

**OPEN-END INVESTMENT FUND  
“Citadele Russian 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 Russian 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 Russian Equity Fund"**  
**Half-year report 2014**  
**Information on the investment fund**

Name of fund:	Citadele Russian Equity Fund
Type of fund:	Open-end investment fund
Registration date of the fund:	5 March 2004
Number of the fund:	06.03.04.098/13
Name of the investment management company:	"Citadele Asset Management" IPAS („Parex Asset Management" IPAS – until 01.08.2010.)
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 („Parex banka" JSC– until 01.08.2010.)
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 15.08.2008. Andris Kotāns – appointed on 26.01.2011. Elchin Jafarov – appointed on 25.09.2011. Igoris 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 Russian 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

**OIF “Citadele Russian Equity Fund”**  
**Half-year report 2014**  
**Statement of financial position**  
**(EUR)**

The assets of the open-end fund “Citadele Russian 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). The Company was founded on 11 January, 2002 with the registration number 40003577500. The Company holds a license No. 06.03.07.098/285, last re-registered on 5 August 2010.

The Fund’s investments aim to achieve long-term capital appreciation by investing principally in shares of issuers which are registered or operate in the Russian Federation. The Fund derives income in the form of share appreciation and dividends. The Fund’s functional currency is US dollar.

In the first half of the year 2014 equity markets in Russia and globally demonstrated non-homogenous performance for several reasons. Developed markets generally and the U.S. market in particular benefited from the U.S. macroeconomic data improvements as well as from relatively mild statements made by U.S. Federal Reserve System, even though they continued to gradually cut back enhancement oriented monetary policy measures. Emerging equity markets, on the other hand, suffered from considerable currency devaluation at the beginning of the year. Despite of this, they still managed to achieve growth in the half-year period due to stabilization of currency and macroeconomic indicators of China.

At the same time, the situation in the Russian equity market was developing less propitiously. Along with the emerging markets overall, already in the first month of the year Russian equity was affected by currency devaluation and by the weak macro pulse characterized by rapidly declining growth of retail sales volumes and the manufacturing PMI index dropping to the lowest point since mid-2009. In February the situation deteriorated ever further as the investors' concerns about the riots in Ukraine placed downward pressure on equity values. Particularly significant market decline was experienced in March due to unprecedented increase in geopolitical tensions around Ukraine and annexation of Crimea. As violence in Southeastern Ukraine sharply increased, asset fire-sale continued into April. Investor sentiment was negatively influenced by impolite diplomatic rhetorics and fear of sanctions imposed by the West. In May, Russian equity market demonstrated growth due to favorable trends in global markets (S&P500 index passing 1,900 threshold for the first time in history and European equity market reaching six-year high) and, more importantly, due to vanishing local geopolitical strain after successful presidential elections in Ukraine and statement by the Russian President Putin concerning withdrawal of troops from the borderland. Improvement in Russian equity market sentiment continued as Gazprom and China state-owned enterprise CNPC signed a 30-year natural gas deal with estimated worth up to U.S. \$400 billion. Russian equity market demonstrated further positive dynamics in June, as oil prices moved higher due to riots in Iraq; also Putin’s decision to withdraw the request to use armed forces in Ukraine was welcomed as an inspiring sign. However, overall in the first half-year U.S. dollar-based RTS index fell by 5.3% thus demonstrating weaker dynamics compared to Emerging Markets Equity Index MSCI EM, which grew by 4.8% in the same currency.

In terms of investments structure by industry sectors, investment proportion in the financial sector was significantly reduced reflecting the risk of sanctions imposed by the West against certain Russian banks, concerns about massive restrictions against overall Russian financial system implemented by the EU and U.S. as well as negative credit growth forecasts. Investment proportion in energy and consumer staples sectors was also reduced due to deteriorating domestic consumption data. On the other hand, during the reporting period the proportion of the Fund investments in the telecommunication services industry was increased as mobile operators continued to benefit from the significant increase in data transmission volumes and offered relatively high dividend yield to investors. Moreover, investment proportion in the IT services sector was increased, as companies in this sector continued to demonstrate strong increase in corporate profits. Changes in the Fund’s investments in other sectors were comparatively insignificant. As at 30.06.2014 cash funds share reached 4.16% of the Fund’s net assets.

Overall this year the most positive contribution to the Fund performance was provided by investments in utilities and telecommunications sectors, while the financial services, IT and consumer staples sectors were showing a negative contribution.

In the first half-year of 2014, the Fund’s net assets amount decreased by 27.51% or by EUR 2,153,923 and at the end of the half-year amounted to EUR 5,674,639. The Fund’s share price decreased by EUR 1.45 and amounted to EUR 14.98. Overall performance of the Fund in the first half-year of 2014 was -17.00% denominated in euro and -17.60% in Fund’s base currency.

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

Management costs in the amount of USD 99,930 or 2.40 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 from the Fund's assets

Looking at the second half of 2014 we expect performance of the Russian equity market to be defined by the geopolitical tension. Putting aside the threats of additional economic restrictions imposed by the Western world, the recently announced sanctions are likely to add to the difficulties considering the relatively unattractive medium-term macroeconomic prospects. Increased capital outflow, which according to the estimates by the Russian Ministry of Economy might exceed USD 100 billion this year, along with unfavorable mix of fiscal and monetary policies is likely not only terminate the expected GDP growth of 2014 but also affect long term growth prospects. Along with decreasing growth of income and bank lending the level of domestic consumption which has been the main force behind economic growth for a long time will necessarily go down. As a result of all the above factors Russian economy is facing an increased risk of technical recession in the second half of 2014. On the other hand, investor base for locally traded shares may increase following the introduction of Euroclear/Clearstream services in Russia reducing the current market premiums, provided that geopolitical risks will not continue to spread.

---

Uldis Upenieks  
Chairman of the Board

---

Andris Kotāns  
Investīciju komitejas loceklis

---

Igoris Lahtadirs  
Investīciju komitejas loceklis

---

Elchin Jafarov  
Investīciju komitejas loceklis

Rīga, 28 August 2014

**OIF "Citadele Russian 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	235,963	330,749
	Financial assets held for trading		
2	Debt securities and other fixed income securities	5,447,029	7,512,594
3	Derivatives	2,929	-
	<b>Total assets</b>	<u><b>5,685,921</b></u>	<u><b>7,843,343</b></u>
	<b>Liabilities</b>		
	Financial liabilities held for trading		
	Accrued liabilities	(11,282)	(14,781)
	<b>Total liabilities</b>	<u><b>(11,282)</b></u>	<u><b>(14,781)</b></u>
	<b>Net assets</b>	<u><b>5,674,639</b></u>	<u><b>7,828,562</b></u>

The accompanying notes set out on pages 10 to 11 form an integral part of these financial statements.

---

Uldis Upenieks  
Chairman of the Board

Riga, 28 August 2014

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

	<b>01.01.2014.- 30.06.2014.</b>	<b>01.01.2013.- 30.06.2013.</b>
<b>Income</b>		
Dividends income	286	1,939
Interest income	14,508	86,952
<b>Total income</b>	<b>14,794</b>	<b>88,891</b>
<b>Expenses</b>		
Investment management company fee	(62,206)	(79,055)
Custodian bank fee	(4,997)	(6,272)
Other fund management expenses	(2,553)	(5,289)
<b>Total expenses</b>	<b>(69,756)</b>	<b>(90,616)</b>
<b>Increase in investment value</b>		
Realised increase in investment value	(510,593)	(13,958)
Unrealised (decrease) / increase in investment value	(256,226)	(884,960)
<b>Total (decrease) / increase in investment value</b>	<b>(766,819)</b>	<b>(898,918)</b>
Foreign currency revaluation gain	(42,915)	70,951
<b>Total comprehensive income</b>	<b>(864,696)</b>	<b>(829,692)</b>

The accompanying notes set out on pages 10 to 11 form an integral part of these financial statements.

---

Uldis Upenieks  
Chairman of the Board

Riga, 28 August 2014



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

	<u>01.01.2014.- 30.06.2014.</u>	<u>01.01.2013.- 30.06.2013.</u>
Net assets as at the beginning of the period	7,828,562	8,435,484
Total comprehensive income	(864,696)	(829,692)
Transactions with investment certificates:		
Inflow from sale of investment certificates	369,192	1,240,511
Outflow on redemption of investment certificates	(1,658,419)	(1,478,762)
(Decrease)/ increase in net assets from transactions with investment certificates	<u>(1,289,227)</u>	<u>(238,251)</u>
Decrease in net assets for the reporting period	<u>(2,153,923)</u>	<u>(1,067,943)</u>
<b>Net assets as at the end of the reporting period</b>	<b><u>5,674,639</u></b>	<b><u>7,367,541</u></b>
Issued investment certificates as at the beginning of the reporting period	<u>476,487</u>	<u>497,448</u>
Issued investment certificates as at the end of the reporting period	<u>378,850</u>	<u>484,913</u>
Net asset value per investment certificate as at the beginning of the reporting period	<u>16.43</u>	<u>16.96</u>
<b>Net asset value per investment certificate as at the end of the reporting period</b>	<b><u>14.98</u></b>	<b><u>15.19</u></b>

The accompanying notes set out on pages 10 to 11 form an integral part of these financial statements.

---

Uldis Upenieks  
Chairman of the Board

Riga, 28 August 2014

**OIF "Citadele Russian 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	235,963	330,749	4.16%
<b>Total demand deposits with credit institutions</b>	<b>235,963</b>	<b>330,749</b>	<b>4.16%</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 559,694 (2013: EUR 560,784).

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>5,427,317</b>	<b>5,447,029</b>	<b>95.99%</b>
<b>Russian issuers:</b>				<b>5,427,317</b>	<b>5,447,029</b>	<b>95.99%</b>
LUKOIL	US6778621044	USD	11,300	547,233	493,351	8.70%
MAIL.RU GROUP LTD	US5603172082	USD	15,500	425,690	399,586	7.05%
SURGUTNEFTEGAZ	RU0009029524	RUR	545,000	244,691	325,875	5.75%
BASHNEFT OAO	RU0007976957	RUR	6,000	252,676	311,204	5.48%
MAGNIT OAO	US55953Q2021	USD	6,850	239,657	295,406	5.21%
MOBILE TELESYSTEMS OJSC	US6074091090	USD	19,100	275,649	275,634	4.86%
OGK-4 OJSC	RU000A0JNGA5	RUR	4,466,603	224,733	272,573	4.80%
SISTEMA	US48122U2042	USD	11,500	223,467	258,998	4.56%
MEGAFON	US58517T2096	USD	11,200	281,203	258,064	4.55%
NOVATEK OAO	US6698881090	USD	2,660	234,511	243,155	4.28%
NORILSK NICKEL	US46626D1081	USD	16,000	202,056	230,781	4.07%
M VIDEO	RU000A0JPGA0	RUR	39,350	226,811	225,395	3.97%
SBERBANK EURASIA DRILLING CO LTD	US80585Y3080	USD	30,600	280,433	225,389	3.97%
GAZPROM OAO	US29843U2024	USD	9,000	276,873	204,803	3.61%
MOSCOW EXCHANGE MICEX-RTS OAO	US3682872078	USD	31,000	195,866	197,262	3.48%
YANDEX NV	RU000A0JR4A1	RUR	100,000	150,406	145,457	2.56%
LSR GROUP	NL0009805522	USD	5,600	157,495	144,121	2.54%
VSMPO-AVISMA CORP	US50218G2066	USD	49,840	193,763	142,061	2.50%
MOSTOTREST	RU0009100291	RUR	857	103,165	136,742	2.41%
LENTA	RU0009177331	RUR	46,000	159,497	107,814	1.90%
DIXY GROUP OJSC	US52634T2006	USD	10,000	71,516	93,279	1.64%
PHOSAGRO	RU000A0JP7H1	RUR	9,000	85,248	78,555	1.38%
SOLLERS	US71922G2093	USD	8,363	76,731	75,560	1.33%
	RU0006914488	RUR	5,267	43,903	67,572	1.19%

**OIF "Citadele Russian 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.
TMK	US87260R2013	USD	9,075	60,868	64,152	1.13%
GLOBALTRANS INVESTMENT PLC	US37949E2046	USD	7,616	83,065	62,565	1.10%
ETALON GROUP LTD	US29760G1031	USD	17,786	53,282	57,116	1.01%
AEROFLOT	RU0009062285	RUR	45,000	56,829	54,559	0.96%
TGK-6	RU000A0JNG06	RUR	7	-	-	0.00%
<b>Financial instruments not traded on regulated markets</b>				<b>5,427,317</b>	<b>5,447,029</b>	<b>95.99%</b>

### 3. Derivatives

The following table presents the notional amounts and fair values of foreign exchange contracts. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

	30.06.2014.	31.12.2013.	% of Fund's net assets as at 30.06.2014.
Put opcija (RSX US 17/08/14 P23)	2,929	-	0.05%
<b>Total foreign exchange contracts</b>	<b>2,929</b>	<b>-</b>	<b>0.05%</b>

### 4. Dynamics of net asset value

	30.06.2014.	31.12.2013.	31.12.2012.	31.12.2011.
<b>Net assets (EUR)</b>	<b>5,674,639</b>	<b>7,828,562</b>	<b>8,435,484</b>	<b>6,590,448</b>
Number of investment certificates	378,850	476,487	497,448	443,046
Value of investment fund's shares (LVL)	14.98	16.43	16.96	14.88
Performance on investment fund's shares*	(17.00)%	(3.13)%	13.94%	(25.86)%
<b>Net assets (USD)**</b>	<b>7,748,518</b>	<b>10,727,485</b>	<b>11,165,778</b>	<b>8,516,181</b>
Number of investment certificates	378,850	476,487	497,448	443,046
Value of investment fund's shares (USD)	20.45	22.51	22.45	19.22
Performance on investment fund's shares*	(17.60)%	0.27%	16.76%	(27.11)%

\* 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.