1.85%
KESKO OYJ	FI0009000202	EUR	2,100	2	60,648	1.83%
<b>Russian issuers:</b>				<b>8</b>	<b>197,156</b>	<b>5.96%</b>
LUKOIL	US6778621044	USD	1,750	2	76,404	2.31%
NOVATEK OAO	US6698881090	USD	800	2	73,129	2.21%
MOBILE TELESYSTEMS OJSC	US6074091090	USD	3,300	2	47,623	1.44%
SIBENERGOHOLDING	RU000A0JPW04	RUR	44,385	2	-	0.00%
<b>Latvian issuers:</b>				<b>6</b>	<b>177,600</b>	<b>5.38%</b>
OLAINFARM	LV0000100501	EUR	11,000	2	85,140	2.58%
VALMIERAS STIKLA SKIEDRA JSC	LV0000100485	EUR	15,000	2	51,300	1.55%
GRINDEKS	LV0000100659	EUR	6,000	2	41,160	1.25%
<b>Estonian issuers:</b>				<b>6</b>	<b>154,164</b>	<b>4.66%</b>
OLYMPIC ENTERTAINMENT GROUP	EE3100084021	EUR	41,000	2	79,950	2.42%
TALLINK GROUP LTD	EE3100004466	EUR	63,436	2	48,084	1.45%
SILVANO FASHION GROUP AS	EE3100001751	EUR	13,000	2	26,130	0.79%
<b>Polish issuers:</b>				<b>4</b>	<b>78,725</b>	<b>2.39%</b>
KGHM POLSKA MIEDZ SA	PLKGHM000017	PLN	1,500	2	44,818	1.36%
POWSZECHNY ZAKLAD UBEZPIECZEN SA	PLPZU0000011	PLN	320	2	33,907	1.03%
<b>Total securities</b>				<b>419,927</b>	<b>3,002,999</b>	<b>90.84%</b>

**OIF “Citadele Baltic Sea Equity Fund”**  
**Half-year report 2014**  
**Notes**  
**(EUR)**

**3. Dynamics of net asset value**

	30.06.2014.	31.12.2013.
<b>Net assets (EUR)</b>	<b>3,305,631</b>	<b>3,348,169</b>
Number of investment certificates	76.033	78,925
Value of investment fund's shares (EUR)	43.48	42.36
Performance on investment fund's shares*	5.40%	8.12%
<b>Net assets (EUR)**</b>	<b>3,306,176</b>	<b>3,339, 965</b>
Number of investment certificates	76.033	78,925
Value of investment fund's shares (EUR)	43.48	42.32
Performance on investment fund's shares*	5.60%	7.22%

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

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