BANKING / INVESTMENTS \ ADVISORY

ABLV

# Open-end investment fund
# ABLV US Industry USD Equity Fund

Annual report
for the period 8 November 2013 through 31 December 2014

Together with independent auditors' report

# Contents

# General information

| | |
|---|---|
| Name of the fund: | ABLV US Industry USD Equity Fund |
| Category of the fund: | Open-end investment fund |
| Type of the fund: | Stock fund |
| Registration date of the fund: | 11 September 2013 |
| Registration number of the fund: | FL132-02.01.02.263/204 |
| Name of the investment management company: | ABLV Asset Management, IPAS |
| Registered office of the investment management company: | 23 Elizabetes Street, Riga, LV-1010 |
| Registration number of the investment management company: | 40003814724 |
| Licence number of the investment management company: | 06.03.07.263/204 |
| Date of the licence: | 4 August 2006 |
| Name of the custodian bank: | ABLV Bank, AS |
| Registered office of the custodian bank: | 23 Elizabetes Street, Riga, LV-1010 |
| Registration number of the custodian bank: | 50003149401 |
| Names and positions of council members, board members, and fund manager: | Council of the investment management company:<br><br>Chairman of the Council - Ernests Bernis<br>Deputy Chairman of the Council - Māris Kannenieks<br>Council Member - Vadims Reinfelds<br><br>Board of the investment management company:<br><br>Chairman of the Board - Leonīds Kiļs<br>Deputy Chairman of the Board - Jevgenijs Gžibovskis<br>Board Member - Sergejs Gačenko<br><br>Fund Manager – Oļegs Rusnaks |
| 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 management company and manage several funds of one investment management company. |

# Investment management company report

On 11 September 2013, open-end mutual fund ABLV US Industry USD Equity Fund (hereinafter referred to as the fund) was registered as a stock fund the investment currency of which is USD.

ABLV Asset Management, IPAS (new name ABLV Asset Management, IPAS, was registered with the Register of Enterprises on 27.05.2011, hereinafter referred to as the company) was registered with the Republic of Latvia Register of Enterprises on 4 August 2006 under No. 40003814724, the licence for operations of investment management company No. 06.03.07.263/204, and it is located in Riga, at 23 Elizabetes Street.

The fund's investment objective is achievement of the long-term capital growth. To achieve this objective, the fund's assets are invested in the ETF securities that replicate the index structure of the stocks of commercial companies operating in different economy sectors which are traded on regulated markets of the USA.

The fund's investment portfolio is diversified among investments in different sectors of economy and issuers, thus ensuring higher investment safety and protection against fluctuations of the fund's assets value and against the risk of default on obligations.
The year 2014 was the second year of operations of ABLV US Industry USD Equity Fund. As at the end of December 2014, the fund's net assets amounted to USD 5 927 104 (EUR 4 881 891), and annualized return since inception equalled 9.10%.

In 2014, the US securities market demonstrated positive dynamics. Improvement of the US macroeconomic indicators ensured significant support to the market, and profits of the US companies continued to grow. In October, the Federal Reserve System (FRS) completed the third stage of monetary stimulation (QE3), meanwhile retaining soft rhetoric regarding the possibility of stricter monetary policy, which was positively perceived by investors. Worsening geopolitical situation in different regions of the world had almost no impact on the US securities market. Moreover, viewed from the growth structure perspective, the year 2014 was untypical – as at the end of the year best results were demonstrated by stocks of the companies operating in protected sectors of economy, for example, healthcare and utility companies. Whereas cyclical sectors lagged behind the market. Oil-processing and extractive sectors have fallen behind considerably, which is attributable to significant decrease of oil and other raw materials prices.

The minimum amount of investment in the fund is USD 1 000.

The company performs regular analysis of current political and economic situation, as well as comparative analysis and technical analysis, analysis of various macroeconomic indicators, and summarizing analysis of recommendations given by the world's leading brokerage and analytics companies on different financial markets.

In order to regularly provide information on situation in the world's financial markets to current customers and prospective investors of ABLV Asset Management, IPAS, detailed monthly analysis of macroeconomic situation prepared by our chief analyst, as well as monthly comment of the fund manager and overview of the market situation, fund's performance, and actions taken by the fund manager, are published at ABLV Bank, AS, home page www.ablv.com.

To ensure diversification and minimize risks, the company constantly pays great attention to risk management. The Investment Strategy Committee is established at the company, and it determines the company's investment strategy, risk limits, and financial markets on which transactions in financial instruments are performed. The members of the Investment Strategy Committee are ABLV Bank, AS, and the company's top specialists in financial markets.

The company will continue making every effort to efficiently manage the fund's assets in order to increase the number of the fund's investors and the fund's net assets in 2015.

Management of ABLV Asset Management, IPAS, expresses gratitude to our customers for their loyalty and successful cooperation with us.

ABLV Asset Management, IPAS
Chairman of the Board

**Leonīds Kiļs**

ABLV Asset Management, IPAS
Fund Manager

**Oļegs Rusnaks**

Riga, 14 April 2015

# Statement of responsibility of the board of the investment management company

The board of the investment management company are responsible for the preparation of the financial statements of the investment fund ABLV US Industry USD Equity Fund.

The financial statements set out on pages 7 to 22 are prepared in accordance with the source documents and present fairly the financial position of the fund as at 31 December 2014 and the results of its operations for the period 8 November 2013 through 31 December 2014.

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 on the Preparation of Reports of Investment Management Companies and on the Preparation of Annual Reports, Consolidated Annual Reports and Interim Reports of Investment Funds and Open-end Alternative Investment Funds, according to International Financial Reporting Standards as adopted by 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 investment management company are responsible for the maintenance of proper accounting records, the safeguarding of the fund's assets, 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.

ABLV Asset Management, IPAS
Chairman of the Board

**Leonīds Kiļs**

Riga, 14 April 2015

# Custodian bank report

To the investors of
the open-end investment fund ABLV US Industry USD Equity Fund

ABLV Bank, AS, registered with the Republic of Latvia Enterprise Register on 17 September 1993 under No 50003149401, located in Riga, 23 Elizabetes Street, 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, ABLV Bank, AS (hereinafter – the custodian bank) acts as the custodian bank for the fund ABLV US Industry USD Equity Fund established by ABLV Asset Management, IPAS.

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:

- To keep the fund's property held in the account according to the conditions of the Custodian Bank Agreement;
- 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;
- 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;
- 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;
- 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 the open-end investment fund ABLV US Industry USD Equity 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.

Custodian bank ABLV Bank, AS
Chairman of the Board

**Ernests Bernis**

Riga, 14 April 2015

# Statement of assets and liabilities

EUR

| **Assets** | Notes | 31/12/2014 |
|---|---|---|
| Demand deposits with credit institutions | 4 | 1,357,159 |
| Financial assets at fair value through profit or loss | | 3,534,288 |
| Debt securities and other fixed income securities | 5 | 3,534,288 |
| Other assets | | |
| **Total assets** | | **4,891,447** |
| **Liabilities** | | |
| Accrued expense | 6 | (9,556) |
| **Total liabilities** | | **(9,556)** |
| **Net assets** | | **4,881,891** |

ABLV Asset Management, IPAS
Chairman of the Board

**Leonīds Kiļs**

ABLV Asset Management, IPAS
Fund Manager

**Oļegs Rusnaks**

Riga, 14 April 2015

# Statement of income and expense

| | | EUR |
|---|---|---|
| **Income** | Notes | 08/11/2013-31/12/2014 |
| Dividends | | 45,852 |
| **Total** | | **45,852** |
| | | |
| **Expense** | | |
| Remuneration to investment management company | | (54,646) |
| Remuneration to custodian bank | | (7,287) |
| Other fund management expense | | (2,587) |
| **Total** | | **(64,519)** |
| | | |
| **Increase in investment value** | | |
| Realised increase in investment value | 7 | 194,482 |
| Unrealised increase in investment value | 8 | 620,636 |
| Taxes and duties | | (12,453) |
| **Increase in net assets from investment** | | **783,997** |

ABLV Asset Management, IPAS
Chairman of the Board

**Leonīds Kiļs**

ABLV Asset Management, IPAS
Fund Manager

**Oļegs Rusnaks**

Riga, 14 April 2015

# Statement of changes in net assets

| Item | EUR<br>08/11/2013-<br>31/12/2014 |
|---|---|
| **Net assets at the beginning of the period** | **-** |
| Increase in net assets from investment | 783,997 |
| Transactions with investment certificates | |
| Inflow from sale of investment certificates | 4,108,551 |
| (Outflow) of redemption of investment certificates | (10,658) |
| **Total result of transactions with investment certificates** | **4,097,893** |
| **Increase in net assets for the period** | **4,881,891** |
| **Net assets at the end of the period** | **4,881,891** |
| Issued investment certificates at the end of the period | 536,177 |
| Net assets per investment certificate at the end of the period | 9.11 |

ABLV Asset Management, IPAS
Chairman of the Board

**Leonīds Kiļs**

ABLV Asset Management, IPAS
Fund Manager

**Oļegs Rusnaks**

Riga, 14 April 2015

# Statement of cash flows

EUR

| Item | 08/11/2013-31/12/2014 |
|---|---|
| Dividends received | 45,930 |
| Investment management (expense) | (55,522) |
| (Acquisition) of financial assets | (7,304,685) |
| Disposal and redemption of financial assets | 4,488,427 |
| **Decrease in cash and cash equivalents from operating activities** | **(2,825,850)** |
| Inflow from sale of investment certificates | 4,108,551 |
| (Outflow) of redemption of investment certificates | (10,658) |
| **Increase in cash and cash equivalents from financing activities** | **4,097,893** |
| Taxes and duties | (12,474) |
| **Increase in cash and cash equivalents for the period** | **1,259,569** |
| **Cash and cash equivalents at the beginning of the period** | **-** |
| Net foreign exchange difference | **97,590** |
| **Cash and cash equivalents at the end of the period** | **1,357,159** |

ABLV Asset Management, IPAS
Chairman of the Board

**Leonīds Kiļs**

ABLV Asset Management, IPAS
Fund Manager

**Oļegs Rusnaks**

Riga, 14 April 2015

Note 1

## General information

The open-end investment fund ABLV US Industry USD Equity Fund is a stock fund registered on 11 September 2013. The registered office of the investment management company is at 23 Elizabetes Street, Riga, LV-1010, Latvia.

The fund's business activity includes diversified investments in ETF securities to get advantage from the US economy development.

The following abbreviations are used in the notes to the financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Accounting Standards Board (IASB), 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), and ABLV Asset Management, IPAS (company).

Note 2

## Principal accounting policies

**Basis of Preparation**

These financial statements are based on the accounting records made pursuant to the legislative requirements and prepared in conformity with International Financial Reporting Standards and IFRIC Interpretations as adopted by the European Union, on a going concern basis.
These records are prepared under the historical cost convention, except for financial assets and liabilities which are reported at fair value.

The fund's functional currency is USD. The monetary unit used in the financial statements is the euro (EUR), the monetary unit of the Republic of Latvia. These financial statements are reported in EUR, unless otherwise stated.

**Adoption of New and/ or Changed IFRSs and IFRIC Interpretations in the Reporting Year**

During the year, the fund has adopted the following IFRS amendments:
- IAS 27 *Separate Financial Statements* (Amended)
- IAS 28 *Investments in Associates and Joint Ventures* (Amended)
- IAS 32 *Financial Instruments: Presentation* (Amended) - *Offsetting Financial Assets and Financial Liabilities*
- IAS 36 *Impairment of Assets* (Amended) – *Recoverable Amount Disclosures for Non-Financial Assets*
- IAS 39 *Financial Instruments* (Amended): *Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- IFRS 10 *Consolidated Financial Statements,* IAS 27 *Separate Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosures of Interests in Other Entities*
- IFRS 10, IFRS 12 and IAS 27 - *Investment Entities* (Amended)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the fund, its impact is described below.

Amendment to IAS 27 *Separate Financial Statements*
As a result of the new standards IFRS 10, IFRS 11 and IFRS 12, this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The implementation of this amendment had no impact on the financial statements of the fund.

Amendment to IAS 28 *Investments in Associates and Joint Ventures*
As a result of the new standards IFRS 11 and IFRS 12, this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. This amendment had no impact on the financial statements of the fund.

Amendment to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
These amendments are effective for financial years beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. This amendment had no impact on the financial statements of the fund.

Amendment to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment did not have any impact on the financial position or performance of the fund.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*
The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment did not have any impact on the financial position or performance of the fund, since it does not apply hedge accounting.

IFRS 10 *Consolidated Financial Statements*
IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. IFRS 10 replaces the part of IAS 27 *Consolidated and Separate Financial Statements* related to consolidated financial statements and replaces SIC 12 *Consolidation — Special Purpose Entities*.

IFRS 11 *Joint Arrangements*
IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognise its relative share of assets, liabilities, revenues and expenses. The implementation of this amendment had no impact on the financial statements of the fund, since it has no joint ventures.

IFRS 12 *Disclosures of Interests in Other Entities*
IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures are also required such as disclosing the judgments made to determine control over another entity. The amendment did not have any impact on the financial position or performance of the fund.

Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities*
The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment had no impact on the financial statements of the fund.

IFRIC Interpretation 21 *Levies* (effective for financial years beginning on or after 17 June 2014). This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognised in the financial statements when the activity that triggers the payment of the levy occurs.

**Standards Issued but not yet Effective**

Standards issued but not yet effective or not endorsed by the EU and not early adopted
The fund has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

IAS 1 *Presentation of Financial Statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible assets* (Amendment)*: Clarification of Acceptable Methods of Depreciation and Amortisation*
The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption.

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). Bearer plants will now be within the scope of IAS 16 *Property, Plant and Equipment* and will be subject to all of the requirements therein. The implementation of this amendment will have no impact on the financial statements of the fund, as the fund does not have bearer plants.

Amendments to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 February 2015). The amendments address accounting for the employee contributions to a defined benefit plan. Since the fund's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the fund.

Amendments to IAS 27 *Equity Method in Separate Financial Statements* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU). IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting.

Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the Consolidation Exception* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

IFRS 11 *Joint Arrangements* (Amendment)*: Accounting for Acquisitions of Interests in Joint Operations* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions.

IFRS 14 *Regulatory Deferral Accounts* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). It is an interim standard that provides first-time adopters of IFRS with relief from derecognising rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU). IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

In December 2013 the IASB issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU):

- IFRS 1 *First-time Adoption of IFRS*;
- IFRS 3 *Business Combinations*;
- IFRS 13 *Fair Value Measurement*;
- IAS 40 *Investment Property*.

In December 2013 the IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015, once endorsed by the EU):

- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments*;
- IFRS 13 *Fair Value Measurement*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures*;
- IAS 38 *Intangible Assets*.

In September 2014 the IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting*.

The fund is in the process of assessing the impact of the amended standards on the financial position or performance of the fund. The fund plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

**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.

**Revenue and Expense Recognition**

All major revenue and expense items are recognised on an accrual basis. Interest revenue is recognised in the period when earned using the effective interest rate. Interest revenue and expense also include amortisation of any discount or premium. Dividend revenue is recognised when received.

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 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 USD but, according to the FCMC requirements, the fund ensures accounting also in EUR. These financial statements are prepared based on transaction accounting in EUR. Income or expense resulting from changes in exchange rates is included in the statement of income and expense of the reporting period. Income or expense in foreign currencies is translated into EUR at the exchange rate set by the ECB (the Bank of Latvia by 31 December 2013 (inclusive)) at the date of recognition of the respective items.

**Cash and Cash Equivalents**

Cash and cash equivalents comprise fund’s demand deposits with credit institutions and term deposits with credit institutions with a contractual original maturity of three months or less. 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 essential change in value.

**Recognition and Derecognition of Financial Assets and Liabilities**

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the fund; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the fund; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments.

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.

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 substantially all the risks and rewards of the asset to the counterparty.
A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

All purchases and sales of financial assets are recognised and derecognised on the settlement date. The acquisition value of securities is determined on a weighed average cost basis.

**Fair Value of Financial Assets and Liabilities**

Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions.

**Financial Instruments**

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are fixed income held-for-trading securities, i.e., securities acquired for generating a profit from short-term fluctuations in price.

Securities are initially stated at fair value, including transaction costs, and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from revaluation of securities at fair value as well as any gain or loss resulting from disposal of the above securities is included in the statement of income and expense.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise balances due from credit institutions. Those are carried at amortised cost using the effective interest method.

An impairment allowance is established when there is objective evidence that the fund will not be able to collect all amounts due according to the original terms. The amount of the allowance is the difference between the amortised cost and the recoverable amount.

**Taxes**

Income earned by the holders of the fund's certificates is subject to income taxes in the country of its origin. The fund's income is exempt from income taxes. The fund is not a Latvian corporate income tax payer, and upon redemption of the fund's investment certificates, no income taxes are charged on increases in value.

## Note 3

## Risk management

Risks are inherent in the investment process and risk management is one of the fund's strategic values, which is based on the confidence that efficient risk management is critical for the success of the fund. Managing risks permits keeping the fund's exposure at a level meeting its willingness and ability to undertake risks.

The key investment risks are market risk (price risk and interest rate risk), liquidity risk, credit risk, legal risk, strategic risk, information risk, foreign investment risk, and other business-related risks. Considering that the company makes investments only in the fund's base currency (USD), there is no exposure to currency risk.
Risk management stands for identification, assessment and control of potential risks.

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.

To minimise the investment risks, the fund is managed following the risk diversification and hedging principles. 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. In developing the investment strategy and stating limits, the company performs an analysis of the fund's investments by maturity, geographical placements, currency profile, industry, etc., assessing the risks inherent in each of the above factors. Meanwhile, the quantitative assessment is expressed as limits set for specific investment types, countries and regions, industries, specific issuers and counterparties.

In developing the investment strategy and stating limits, the company performs an analysis of the fund's investments by maturity, geographical placements, currency profile, industry, etc., assessing the risks inherent in each of the above factors.

When investments are made abroad, particular attention is paid to expected investment-related 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 the political situation in the country;
- Assessment of the economic situation in the country.

In spite of the fact that the company makes investments only in the fund's base currency, currency risk should also be considered. As a rule, MSCI indexes, which are indexes underlying ETFs, reflect the changes in equity prices in the currency of a respective country. Therefore, the ETF dynamics and the underlying index dynamics may differ significantly in the event of changes in the rate of the base currency against the rate of the respective country's currency. This risk is mitigated following the investment diversification principle.

The investment strategy of the fund is aimed at minimising the aforementioned risks to the maximum extent possible; however, the company cannot guarantee that these risks can be completely avoided in the future.

Note 4

## Demand deposits with credit institutions

| | 31/12/2014 | |
|---|---|---|
| | Carrying amount | Carrying amount to fund's assets |
| **Demand deposits with credit institutions** | EUR | % |
| Demand deposits with ABLV Bank, AS | 1,357,159 | 27.75 |
| **Total demand deposits with credit institutions** | **1,357,159** | **27.75** |

As at 31 December 2014, demand deposits with credit institutions were neither past due nor impaired.

Note 5

## Financial assets at fair value through profit or loss

All shares and other non-fixed income securities are classified as financial assets at fair value through profit or loss. All securities are quoted and traded on a regulated market (on an exchange).

Shares and other non-fixed income securities by country profile and issuers as at 31 December 2014:

| Issuer | Amount number | Acquisition value EUR | Carrying amount EUR | Carrying amount to fund's assets (%) |
|---|---|---|---|---|
| **USA** | **79,309** | **3,297,278** | **3,474,722** | **71.04** |
| CONSUMER DISCRETIONARY SELT | 3,864 | 205,462 | 229,609 | 4.69 |
| CONSUMER STAPLES SPDR | 5,500 | 221,374 | 219,574 | 4.49 |
| ENERGY SELECT SECTOR SPDR | 1,400 | 106,562 | 91,281 | 1.87 |
| FINANCIAL SELECT SECTOR SPDR | 11,464 | 211,447 | 233,140 | 4.77 |
| HEALTH CARE SELECT SECTOR | 6,000 | 319,706 | 337,633 | 6.90 |
| INDUSTRIAL SELECT SECT SPDR | 2,484 | 116,365 | 115,731 | 2.37 |
| ISHARES NORTH AMERICAN TECH- | 1,376 | 92,730 | 105,158 | 2.15 |
| ISHARES PHLX SEMICONDUCTOR E | 2,017 | 140,232 | 154,265 | 3.15 |
| ISHARES U.S. AEROSPACE & DEF | 900 | 79,728 | 85,018 | 1.74 |
| ISHARES U.S. BROKER-DEALERS | 3,000 | 91,240 | 105,387 | 2.15 |
| ISHARES U.S. MEDICAL DEVICES | 1,300 | 103,034 | 121,113 | 2.47 |
| MATERIALS SELECT SECTOR SPDR | 5,500 | 215,059 | 219,982 | 4.50 |
| Powershares QQQ | 5,188 | 376,001 | 441,099 | 9.02 |
| SPDR S&P HOMEBUILDERS ETF | 4,000 | 104,594 | 112,347 | 2.30 |
| SPDR S&P METALS & MINING ETF | 5,000 | 169,701 | 127,090 | 2.60 |
| SPDR S&P OIL & GAS EXP & PR | 2,000 | 110,679 | 78,857 | 1.61 |
| SPDR S&P PHARMACEUTICALS ETF | 991 | 74,907 | 88,113 | 1.80 |
| TECHNOLOGY SELECT SECT SPDR | 13,325 | 408,881 | 453,918 | 9.28 |
| UTILITIES SELECT SECTOR SPDR | 4,000 | 149,576 | 155,407 | 3.18 |

Table (cont'd):

| Issuer | Amount number | Acquisition value EUR | Carrying amount EUR | Carrying amount to fund's assets (%) |
|---|---|---|---|---|
| **Israel** | **17** | **1,252** | **1,469** | **0.03** |
| Powershares QQQ | 17 | 1,252 | 1,469 | 0.03 |
| **Ireland** | **36** | **658** | **725** | **0.01** |
| FINANCIAL SELECT SECTOR SPDR | 36 | 658 | 725 | 0.01 |
| **Cayman Islands** | **9** | **688** | **809** | **0.02** |
| SPDR S&P PHARMACEUTICALS ETF | 9 | 688 | 809 | 0.02 |
| **Canada** | **24** | **1,632** | **1,851** | **0.04** |
| ISHARES NORTH AMERICAN TECH- | 24 | 1,632 | 1,851 | 0.04 |
| **China** | **69** | **5,009** | **5,876** | **0.12** |
| Powershares QQQ | 69 | 5,009 | 5,876 | 0.12 |
| **UK** | **152** | **9,823** | **11,115** | **0.22** |
| CONSUMER DISCRETIONARY SELT | 36 | 1,929 | 2,155 | 0.04 |
| INDUSTRIAL SELECT SECT SPDR | 16 | 738 | 734 | 0.01 |
| ISHARES PHLX SEMICONDUCTOR E | 33 | 2,303 | 2,533 | 0.05 |
| Powershares QQQ | 67 | 4,853 | 5,693 | 0.12 |
| **Netherlands** | **181** | **12,654** | **14,072** | **0.29** |
| ISHARES PHLX SEMICONDUCTOR E | 152 | 10,580 | 11,639 | 0.24 |
| Powershares QQQ | 29 | 2,074 | 2,433 | 0.05 |
| **Singapore** | **228** | **12,462** | **13,895** | **0.28** |
| ISHARES PHLX SEMICONDUCTOR E | 109 | 7,576 | 8,335 | 0.17 |
| Powershares QQQ | 30 | 2,152 | 2,525 | 0.05 |
| TECHNOLOGY SELECT SECT SPDR | 89 | 2,734 | 3,035 | 0.06 |
| **Switzerland** | **86** | **2,651** | **2,943** | **0.06** |
| TECHNOLOGY SELECT SECT SPDR | 86 | 2,651 | 2,943 | 0.06 |
| **Taiwan** | **89** | **6,191** | **6,811** | **0.14** |
| ISHARES PHLX SEMICONDUCTOR E | 89 | 6,191 | 6,811 | 0.14 |
| **Total debt securities traded on regulated markets** | | **3,350,298** | **3,534,288** | **72.25** |

Shares and other non-fixed income securities by geographical area:

| | 31/12/2014 | |
|---|---|---|
| **Geographical area** | Carrying amount EUR | Carrying amount to fund's assets % |
| OECD countries | 3,480,984 | 71.16 |
| Other countries | 27,392 | 0.56 |
| EMU countries | 14,797 | 0.30 |
| Other EU Member States | 11,115 | 0.23 |
| **Total debt securities and other fixed income securities** | **3,534,288** | **72.25** |

No payments for securities were past due in the reporting period.

Note 6

## Accrued expense

EUR

| Item | 31/12/2014 |
|---|---|
| Accrued commission fees payable to investment management company | 6,192 |
| Accrued commission fees payable to custodian bank | 826 |
| Accrued fees payable for professional services | 2,240 |
| Accrued payments to the stock exchange | 298 |
| **Total accrued expense** | **9,556** |

Note 7

## Realised investment value

EUR

| Item | 08/11/2013-31/12/2014 |
|---|---|
| Income from sale of investments | 4,488,426 |
| (Acquisition) value of investments sold | (4,293,944) |
| **Total realised increase in investment value** | **194,482** |

Note 8

## Unrealised investment value

EUR

| Item | 08/11/2013-31/12/2014 |
|---|---|
| Revaluation of financial assets at fair value through profit or loss | 161,859 |
| Currency exchange difference | 458,777 |
| **Total unrealised increase in investment value** | **620,636** |

Note 9

## Change in investment assets during the reporting period

Changes in the investment portfolio in 2014:

EUR

| Item | 08/11/2013 | Increase for the reporting period | Decrease for the reporting period | Fair value revaluation result | Foreign currency translation result | 31/12/2014 |
|---|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | - | 7,499,167 | (4,488,426) | 161,859 | 361,688 | 3,534,288 |
| **Total assets** | **-** | **7,499,167** | **(4,488,426)** | **161,859** | **361,688** | **3,534,288** |

## Note 10

## Credit risk

Credit risk is a risk that the fund's value will decrease from counterparty's or issuer's non-performance or default. Considering that the fund makes investments chiefly in stocks that reflect the fund index dynamics for certain countries and regions, thereby achieving the maximum diversification, credit risk associated with investments is low.

Assets and liabilities by geographical area as at 31 December 2014:

EUR

| Assets | Latvia | EMU countries | EU Member States | OECD countries | Other countries | Total |
|---|---|---|---|---|---|---|
| Demand deposits with credit institutions | 1,357,159 | - | - | - | - | **1,357,159** |
| Financial assets at fair value through profit or loss | - | 14,797 | 11,115 | 3,480,984 | 27,392 | **3,534,288** |
| **Total assets** | **1,357,159** | **14,797** | **11,115** | **3,480,984** | **27,392** | **4,891,447** |
| **Liabilities** | | | | | | |
| Accrued expense | (9,556) | - | - | - | - | **(9,556)** |
| **Total liabilities** | **(9,556)** | **-** | **-** | **-** | **-** | **(9,556)** |
| **Net assets** | **1,347,603** | **14,797** | **11,115** | **3,480,984** | **27,392** | **4,881,891** |

Breakdown of shares and other non-fixed income securities by industry profile:

| | 31/12/2014 | |
|---|---|---|
| **Industry** | Carrying amount EUR | Carrying amount to fund's assets % |
| Information and communication services | 1,135,195 | 23.21 |
| Production of consumer goods | 1,119,447 | 22.89 |
| Finance | 349,586 | 7.15 |
| Manufacturing | 299,117 | 6.12 |
| Mining | 273,704 | 5.59 |
| Energy | 194,753 | 3.98 |
| Utilities | 155,081 | 3.16 |
| Other industries | 7,405 | 0.15 |
| **Total debt securities and other fixed income securities** | **3,534,288** | **72.25** |

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

Analysis of the fund's maximum credit risk exposure:

EUR

| | 31/12/2014 | |
|---|---|---|
| **Assets** | Carrying amount | Maximum exposure |
| Demand deposits with credit institutions | 1,357,159 | 1,357,159 |
| Financial assets at fair value through profit or loss | 3,534,288 | 3,534,288 |
| **Total assets** | **4,891,447** | **4,891,447** |

Note 11

## Financial risks

### Liquidity risk

Liquidity risk is the risk that the fund will sustain a loss if fund's 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 changed by the participants and related cash flows as well as forecasting the fund's participants and cash flows.

Assets and liabilities by maturity profile as at 31 December 2014:

| | | | EUR |
|---|---|---|---|
| **Assets** | Up to 1 month | 1 - 12 months | Total |
| Demand deposits with credit institutions | 1,357,159 | - | 1,357,159 |
| Financial assets at fair value through profit or loss | 3,534,288 | - | 3,534,288 |
| **Total assets** | **4,891,447** | **-** | **4,891,447** |
| **Liabilities** | | | |
| Accrued expense | (7,018) | (2,538) | (9,556) |
| **Total liabilities** | **(7,018)** | **(2,538)** | **(9,556)** |
| **Net assets** | **4,884,429** | **(2,538)** | **4,881,891** |

### Price risk

Price risk is a risk of potential loss due to adverse changes in the market prices of financial instruments. There exist two types of price risk: systematic and specific risk.
Systematic risk represents changes in stock indexes of a respective country, while specific risk demonstrates potential changes in the individual issuer's financial position. Considering that the fund hedges its market risk by making investments in various index funds traded on US and European stock exchanges, specific risk is minimised, whereas the exposure to systematic risk still remains. Systematic risk is managed by conducting a fundamental analysis of the countries and regions selected for investing, based on the forecasts regarding the global economic development. This risk is assessed by calculating the volatility of the fund's market prices. Although the historical performance does not always provide a sound basis for forecasting future income, it still demonstrates the potential volatility of the fund's prices. As a rule, the higher price volatility, the higher investor risk. The lowest potential yield due to price volatility is calculated as a deviation from the 2014 yield subject to the 95% confidence level, i.e., that is the probability that the fund's yield cannot be below the lowest level assuming a normal distribution of the market price volatility.

Analysis of volatility of the fund's market prices:

| | 31/12/2014 |
|---|---|
| | % |
| Annual volatility | 11.35 |
| Annual yield | 6.95 |
| Lowest potential yield subject to the 95% confidence level | (11.71) |

The annual volatility is calculated by extrapolating the daily yield volatility estimated for the previous year. The daily yield volatility is determined as the standard deviation from the natural logarithms of the daily yield for the reporting year.

The annual yield is computed as the relative difference in the fund's prices at the year end against the previous reporting date.

The lowest potential yield subject to the 95% confidence level is determined on the basis of a normal distribution assumption where the average expected value is the estimated annual yield, while the standard deviation is the estimated annual volatility.

## Note 12

## Information on holders of investment certificates

The proportion of investment certificates held by related parties of the company:

| | 31/12/2014 | |
|---|---|---|
| Item | Number of certificates | % of total certificates |
| Investment certificates held by shareholders of the company | 206,000 | 38.42% |
| Investment certificates held by related parties | 49,919 | 9.31% |
| Investment certificates held by other persons | 280,258 | 52.27% |
| **Investment certificates issued as at the period end** | **536,177** | **100.00%** |

## Note 13

## Related party disclosures

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

The remuneration paid to the investment management company during the reporting period is disclosed in the statement of income and expense.
During the reporting period, related parties acquired 50,114 investment certificates and sold 195 investment certificates of the fund.

## Note 14

## Pledged assets

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

## Note 15

## Fair value

Fair value of financial instruments, such as financial assets at fair value through profit or loss, is mostly defined based on quoted prices in an active market. Where such price is not observable, the respective instruments are valued based on observable prices in a market, where no active trading is done. For financial assets which are not quoted in the market and for which no quoted prices for similar assets in active markets are available, the fair value is estimated based on valuation models which are 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. For other assets and liabilities for which fair value is disclosed and which have short maturities (less than three months), it is assumed that the fair value approximates to their carrying amount. This assumption also applies to demand deposits with credit institutions.

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

The following hierarchy of three levels of input data is used for determining and disclosing the fair value of 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.

The fund's assets according to the hierarchy of input data for determining the fair value:

| | EUR |
|---|---|
| | 31/12/2014 |
| **Assets at fair value** | Level 1 |
| Demand deposits with credit institutions | 1,357,159 |
| Financial assets at fair value through profit or loss | 3,534,288 |
| **Total assets at fair value** | **4,891,447** |

## Note 16

## Dynamics of performance

Dynamics of investment fund's annual performance*:

| **Item** | 31/12/2014 |
|---|---|
| Net assets (EUR) | 4,881,891 |
| Number of investment certificates | 536,177 |
| **Value of investment fund's investment certificates (EUR)** | **9.10** |
| | |
| Net assets (USD) | 5,927,104 |
| Number of investment certificates | 536,177 |
| **Value of investment fund's investment certificates (USD)** | **11.05** |
| | |
| | 08/11/2013-<br>31/12/2014 |
| **Annual performance on investment fund's investment certificates (EUR)** | **9.10%** |

* - Performance is calculated as the value of the fund's share at the end of the year to its value at the beginning of the year. This ratio is expressed as annual percentage raised to the power, where the dividend is 365, but the divisor is the number of days of the reporting period.

## Note 17

## Events after reporting date

As of the last day of the reporting period 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 period.

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# INDEPENDENT AUDITORS' REPORT

To the shareholders of ABLV US Industry USD Equity Fund

**Report on the financial statements**

We have audited the accompanying financial statements of ABLV US Industry USD Equity Fund (the "Fund"), set out on pages 7 through 22 of the accompanying Annual Report for the period 8 November 2013 through 31 December 2014, which comprise the statement of assets and liabilities as at 31 December 2014, and the statement of income and expense, statement of changes in net assets and statement of cash flows for the period 8 November 2013 through 31 December 2014, and a summary of significant accounting policies and other explanatory information.

*Management's responsibility for the financial statements*
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Financial Reporting Standards as adopted by the European Union. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Opinion*
In our opinion, the financial statements give a true and fair view of the financial position of ABLV US Industry USD Equity Fund as of 31 December 2014, and of its financial performance and its cash flows for the 8 November 2013 through 31 December 2014 in accordance with the International Financial Reporting Standards as adopted by the European Union.

**Report on other legal and regulatory requirements**

Furthermore, we have read the investment management company report for the period 8 November 2013 through 31 December 2014 (set out on page 4 of the accompanying Annual Report for the period 8 November 2013 through 31 December 2014) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the period 8 November 2013 through 31 December 2014.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga, 14 April 2015