

**Open-end investment fund
AB.LV High Yield CIS Bond Fund**

**AUDITED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009**

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

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2010

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Table of contents

General information	3
Investment manager report	4
Statement of responsibility of the Board of the investment manager	6
Custodian bank report	7
Financial statements:	
Statement of assets and liabilities	8
Statement of income and expense	9
Statement of changes in net assets	10
Statement of cash flows	11
Notes	12
Auditors' report	32

AIF AB.LV High Yield CIS Bond Fund

Annual report 2009

General information

Name of the fund:	AB.LV High Yield CIS Bond Fund
Type of the fund:	Open-end investment fund
Registration date of the fund:	15 June 2007
Number of the fund:	06.03.05.263/34
Name of the investment manager:	IPAS AB.LV Asset Management
Registered office of the investment manager:	Elizabetes iela 23, Riga, LV-1010
Registration number of the investment manager:	40003814724
Licence number of the investment manager:	06.03.07.263/204
Date of the licence:	4 August 2006
Name of the custodian bank:	AS Aizkraukles banka
Registered office of the custodian bank:	Elizabetes iela 23, Riga, LV-1010
Registration number of the custodian bank:	50003149401
Names and positions of Council Members, Board Members, and Fund Manager:	<p>Council of the investment manager:</p> <p><i>Chairman of the Council</i> - Ernests Bernis <i>Deputy Chairman of the Council</i> – Māris Kannenieks <i>Council Member</i> - Vadims Reinfelds</p> <p>Board of the investment manager:</p> <p><i>Chairman of the Board</i> - Leonīds Kiļs <i>Deputy Chairman of the Board</i> – Jevgeņijs Gžibovskis <i>Board Member</i> - Oļegs Fiļs</p> <p><i>Fund Manager</i> - Jevgeņijs Gžibovskis</p>
Duties of the Fund Manager:	The Fund Manager operates the Fund's property according to the Company's Articles of Association and the Fund Management Regulations. The Fund Manager may be employed only by one investment manager and manage several funds of one investment manager.
Auditors:	<p>SIA Ernst & Young Baltic Muitas iela 1, Riga, Latvia, LV-1010, Licence No. 17 Diāna Krišjāne, Chairperson of the Board Latvian Certified Auditor, Certificate No. 124</p>

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Investment manager report

The open-end investment fund AB.LV High Yield CIS Bond Fund (hereinafter – the Fund) was registered on 15 June 2007 as a bond fund having the US dollar as its base currency.

The investment management company IPAS AB.LV Asset Management (hereinafter – the Company) was registered with the Republic of Latvia Enterprise Register on 4 August 2006 under No. 40003814724. The Company holds Licence No. 06.03.07.263/204 to operate as an investment manager, and its address is Riga, Elizabetes iela 23.

The investment objective of the Fund is to achieve capital growth with high investment risk. In order to achieve this objective, funds are mainly invested in debt securities, where the execution of the liabilities is secured by corporations and financial institutions of the CIS countries, as well as commercial companies of other countries, with a speculative credit rating or with no credit rating.

The Fund's investment portfolio is diversified among investments in debt securities of various issuers, thus ensuring higher investment safety and protection against fluctuations of the portfolio asset value and default risk.

The year 2009 was the third business year for AIF AB.LV High Yield CIS Bond Fund. At the end of 2009, the Fund's assets amounted to USD 8,924,200 (LVL 4,363,934), while its net assets were USD 8,907,407 (LVL 4,355,722), the return for 2009 was 96.56%, while the annual return since inception was 3.30%, the average term to maturity was 3.3 years, the weighted average rating of the investment portfolio was B, and the yield to maturity was 10.34%.

The last year was highly successful for investment activities on global financial markets. In 2009, the major markets recovered from the shocks caused by the greatest ever financial crisis of 2007-2008. Global bond market prices returned to the pre-crisis level. Owing to the active Fund management, AIF AB.LV High Yield CIS Bond Fund demonstrated excellent growth of its annual return (+96.56%) against that of the benchmark Russia Corporate Bond Index (+76.76%), which is one of the highest results among the bond and balanced funds registered on Riga Stock Exchange.

In August 2008, the investment funds managed by IPAS AB.LV Asset Management had the minimum investment amount reduced for funds or subfunds to USD 1,000. In addition, the minimum investment increment requirement was annulled.

The Company analyses the political and economic situation on an ongoing basis, as well as conducts the comparative and technical analysis, the analysis of macroeconomic indicators, and the summary analysis of the recommendations for various financial markets given by the world's leading brokers and analysts.

To keep the existing customers and potential investors of IPAS AB.LV Asset Management informed about the situation on the global financial markets, since July 2008 AS Aizkraukles banka has been publishing on its homepage the detailed monthly macroeconomic analysis of the chief analyst. Meanwhile, since November 2008 those customers which have made investments in the funds of IPAS AB.LV Asset Management have been sent monthly Fund Manager's commentaries and opinion regarding the market situation, performance of the funds, and activities of the Fund Manager.

The Company has always been focusing specifically on risk management in order to ensure proper diversification and achieve risk minimisation. The Company has the Investment

AIF AB.LV High Yield CIS Bond Fund

Annual report 2009

Investment manager report

Committee set up, which determines the investment policy to be pursued by the Company, hedging limits, and financial markets to enter into transactions involving financial instruments. The members of the Investment Committee are the leading financial market specialists of AS Aizkraukles banka and the Company.

The Company will seek to provide the utmost efficiency in management of the Fund's assets also in future in order to increase the number of investors and achieve growth of net assets in 2010. The management of IPAS AB.LV Asset Management would like to express their deep gratitude to customers for loyalty and successful cooperation.

For IPAS AB.LV Asset Management:
Chairman of the Board

Leonīds Kiļs

Fund Manager

Jevgeņijs Gžišovskis

Riga, 22 April 2010

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Statement of responsibility of the Board of the investment manager

The Board of the investment manager (hereinafter – the Company) are responsible for the preparation of the financial statements of the investment fund AB.LV High Yield CIS Bond Fund (hereinafter – the Fund).

The financial statements set out on pages 8 to 31 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2009 and the results of its operations for the year then ended.

The aforementioned financial statements are prepared on a going concern basis, applying laws of the Republic of Latvia, the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Reports of Investment Funds, and International Financial Reporting Standards as adopted in the European Union. 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 are responsible for the maintenance of proper accounting records, the safeguarding of the assets of AIF AB.LV High Yield CIS Bond Fund, and the prevention and detection of fraud and other irregularities in the Fund. They are also responsible for operating the Fund in compliance with the Law of the Republic of Latvia on Investment Management Companies, FCMC regulations, and other laws of the Republic of Latvia.

For IPAS AB.LV Asset Management:
Chairman of the Board

Leonīds Kiļs

Riga, 22 April 2010

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Custodian bank report

To the investors of AIF AB.LV High Yield CIS Bond Fund

No. _____

AS Aizkraukles Banka, registered with the Republic of Latvia Enterprise Register on 17 September 1993 under No. 50003149401, located in Riga, Elizabetes iela 23, hereby confirms and attests that:

According to the Law of the Republic of Latvia on Investment Management Companies, FCMC regulations, other requirements of Latvian laws, and the Custodian Bank Agreement signed on 2 March 2007, AS Aizkraukles Banka (hereinafter – the Custodian Bank) acts as the custodian bank for AIF AB.LV High Yield CIS Bond Fund (hereinafter – the Fund), a fund established by IPAS AB.LV Asset Management (hereinafter – the Company);

The Custodian Bank is responsible for the compliance with the requirements of Latvian laws applicable to custodian banks and the execution of the Custodian Bank Agreement. The key duties of the Custodian Bank are as follows:

1. To keep the Fund's property held in the account according to the conditions of the Custodian Bank Agreement;
2. To service the Fund's account and execute the orders given by the Company in respect of the Fund's property held in the account according to the Custodian Bank Agreement;
3. To control that the Fund's investment certificates are issued, sold and redeemed and the Fund's share value is calculated following the procedure prescribed by laws, the Fund's Prospectus, and the Fund Management Regulations;
4. To submit to the Company the list of persons authorised by the Custodian Bank to accept orders at the effectiveness date of the Custodian Bank Agreement;
5. To ensure the execution of other duties provided for custodian banks by laws and regulations.

The investment certificates are issued, sold and redeemed pursuant to the requirements of the Law on Investment Management Companies, the Fund's Prospectus, and the Fund Management Regulations.

The Fund's property is kept in accordance with the requirements of the Law on Investment Management Companies and the Custodian Bank Agreement.

The net asset value is calculated according to the requirements of the Law on Investment Management Companies, FCMC regulations, the Fund's Prospectus, and the Fund Management Regulations.

The Company's orders and transactions involving the property of AIF AB.LV High Yield CIS Bond Fund are in compliance with the requirements of the Law on Investment Management Companies, the Fund's Prospectus, the Fund Management Regulations, and the Custodian Bank Agreement.

In the reporting period, there were no errors or illegalities observed in the Company's operations involving the Fund's property.

For the Custodian Bank AS Aizkraukles Banka:
Chairman of the Board

Ernests Bernis

Riga, 22 April 2010

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Statement of assets and liabilities

	Notes	<u>31/12/2009</u>	<u>31/12/2008</u>
ASSETS		LVL	LVL
Demand deposits with credit institutions	4	20,152	68,523
Term deposits with credit institutions	4	391,977	-
Financial assets at fair value through profit or loss		3,944,970	1,493,850
Debt securities and other fixed income securities	5	3,944,970	1,493,850
Other assets		6,835	15,190
TOTAL ASSETS		<u>4,363,934</u>	<u>1,577,563</u>
LIABILITIES			
Accrued expense	6	(8,212)	(7,424)
TOTAL LIABILITIES		<u>(8,212)</u>	<u>(7,424)</u>
NET ASSETS		<u><u>4,355,722</u></u>	<u><u>1,570,139</u></u>

For IPAS AB.LV Asset Management:
Chairman of the Board

Leonīds Kiļs

Fund Manager

Jevgeņijs Gžibovskis

Riga, 22 April 2010

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Statement of income and expense

	Notes	01/01/2009- 31/12/2009 LVL	01/01/2008- 31/12/2008 LVL
INCOME			
Interest revenue	7	307,739	1,546,085
Other income		4,797	7,597
TOTAL		312,536	1,553,682
EXPENSE			
Remuneration to investment manager		(36,094)	(202,186)
Remuneration to custodian bank		(5,775)	(25,850)
Other fund management expense		(3,545)	(890)
Interest expense		(105)	(3)
TOTAL		(45,519)	(228,929)
INCREASE/ (DECREASE) IN INVESTMENT VALUE			
Realised increase/ (decrease) in investment value	8	133,854	(6,724,095)
Unrealised increase/ (decrease) in investment value	9	1,260,054	(1,104,275)
INCREASE/ (DECREASE) IN NET ASSETS FROM INVESTMENT		1,660,925	(6,503,617)

For IPAS AB.LV Asset Management:
Chairman of the Board

Leonīds Kiļs

Fund Manager

Jevgeņijs Gžibovskis

Riga, 22 April 2010

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Statement of changes in net assets

	01/01/2009- 31/12/2009	01/01/2008- 31/12/2008
	LVL	LVL
Net assets at the beginning of the year	1,570,139	13,888,240
Increase/ (decrease) in net assets from investment activities	1,660,925	(6,503,617)
Transactions with investment certificates		
Inflow from sale of investment certificates	1,124,658	-
Outflow of redemption of investment certificates	-	(5,814,484)
Total	1,124,658	(5,814,484)
Increase/ (decrease) in net assets for the year	2,785,583	(12,318,101)
Net assets at the end of the year	4,355,722	1,570,139
Issued investment certificates at the beginning of the year	574,501	2,929,903
Issued investment certificates at the end of the year	820,813	574,501
Net assets per investment certificate at the beginning of the year	2.73	4.74
Net assets per investment certificate at the end of the year	5.31	2.73

For IPAS AB.LV Asset Management:
Chairman of the Board

Leonīds Kiļs

Fund Manager

Jevgeņijs Gžibovskis

Riga, 22 April 2010

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Statement of cash flows

	<u>31/12/2009</u>	<u>31/12/2008</u>
	LVL	LVL
Interest received	307,739	1,546,085
Interest paid	(105)	(3)
Investment management income	96,652	-
Investment management expense	-	(6,945,602)
(Acquisition) of financial assets	(4,274,690)	(7,226,621)
Disposal of financial assets	3,083,624	18,463,434
(Decrease)/ increase in cash from operating activities	<u>(786,780)</u>	<u>5,837,293</u>
Inflow from sale of investment certificates	1,130,386	-
Outflow of redemption of investment certificates	-	(5,791,101)
Increase/ (decrease) in cash from financing activities	<u>1,130,386</u>	<u>(5,791,101)</u>
Increase in cash	<u>343,606</u>	<u>46,192</u>
Cash at the beginning of the year	68,523	22,331
Cash at the end of the year	<u><u>412,129</u></u>	<u><u>68,523</u></u>

For IPAS AB.LV Asset Management:
Chairman of the Board

Leonīds Kiļs

Fund Manager

Jevgeņijs Gžibovskis

Riga, 22 April 2010

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

NOTE 1 GENERAL INFORMATION

Name of the fund:	AB.LV High Yield CIS Bond Fund
Type of the fund:	Open-end investment fund
Registered office:	Elizabetes iela 23, Riga, LV-1010, Latvia
Fund's business activity:	Investments mainly in debt securities, where the execution of the liabilities is secured by corporations and financial institutions of the CIS countries, as well as commercial companies of other countries, with a speculative credit rating or with no credit rating
Name of the investment manager:	IPAS AB.LV Asset Management Elizabetes iela 23, Riga, LV-1010, Latvia

The following abbreviations are used in the notes to the financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

NOTE 2 INFORMATION ON PRINCIPAL ACCOUNTING POLICIES

Statement of Compliance

The financial statements of AIF AB.LV High Yield CIS Bond Fund (hereinafter - the Fund) have been prepared in accordance with laws of the Republic of Latvia, the FCMC Regulations on Annual Reports of Investment Funds, and International Financial Reporting Standards as adopted in the EU.

During 2009, the Fund consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in *Amended IFRS and IFRIC that came into effect in the reporting period*.

Amended IFRS and IFRIC that came into effect in the reporting period

The following IFRS and IFRIC interpretations as adopted in the EU are amended and enter into force starting from 1 January 2009:

IFRS 7 Financial Instruments: Disclosures. These amendments were issued in March 2009 and are applicable to annual periods beginning on or after 1 January 2009. The amendments outline additional disclosure requirements for fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The Fund has adopted this amendment effective 1 January 2009. The liquidity risk disclosures are not significantly impacted by the amendments.

AIF AB.LV High Yield CIS Bond Fund

Annual report 2009

Notes

The Fund has applied the following IFRS, IAS and IFRIC interpretations which are amended or enter into force in the reporting year, but which do not have an impact on the financial statements:

IAS 1 Presentation of Financial Statements (revised). This amendment requires the entity to make disclosures of the objectives, policies and processes of managing capital. The key amendments presented in these financial statements refer to the following changes of statement headings: *Balance Sheet* and *Income Statement* have been replaced by a *Statement of Financial Position* and a *Statement of Comprehensive Income* respectively.

IAS 23 Borrowing Costs. The revised IAS 23 eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. The adoption of this standard did not have any impact on the financial position or performance of the Fund.

IFRIC 9 Reassessment of Embedded Derivatives and *IAS 39 Financial Instruments: Recognition and Measurement*. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this amendment did not have any impact on the financial position or performance of the Fund.

IFRIC 13 Customer Loyalty Programmes. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The adoption of this interpretation did not have any impact on the financial position or performance of the Fund.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this interpretation did not have any impact on the financial position or performance of the Fund.

IFRS 8 Operating Segment Information. The standard sets out requirements for disclosure of information about an entity's operating segments in breakdown by components that management uses to make operating decisions. According to the requirements of this IFRS, information on operating segments shall be disclosed by the companies, whose debt or equity instruments are traded in a public market. The Fund does not have any equity instruments and, therefore, the operating segment information is not disclosed in these financial statements.

IFRSs and IFRIC Interpretations that have been issued but are not yet effective

AIF AB.LV High Yield CIS Bond Fund

Annual report 2009

Notes

The Fund has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2010, once adopted by the EU). The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Fund, as the Fund does not have share-based payments.

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009). Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. The amendment will have no impact on the financial position or performance of the Fund, as the Fund does not have business combinations.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU). IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The Fund has not yet assessed the impact of this amendment.

Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011, once adopted by the EU). The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Fund, however it may impact the related parties disclosures.

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for financial years beginning on or after 1 February 2010). The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Fund, as the Fund does not have such instruments.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for financial years beginning on or after 1 July 2009). The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The amendment will have no impact on the financial position or performance of the Fund, as the Fund has not entered into any such hedges.

Improvements to IFRSs

AIF AB.LV High Yield CIS Bond Fund

Annual report 2009

Notes

In May 2008 and April 2009 IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The second omnibus, issued in April 2009, is still to be adopted by the EU. The adoption of the following amendments (all not adopted by the EU yet) may result in changes to accounting policies but will not have any impact on the financial position or performance of the Fund:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- *IFRS 8 Operating Segments*. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *IAS 7 Statement of Cash Flows*. Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- *IAS 36 Impairment of Assets*. The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards will not have any impact on the accounting policies, financial position or performance of the Fund:

- *IFRS 2 Share-based Payment*;
- *IAS 1 Presentation of Financial Statements*;
- *IAS 17 Leases*;
- *IAS 38 Intangible Assets*;
- *IAS 39 Financial Instruments: Recognition and Measurement*;
- *IFRIC 9 Reassessment of Embedded Derivatives*;
- *IFRIC 16 Hedge of a Net Investment in a Foreign Operation*.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 29 March 2009). This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This interpretation has no impact on the Fund's financial statements.

Amendment to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2011, once adopted by the EU). The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the financial statements because the Fund does not have defined benefit assets.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 31 October 2009). The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the financial statements because the Fund does not distribute non-cash assets to owners.

IFRIC 18 Transfers of Assets from Customers (effective for financial years beginning on or after 31 October 2009). The interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer

AIF AB.LV High Yield CIS Bond Fund

Annual report 2009

Notes

with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the financial statements because the Fund does not have such agreements.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after 1 April 2010, once adopted by the EU). The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Fund does not have such transactions, IFRIC 19 will not have any impact on its financial statements.

The Fund expects that the initial application of the pronouncements listed above will have no significant impact on the financial statements.

Significant Accounting Estimates and Assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation and assumptions relate to determining the fair value of financial assets.

Basis of Preparation

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

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 1 January 2009 through 31 December 2009.

Information given herein in brackets represents comparative figures for the year ended 31 December 2008, unless otherwise stated.

Revenue and Expense Recognition

All major revenue and expense items are recognised on an accrual basis. Commission and fee revenue and expense are included in the statement of income and expense over the period or at a specific time, except for commission and fee revenue and expense directly attributable to financial assets and liabilities measured at amortised cost – for these assets and liabilities the respective commission and fee revenue and expense form an integral part of the effective interest rate.

Interest revenue is recognised in the period when earned using the effective interest method and includes interest revenue from debt securities and term deposits.

Dividend revenue is recognised when the right to receive the payment is established.

The difference between the acquisition price and the value of a financial instrument (hereinafter – a 'Day 1' profit or loss) is not recognised in the statement of income and expense at the acquisition date. The 'Day 1' profit or loss from transactions is recognised on an individual basis. The difference is either recognised in the statement of income and expense during the term of the transaction, or deferred and recognised only when the fair value of the financial instrument

AIF AB.LV High Yield CIS Bond Fund

Annual report 2009

Notes

may be determined using observable data, or recognised in the statement of income and expense upon derecognition of a financial instrument. The financial instrument is subsequently stated at fair value adjusted by the deferred 'Day 1' profit or loss. Fair value changes are recognised in the statement of income and expense without making adjustments to the deferred 'Day 1' profit or loss.

Foreign Currency Translation

The Fund's functional currency is the US dollar 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. All assets and liabilities denominated in foreign currencies are translated into Latvian lats at the official exchange rate established by the Bank of Latvia at the last day of the reporting period. Income or expense resulting from changes in exchange rates is included in the statement of income and expense of the reporting period. Transactions denominated in foreign currencies are recorded in Latvian lats at the official exchange rate established by the Bank of Latvia at the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated into Latvian lats at the official exchange rates established by the Bank of Latvia at the last day of the reporting period.

	<u>31/12/2009</u>	<u>31/12/2008</u>
USD 1	LVL 0.489	LVL 0.495

Cash

Cash comprises Fund's demand deposits with credit institutions. Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

Debt Securities and other Fixed Income Securities

The Fund recognises financial assets and liabilities in its statement of assets and liabilities when, and only when, the Fund becomes a party to the contractual provisions of the instrument.

Financial assets at fair value through profit or loss

- Classification

Financial assets at fair value through profit or loss are held-for-trading securities, i.e. securities acquired for generating a profit from short-term fluctuations in price. Financial assets are analysed by the Fund Manager on the basis of their fair value and other financial information.

- Measurement

Securities are initially recognised at cost and subsequently re-measured at fair value based on the bid prices. Any gain or loss on revaluation at fair value is recognised in the statement of income and expense. Interest revenue from financial assets at fair value through profit or loss is calculated using the effective interest rate and recognised in the statement of income and

AIF AB.LV High Yield CIS Bond Fund

Annual report 2009

Notes

expense. Dividends from financial assets at fair value through profit or loss are recognised in the statement of income and expense when the right to the payment has been established.

- Derecognition

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Fund has transferred the financial asset and all the risks and rewards of the asset to the counterparty. Securities purchase and sale transactions are recognised on the trading date. The cost of securities sold is defined on a FIFO (first in, first out) basis.

Fair Value of Financial Assets and Liabilities

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. Where, in the opinion of the Fund's management, the fair values of financial assets and liabilities differ materially from their carrying amounts, such fair values are separately disclosed in the notes to the financial statements.

The fair value of financial assets traded in active markets is based on their quoted market prices on the last day of the reporting period. The Fund has no financial assets classified as at fair value through profit or loss that would not be traded in an active market. The quoted market price is the last closing transaction price or the last available bid price of the securities quoted on a respective stock exchange if no transactions are registered during the trading session at the settlement date.

Provisions

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Taxes

The Fund's income is subject to income taxes 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, and upon annulment of the Fund's investment certificates, no income taxes are charged on increase in value.

NOTE 3 RISK MANAGEMENT

The key investment risks are market risk (price risk and interest rate risk), liquidity risk, credit risk, legal risk, strategic risk, informational risk, foreign investment risk, and other business-related risks.

Considering that the Company makes investments only in the subfund's base currency (USD), there is no exposure to currency risk.

The Fund believes that its exposure to credit risk arises mainly from investments in fixed income securities and balances due from credit institutions.

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements.

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

The table below provides the analysis of the Fund's maximum credit risk exposure as at 31 December 2009:

	<u>31/12/2009</u>	<u>31/12/2009</u>
	Carrying amount	Maximum exposure
ASSETS	LVL	LVL
Demand deposits with credit institutions	20,152	20,152
Term deposits with credit institutions	391,977	391,977
Financial assets at fair value through profit or loss	3,944,970	3,944,970
Other assets	6,835	6,835
TOTAL ASSETS	<u>4,363,934</u>	<u>4,363,934</u>

The table below provides the analysis of the Fund's maximum credit risk exposure as at 31 December 2008:

	<u>31/12/2008</u>	<u>31/12/2008</u>
	Carrying amount	Maximum exposure
ASSETS	LVL	LVL
Demand deposits with credit institutions	68,523	68,523
Financial assets at fair value through profit or loss	1,493,850	1,493,850
Other assets	15,190	15,190
TOTAL ASSETS	<u>1,577,563</u>	<u>1,577,563</u>

To keep the risk exposure at the required level, the Fund is managed following the risk diversification and hedging principles.

In developing the investment strategy and stating limits, the Company performs an analysis of the Fund's investments by maturity, geographic placements, currency profile, industry, etc., as well as assesses the risks inherent to each of the above factors.

The Company acts in strict compliance with the provisions and restrictions of the prospectuses, agreements, and Latvian laws, as well as assesses the compliance of the investments made on an ongoing basis.

The Company applies qualitative and quantitative assessments to manage financial risks:

- According to the qualitative assessment, investments are made in assets corresponding to certain parameters. In planning investments, the Company takes into consideration investment safety in each particular country and particular financial instruments and term deposits with banks, i.e. analyses credit ratings granted to the respective country, bank or company.
- The quantitative assessment is expressed as limits set for specific investment types, countries and regions, industries, specific issuers and counterparties.

When investments are made abroad, particular attention is paid to expected currency fluctuations against the Fund's base currency. For risk mitigation purposes, the Company performs:

- Country assessment according to international rating agencies scale;
- Assessment of political situation in the country;
- Assessment of economic situation in the country.

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

NOTE 4 DEPOSITS WITH CREDIT INSTITUTIONS

	31/12/2009	31/12/2008	% of total Fund's assets as at 31/12/2009
	LVL	LVL	(%)
Demand deposits with credit institutions, AS Aizkraukles banka	20,152	68,523	0.46
Term deposits with credit institutions, AS Aizkraukles banka	391,977	-	9.00
Total deposits	412,129	68,523	9.46

The Fund receives interest on demand deposits fixed as monthly average LIBOR USD o/n -0.2%. No payments to the Fund related to term deposits and debt securities were past due in the reporting period.

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

NOTE 5 DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES

All debt securities and other fixed income securities are classified as financial assets at fair value through profit or loss. All securities are not listed and are traded over-the-counter.

Financial assets at fair value through profit or loss by geographical placement:

	31/12/2009	31/12/2008	% of total Fund's assets as at 31/12/2009 (%)
	LVL	LVL	(%)
Other countries	3,944,970	1,493,850	90.57
Total debt securities and other fixed income securities	3,944,970	1,493,850	90.57

31/12/2009				
Issuer	Amount	Acquisition value	Carrying amount	% of total Fund's assets
		LVL	LVL	(%)
Argentinian issuers		23,142	20,445	2.48
CIA TRANSPORTE ENERGIA	50	23,142	20,445	0.68
Georgian issuers		68,216	73,178	2.06
BG FINANCE (BK GEORGIA)	150	68,216	73,178	2.06
Kazakhstani issuers		585,656	558,766	11.45
KAZKOMMERTS FINANCE	100	37,898	36,627	0.90
KAZKOMMERTS INTL BV	150	70,416	66,786	1.94
TEMIRCAPITAL (TEMIRBANK)	100	41,775	12,354	0.52
ATF BANK	100	48,411	49,307	0.52
ATF CAPITAL BV	150	56,480	73,233	0.52
CENTERCREDIT INTL (CENTE	250	101,657	118,344	0.52
HALYK SAVINGS BANK-KAZAK	200	88,313	101,098	0.81
KAZAKHGOLD GROUP LTD	150	73,224	74,657	1.16
TURANALEM FINANCE BV	150	67,482	26,361	0.76
Venezuelan issuers		67,719	68,977	0.96
PETROLEOS DE VENEZUELA	2,500	67,719	68,977	0.96
Indonesian issuers		101,712	101,271	0.96
Ciliandra P Fin Pte Ltd	200	101,712	101,271	0.96
Ukrainian issuers		565,527	482,635	11.49
CSFB INTL (EXIM UKRAINE)	200	80,990	80,453	0.74
HSBC BANK PLC (BANK NADRA)	150	71,516	11,003	0.46
MHP SA	150	70,416	67,008	2.23
NAFTOGAZ UKRAINE	200	78,432	84,422	1.20
UK SPV CREDIT FINANCE PLC	100	39,071	37,995	1.45
STANDARD BK (PRIVATBANK)	100	44,988	33,461	0.96
UKRAINE ISS (ALFA BANK)	170	83,220	74,074	2.64
UKRAINIAN MTN FIN (UKRSIBBANK)	200	96,894	94,220	1.81

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

31/12/2009				
Issuer	Amount	Acquisition value	Carrying amount	% of total Fund's assets
		LVL	LVL	(%)
Russian issuers		2,618,218	2,639,698	70.77
AK BARS LUXEMBURG SA	300	142,544	148,270	1.76
ALFA BOND ISS (ALFA BK)	100	46,211	47,360	3.08
BSPB FIN (BK ST PETERSB)	150	69,683	69,514	2.30
ALFA MTN INVEST LTD	200	97,189	99,120	2.30
EDEL CAPITAL (SINEK CAP)	300	143,140	144,069	2.30
LUKOIL INTL FINANCE BV	300	145,558	149,387	0.90
MDM INTERNATIONAL FUNDIN	250	122,809	129,985	0.20
VIP FIN (VIMPELCOM)	150	76,767	79,442	0.78
KRU SOLUTIONS (KUZBASSRAZREZUGOL)	250	123,693	126,576	2.80
LOCKO FINANCE (LOCKO-BANK)	100	46,883	50,516	1.86
MB CAP (MOSCOW BK R&D)	100	45,477	45,825	1.53
MOSCOW RIV (UNTD AIRCFT)	200	97,370	97,109	3.56
MOSCOW RIVER (LESSIRON)	111	42,910	35,208	0.71
MOSCOW RIVER (SIBIRTEL)	100	47,858	48,123	1.93
NKNK FINANCE (NIZHNEKAM)	25	122,780	127,629	1.39
NOMOS CAP(NOMOS BANK)	100	46,211	48,116	1.50
ALROSA FINANCE SA	150	73,167	76,420	2.64
EUROCHEM FINANCE	250	122,598	125,155	2.77
TNK-BP FINANCE SA	150	74,512	76,425	2.80
NOVOROSSIYSK PORT	250	121,101	123,583	2.75
Evraz Group SA	250	119,511	123,954	2.56
TRANSCREDIT FINANCE	130	63,808	66,614	1.94
PSB FINANCE PROMSVYAZBK	250	120,666	128,355	4.26
RASPADSKAYA SEC LTD	250	121,792	123,912	1.73
RENAISSANCE CONSUMER	150	69,279	69,190	1.57
ROYAL BK SCO (RITZIO INT)	2	47,922	6,032	0.40
STEEL CAP(SEVERSTAL)	350	178,273	180,080	1.75
TFB FINANCE (TATFONDBANK)	100	47,922	48,892	1.73
TRANSREGIONAL (TRANSCAP)	100	40,587	44,835	1.16
Total debt securities and other fixed income securities		4,030,190	3,944,970	90.57

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

Breakdown of fixed income securities by industry profile:

	31/12/2009	31/12/2008	% of total Fund's assets as at 31/12/2009
	LVL	LVL	(%)
Finance	2,739,598	1,087,042	62.90
Manufacturing	516,107	146,168	11.85
Transport	220,692	65,502	5.07
Metallurgy	180,080	29,407	4.13
Oil and gas production	84,422	24,804	1.94
Communications	79,442	28,166	1.82
Central governments	68,977	38,213	1.58
Construction	35,208	56,220	0.81
Energy	20,444	8,899	0.47
Trade	-	9,429	-
Total debt securities and other fixed income securities	3,944,970	1,493,850	90.57

NOTE 6 ACCRUED EXPENSE

	31/12/2009	31/12/2008
	LVL	LVL
Accrued commission fees payable to investment manager	4,653	5,681
Accrued commission fees payable to custodian bank	744	909
Accrued fees payable for professional services	2,184	811
Accrued payments to Riga Stock Exchange	26	-
Accrued fees payable to third parties	605	23
Total accrued expense	8,212	7,424

NOTE 7 INTEREST REVENUE

	31/12/2009	31/12/2008
	LVL	LVL
From deposits with credit institutions	4,537	2,984
From financial assets at fair value through profit or loss	303,202	1,543,095
Other revenue	-	6
Total interest revenue	307,739	1,546,085

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

NOTE 8 REALISED INCREASE/ (DECREASE) IN INVESTMENT VALUE

	<u>31/12/2009</u>	<u>31/12/2008</u>
	LVL	LVL
Income from sale of investments	3,145,064	11,532,647
Acquisition value of investments sold	<u>(3,011,210)</u>	<u>(18,256,742)</u>
Total realised increase/ (decrease) in investment value	<u>133,854</u>	<u>(6,724,095)</u>

NOTE 9 UNREALISED INCREASE/ (DECREASE) IN INVESTMENT VALUE

	<u>31/12/2009</u>	<u>31/12/2008</u>
	LVL	LVL
Financial assets at fair value through profit or loss	1,313,260	(1,476,468)
Currency exchange (loss)/ gain	<u>(53,206)</u>	<u>372,193</u>
Total unrealised increase/ (decrease) in investment value	<u>1,260,054</u>	<u>(1,104,275)</u>

NOTE 10 CHANGE IN INVESTMENT ASSETS DURING THE REPORTING YEAR

The table below shows changes in the Fund's investment portfolio in 2009:

	<u>31/12/2008</u>	<u>Investments made during the year</u>	<u>Investments annulled during the year</u>	<u>Fair value revaluation result</u>	<u>31/12/2009</u>
	LVL	LVL	LVL	LVL	LVL
Financial assets at fair value through profit or loss	<u>1,493,850</u>	4,274,690	(3,083,624)	1,260,054	<u>3,944,970</u>
Total assets	<u>1,493,850</u>	<u>4,274,690</u>	<u>(3,083,624)</u>	<u>1,260,054</u>	<u>3,944,970</u>

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

The table below shows changes in the Fund's investment portfolio in 2008:

	31/12/2007	Investments made during the year	Investments annulled during the year	Fair value revaluation result	31/12/2008
	LVL	LVL	LVL	LVL	LVL
Financial assets at fair value through profit or loss	13,834,938	7,226,621	(18,463,434)	(1,104,275)	1,493,850
Total assets	13,834,938	7,226,621	(18,463,434)	(1,104,275)	1,493,850

NOTE 11 FUND'S ASSETS BY GEOGRAPHICAL PLACEMENT

The table below shows the Fund's assets and liabilities by geographical placement as at 31 December 2009:

	Latvia	Other countries	Total
	LVL	LVL	LVL
ASSETS			
Demand deposits with credit institutions	20,152	-	20,152
Term deposits with credit institutions	391,977	-	391,977
Financial assets at fair value through profit or loss	-	3,944,970	3,944,970
Other assets	-	6,835	6,835
TOTAL ASSETS	412,129	3,951,805	4,363,934
LIABILITIES			
Accrued expense	(8,212)	-	(8,212)
TOTAL LIABILITIES	(8,212)	-	(8,212)
TOTAL	403,917	3,951,805	4,355,722

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

The table below shows the Fund's assets and liabilities by geographical placement as at 31 December 2008:

	Latvia	EU Member States	Other countries	Total
	LVL	LVL	LVL	LVL
ASSETS				
Demand deposits with credit institutions	68,523	-	-	68,523
Financial assets at fair value through profit or loss	-	-	1,493,850	1,493,850
Other assets	-	5,023	10,167	15,190
TOTAL ASSETS	68,523	5,023	1,504,017	1,577,563
LIABILITIES				
Accrued expense	(7,424)	-	-	(7,424)
TOTAL LIABILITIES	(7,424)	-	-	(7,424)
TOTAL	61,099	5,023	1,504,017	1,570,139

NOTE 12 MATURITY PROFILE OF ASSETS AND LIABILITIES (LIQUIDITY)

Liquidity is the risk that the Fund will sustain a loss if its assets cannot be realised at minimal expense within a certain period of time.

Liquidity risk is minimised by holding part of the Fund's assets as cash and short-term debt securities as well as high-quality, highly liquid securities, ensuring the adequate diversification of the investments and fixing maturity dates within a wide maturity range, analysing the data regarding the plans revised by the participants and related cash flows as well as forecasting the Fund's participants and cash flows.

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

The table below presents the distribution of the Fund's assets and liabilities into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2009:

	Up to 1 month	1 - 12 months	1 - 5 years	More than 5 years	Total
	LVL	LVL	LVL	LVL	LVL
ASSETS					
Demand deposits with credit institutions	20,152	-	-	-	20,152
Term deposits with credit institutions	391,977	-	-	-	391,977
Financial assets at fair value through profit or loss	-	458,626	2,671,926	814,418	3,944,970
Other assets	6,835	-	-	-	6,835
TOTAL ASSETS	418,964	458,626	2,671,926	814,418	4,363,934
LIABILITIES					
Accrued expense	(6,028)	(2,184)	-	-	(8,212)
TOTAL LIABILITIES	(6,028)	(2,184)	-	-	(8,212)
NET ASSETS	412,936	456,442	2,671,926	814,418	4,355,722

The table below presents the distribution of the Fund's assets and liabilities into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2008:

	Up to 1 month	1 - 12 months	1 - 5 years	More than 5 years	Total
	LVL	LVL	LVL	LVL	LVL
ASSETS					
Demand deposits with credit institutions	68,523	-	-	-	68,523
Financial assets at fair value through profit or loss	-	184,020	989,063	320,767	1,493,850
Other assets	15,190	-	-	-	15,190
TOTAL ASSETS	83,713	184,020	989,063	320,767	1,577,563
LIABILITIES					
Accrued expense	(6,612)	(812)	-	-	(7,424)
TOTAL LIABILITIES	(6,612)	(812)	-	-	(7,424)
NET ASSETS	77,101	183,208	989,063	320,767	1,570,139

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

NOTE 13 INTEREST RATE RISK

Interest rate risk represents the effect of the market interest rate fluctuations on the Fund's value, affecting the Fund's interest revenue and the market value of financial assets.

The effect on net interest revenue is calculated as follows: in 2009 there were no floating-rate securities, while in 2008 it was calculated as 1% of the par value for securities at a floating interest rate (the decrease in the interest rate by 1% will lead to a respective reduction in interest revenue). The effect on the value of financial assets at fair value through profit or loss is calculated as duration of financial assets (the effect of changes in interest rates on the price of securities and, accordingly, the Fund's value).

The total Fund's sensitivity to changes in interest rates is calculated as the total of the net interest revenue sensitivity and the financial asset value sensitivity.

The following table presents the sensitivity to changes in interest rates:

	01/01/2009 - 31/12/2009		01/01/2008 - 31/12/2008	
	+100bps	-100bps	+100bps	-100bps
	LVL	LVL	LVL	LVL
Effect on profit	(96)	96	(22)	22

Considering that the Company makes investments only in the subfund's base currency (USD), there is no exposure to currency risk.

NOTE 14 CREDIT RISK

The following table presents the analysis of the Fund's assets by credit ratings as at 31 December 2009:

ASSETS	High quality	Average quality	Low quality	No rating	Total
	LVL	LVL	LVL	LVL	LVL
Demand deposits with credit institutions	-	-	-	20,152	20,152
Term deposits with credit institutions	-	-	-	391,977	391,977
Financial assets at fair value through profit or loss	225,813	989,754	2,468,275	261,128	3,944,970
Other assets	-	-	-	6,835	6,835
TOTAL ASSETS	225,813	989,754	2,468,275	680,092	4,363,934

The following table presents the analysis of the Fund's assets by credit ratings as at 31 December 2008:

ASSETS	High quality	Average quality	Low quality	No rating	Total
	LVL	LVL	LVL	LVL	LVL
Demand deposits with credit institutions	-	-	-	68,523	68,523
Financial assets at fair value through profit or loss	-	386,905	861,936	245,009	1,493,850
Other assets	-	-	-	15,190	15,190
TOTAL ASSETS	-	386,905	861,936	328,722	1,577,563

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009

Notes

The Fund's assets are classified into credit risk classes as follows:

High quality: AAA – BBB- (Standard & Poor's); Aaa – Baa3 (Moody's Investors Service);
 AAA – BBB- (Fitch);
 Average quality: BB+ - BB- (Standard & Poor's); Ba1 - Ba3 (Moody's Investors Service);
 Low quality: B+ - B- (Standard & Poor's); B1 - B3 (Moody's Investors Service); B+ -
 B- (Fitch), and lower ratings.

NOTE 15 INFORMATION ON HOLDERS OF INVESTMENT CERTIFICATES

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

	31/12/2009	31/12/2008	% of total certificates as at 31/12/2009 (%)
Investment certificates held by related parties	15,709	15,709	1.9%
Investment certificates held by other persons	805,104	558,793	98.1%
Investment certificates issued as at the year end	<u>820,813</u>	<u>574,502</u>	<u>100.0%</u>

NOTE 16 RELATED PARTY DISCLOSURES

The majority of the Fund's investments are acquired with the mediation of the custodian bank AS Aizkraukles banka. AS Aizkraukles banka receives also remuneration as the custodian bank, as disclosed in the statement of income and expense. In addition, the Fund's cash resources are held with AS Aizkraukles banka (see Note 4).

The remuneration paid to the investment manager during the reporting year is disclosed in the statement of income and expense.

During the reporting year, related parties acquired 43 (1,290) investment certificates and sold 43 (0) investment certificates.

NOTE 17 PLEDGED ASSETS

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

NOTE 18 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The management of the Company believes that the carrying amounts of financial assets and liabilities approximate to their fair values. The Company assumes that the fair value of liquid financial assets and financial liabilities or financial assets and financial liabilities having short maturities (less than three months) approximates to their carrying amount. The fair value of the Fund's financial assets and liabilities is chiefly based on the official price quotations in an active market.

Hierarchy of input data for determining the fair value of financial assets and liabilities

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

The following hierarchy of three levels of input data is used for determining and disclosing the fair value of financial assets and liabilities:

Level 1: Quoted prices in active markets;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable.

Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Level 3 inputs, i.e. other valuation techniques, are used for available-for-sale financial assets not quoted in the market and for which no quoted prices for similar assets in active markets are available. In determining the fair value for such financial assets, valuation models based on the assumptions and estimates regarding the potential future financials of the investment property, and the industry and geographical area risks in which the respective investment property operates.

The Fund's financial assets recorded at fair value according to the hierarchy of input data for determining the fair value:

	<u>31/12/2009</u>	
	Level 1 LVL	Level 2 LVL
FINANCIAL ASSETS		
Financial assets at fair value through profit or loss	3,815,814	129,156
TOTAL FINANCIAL ASSETS	<u><u>3,815,814</u></u>	<u><u>129,156</u></u>

	<u>31/12/2008</u>
	Market quotations LVL
FINANCIAL ASSETS	
Demand deposits with credit institutions	68,523
Term deposits with credit institutions	-
Financial assets at fair value through profit or loss	1,493,850
TOTAL FINANCIAL ASSETS	<u><u>1,562,373</u></u>

AIF AB.LV High Yield CIS Bond Fund
Annual report 2009
Notes

The following table demonstrates the performance of Fund's investments:

	<u>31/12/2009</u>	<u>31/12/2008</u>
Net assets (LVL)	4,355,722	1,570,139
Number of investment certificates	820,813	574,502
Value of investment fund's shares (LVL)	<u>5.307</u>	<u>2.733</u>
Performance on investment fund's shares	94.51%	-42.41%
 Net assets (USD)	 8,907,407	 3,171,998
Number of investment certificates	820,813	574,502
Value of investment fund's shares (USD)	<u>10.852</u>	<u>5.521</u>
Performance on investment fund's shares	96.56%	-43.46%

NOTE 20 EVENTS AFTER REPORTING DATE

As of the last day of the reporting year until the date of approval of these financial statements there have been no significant events that could produce a material effect on the Fund's performance for the year.