



ABLV

BANKING / INVESTMENTS \ ADVISORY

Open-end investment fund
ABLV Emerging Markets Bond Fund

Subfund
ABLV Emerging Markets USD Bond Fund

Annual report
for 2016

and the independent auditor's report

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General information on the investment fund

| | |
|--|---|
| Name of the fund: | ABLV Emerging Markets Bond Fund |
| Category of the fund: | Open-end investment fund with subfunds |
| Name of the subfund: | ABLV Emerging Markets USD Bond Fund |
| Type of the fund: | Bonds fund |
| Registration date: | 23 March 2007 |
| Registration number of the fund: | 06.03.05.263/32 |
| Name of the investment management company: | ABLV Asset Management, IPAS |
| Registered office: | 23 Elizabetes Street, Riga, LV-1010, Latvia |
| Registration number of the investment management company: | 40003814724 |
| License number of the investment management company: | 06.03.07.263/315 |
| Licence issued: | 4 August 2006, re-registered on 3 June 2011. |
| Name of the custodian bank: | ABLV Bank, AS |
| Registered address of the custodian bank: | 23 Elizabetes Street, Riga, LV-1010, Latvia |
| Registration number of the custodian bank: | 50003149401 |
| Names and positions of council members, board members, and the fund manager: | <p>Council of the Joint Stock Investment Management Company:</p> <p>Chairman of the Council - Ernests Bernis Deputy Chairman of the Council - Māris Kanneņieks Council Member - Vadims Reinfelds</p> <p>Board of the Joint Stock Investment Management Company:</p> <p>Chairman of the Board - Leonīds Kijs Deputy Chairman of the Board - Jevgenijs Gžibovskis Board Member - Sergejs Gačenko</p> <p>Fund manager - Jevgenijs Gžibovskis</p> |
| Duties of the fund manager: | The fund manager operates with the fund's assets 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 a single investment management company. |

Investment management company report

The open-end investment fund ABLV Emerging Markets Bond Fund was registered on 23 March 2007, and on 11 July 2007, it was reorganized into a fund with two subfunds – the ones in USD and in EUR. Subfund ABLV Emerging Markets USD Bond Fund (hereinafter - the subfund) is a bond fund with the investment currency of USD.

ABLV Asset Management, IPAS (hereinafter - 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. 06.03.07.263/315, and it is located in Riga, at 23 Elizabetes Street.

The subfund's investment objective is the achievement of long-term capital growth. To achieve this objective, the assets are invested in debt securities or money market instruments issued or guaranteed by central banks, governments, and municipalities of emerging countries, as well as in debt securities or money market instruments issued or guaranteed by credit institutions or commercial companies, provided the participation of the emerging country in this credit institution's or commercial company's capital exceeds 50%.

The subfund's investment portfolio is diversified among investments in different countries, thus ensuring higher investment safety and protection against fluctuations of the subfund's assets value and against the risk of default on obligations.

At the end of the reporting period all assets of the subfund were invested in debt securities in accordance with the investment policy. As of 31 December 2016 the average term to maturity (call/put date) of the subfund's investments was 9.4 years, average weighted rating of the investment portfolio was BB+, and average yield to maturity (repricing date) was equal to 4.99%. Within the reporting period no substantial changes were introduced in the investment structure of the subfund.

During the reporting period the subfund's net assets decreased from USD 28,776,404 (EUR 26,431,895) to USD 27,467,697 (EUR 26,057,961), the subfund's total assets decreased from USD 28,801,895 (EUR 26,455,309) to USD 27,491,522 (EUR 26,080,563).

During the reporting period, the following costs were covered from the subfund's assets: management fee – EUR 196,861, custodian fee – EUR 45,701, and other expenses – EUR 2,394. In the reporting period, the subfund's total expense ratio equalled 0.93% of the subfund's average net asset value, which is comparable to the corresponding indicator in the previous reporting period.

In the reporting period the value of the subfund's certificate increased from USD 14.83 (EUR 13.62) to USD 15.87 (EUR 15.05), demonstrating positive annual return equalled 6.99%.

The start of 2016 was unsuccessful for global financial markets: China's economy was demonstrating signs of deceleration, prices on raw materials dropped to low levels of the last several years, stock exchanges faced the sharpest price drop in the last decade. Negative performance was ruling over the markets of corporate and emerging countries' bonds, given the low liquidity and frightening news background on stock market. As usually, the largest central banks saved financial market. The base interest rate was lowered in Europe, and the economy stimulation programme was expanded. While in the USA regulator of the financial market was promising to take their time with increasing US dollar interest rates. That was related to the probable risks regarding UK referendum on leaving the European Union. The perspective of keeping the interest rates low triggered euphoria on the global bond market, fostering sharp increase of prices in all bond market segments – high yield bonds, emerging markets bonds and corporate bonds and investment-grade bonds. Better performance was demonstrated by bonds with long terms to maturity.

Positive moods on the global bond market prevailed until the end of Q3 2016, after which the majority of the market participants kept low profile due to the upcoming presidential elections in the USA. A rather unexpected victory of Donald Trump changed the situation rapidly and created a strong growth of return (drop of prices) on US long-term government bonds due to expectations of rise of the inflation. It had highly negative impact on the whole market of bonds denominated in US dollars and caused decrease of prices almost in all market segments. Government bonds market of emerging countries being the most sensitive to the US interest rate levels suffered the most.

Despite the drop of prices by the end of the year, the subfund ABLV Emerging Markets USD Bond Fund demonstrated relatively good return in 2016 due to keeping a moderately conservative strategy by focusing on bonds that have high coupon rate and managing the total maturity term of the investment portfolio in accordance with the market moods.

It is anticipated that in 2017 value of the assets of the subfund might increase taking into account that the investors of the subfund – both existing and prospective ones – will appreciate the investment policy of the subfund and will invest monetary assets into the subfund (accordingly increasing the number of certificates of the subfund). Additionally, the value growth of assets of the subfund may be prompted by the expected increase in the value of subfund's certificate.

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 clients 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, the subfund's performance, and actions taken by the fund manager are published at ABLV Bank, AS website 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.

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

Between the last day of the reporting period and the day of approving the report there were no significant events that would have substantial impact on the performance of the fund during the reporting period.

ABLV Asset Management, IPAS
Chairman of the Board

Leonīds Kijs



Rīga, 20 April 2017

ABLV Asset Management, IPAS
Fund Manager

Jevgenijs Gžibovskis



Statement of responsibility of the Board of the investment management company

The board of the investment management company is responsible for the preparation of the financial statements of ABLV Emerging Markets USD Bond Fund, the subfund of the investment fund ABLV Emerging Markets Bond Fund.

The financial statements set out on pages 8 to 24 are prepared in accordance with the source documents and present fairly the financial position of the subfund as of 31 December 2016 and 31 December 2015, and the results of its operations for the years ended 31 December 2016 and 31 December 2015.

The above financial statements were prepared according to the laws of the Republic of Latvia and 'Regulation on the preparation of annual reports, consolidated annual reports and interim reports of an investment fund and open alternative investment fund' issued by the Financial and Capital Market Commission, according to International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting methods have been consistently applied in the reporting period. During the preparation of financial statements the Management has made prudent and reasonable judgements and estimates.

The Board of the investment management company is responsible for the maintenance of proper accounting records, the safeguarding of the subfund's assets, and the prevention and detection of fraud and other irregularities in the subfund. The Board is also responsible for operating in compliance with the Latvian Law on Investment Management Companies, regulations of the Financial and Capital Market Commission (FCMC) and other laws and regulations of the Republic of Latvia.

ABLV Asset Management, IPAS
Chairman of the Board

Leonīds Kijs



Rīga, 20 April 2017

Custodian bank's report

To the investors of ABLV Emerging Markets USD Bond Fund, the subfund of the open-end investment fund ABLV Emerging Markets Bond Fund

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

According to the Law on Investment Management Companies, FCMC regulations, other requirements of the laws of the Republic of Latvia, and the Custodian Bank Agreement signed on 2 March 2007, ABLV Bank, AS (hereinafter – the custodian bank) acts as the custodian bank for the subfund ABLV Emerging Markets USD Bond Fund established by ABLV Asset Management, IPAS.

The custodian bank is responsible for compliance with the requirements of the laws of the Republic of Latvia 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 subfund's property held in the account according to the conditions of the Custodian Bank Agreement;
- to service the subfund's account and execute the orders given by the company in respect of the subfund's property held in the account according to the Custodian Bank Agreement;
- to control that the subfund'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 assigned to the 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 subfund'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 subfund of the open-end investment fund ABLV Emerging Markets Bond Fund, ABLV Emerging Markets USD Bond Fund, comply 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 subfund's property.

Custodian bank ABLV Bank, AS
Chairman of the Board

Ernests Bernis



Riga, 20 April 2017

Statement of assets and liabilities

EUR

| | Notes | 31.12.2016. | 31.12.2015. |
|---|-------|-------------------|-------------------|
| Assets | | | |
| Demand deposits with credit institutions | 4 | 33,923 | 18,215 |
| Financial assets at fair value through profit or loss | 5 | 26,046,640 | 26,437,094 |
| Debt securities and other fixed income securities | | 26,046,640 | 26,437,094 |
| Total assets | | 26,080,563 | 26,455,309 |
| Liabilities | | | |
| Accrued expense | 6 | (22,602) | (23,414) |
| Total liabilities | | (22,602) | (23,414) |
| Net assets | | 26,057,961 | 26,431,895 |

ABLV Asset Management, IPAS
Chairman of the Board

Leonīds Kijs

Rīga, 20 April 2017

ABLV Asset Management, IPAS
Fund Manager

Jevgenijs Gžibovskis

Statement of income and expense

| | | EUR | |
|--|-------|-----------------------------|-----------------------------|
| | | 01.01.2016.- 31.12.2016. | 01.01.2015.- 31.12.2015. |
| Income | Notes | | |
| Interest income from financial assets at fair value through profit or loss | | 1,363,587 | 1,508,443 |
| Other income | | - | 8,218 |
| Total | | 1,363,587 | 1,516,661 |
| Expense | | | |
| Remuneration to investment management company | | (195,861) | (196,625) |
| Remuneration to custodian bank | | (45,701) | (45,879) |
| Other fund management expense | | (1,857) | (2,258) |
| Interest expense | | (378) | (215) |
| Other expense | | (159) | (175) |
| Total | | (243,956) | (245,152) |
| Increase in investment value | | | |
| Realised (decrease) in investment value | 7 | (513,575) | (235,440) |
| Unrealised increase in investment value | 8 | 1,989,022 | 2,119,697 |
| Total increase in investment value | | 1,475,447 | 1,884,257 |
| Increase in net assets from investment | | 2,595,078 | 3,155,766 |

ABLV Asset Management, IPAS
Chairman of the Board

Leonīds Kijs

Riga, 20 April 2017

ABLV Asset Management, IPAS
Fund Manager

Jevgenijs Gžibovskis

Statement of changes in net assets

| Item | EUR | |
|--|-----------------------------|-----------------------------|
| | 01.01.2016.- 31.12.2016. | 01.01.2015.- 31.12.2015. |
| Net assets at the beginning of the period | 26,431,895 | 22,132,504 |
| Increase in net assets from investment | 2,595,078 | 3,155,766 |
| Transactions with investment certificates | | |
| Inflow from sale of investment certificates | 4,694,494 | 5,485,322 |
| Outflow from redemption of investment certificates | (7,663,506) | (4,341,697) |
| Total result of transactions with investment certificates | (2,969,012) | 1,143,625 |
| Net increase/(decrease) in net assets for the period | (373,934) | 4,299,391 |
| Net assets at the end of the period | 26,057,961 | 26,431,895 |
| Issued investment certificates at the beginning of the period | 1,940,197 | 1,848,895 |
| Issued investment certificates at the end of the period | 1,731,032 | 1,940,197 |
| Net assets per investment certificate at the beginning of the period | 13.62 | 11.97 |
| Net assets per investment certificate at the end of the period | 15.05 | 13.62 |

ABLV Asset Management, IPAS
Chairman of the Board

Leonīds Kijs

Rīga, 20 April 2017

ABLV Asset Management, IPAS
Fund Manager

Jevgenijs Gžibovskis

Statement of Cash Flow

| Item | Notes | EUR | |
|---|-------|-----------------------------|-----------------------------|
| | | 01.01.2016.- 31.12.2016. | 01.01.2015.- 31.12.2015. |
| Interest received | | 1,348,031 | 1,522,416 |
| Interest paid | | (378) | (215) |
| Other income received | | - | 8,218 |
| Investment management expense | | (244,390) | (241,451) |
| Acquisition of financial assets | 9 | (21,007,637) | (15,666,619) |
| Disposal of financial assets | | 22,795,517 | 12,673,193 |
| Increase/(decrease) in cash and cash equivalents from operating activities | | 2,891,143 | (1,704,458) |
| Inflow from sale of investment certificates | | 4,694,494 | 5,485,322 |
| Outflow from redemption of investment certificates | | (7,663,506) | (4,341,697) |
| (Decrease)/increase in cash and cash equivalents from financing activities | | (2,969,012) | 1,143,625 |
| (Decrease) in cash and cash equivalents for the period | | (77,869) | (560,833) |
| Cash and cash equivalents at the beginning of the period | | 18,215 | 500,132 |
| Net foreign exchange difference | | 93,577 | 78,916 |
| Cash and cash equivalents at the end of the period | | 33,923 | 18,215 |

ABLV Asset Management, IPAS
Chairman of the Board

Leonīds Kijs

Riga, 20 April 2017

ABLV Asset Management, IPAS
Fund Manager

Jevgenijs Gžibovskis

Notes to the financial statements

1. Note

General information

ABLV Emerging Markets USD Bond Fund, the subfund of the open-end investment fund ABLV Emerging Markets Bond Fund, (hereinafter - the subfund) is a bond fund registered on 23 March 2007. The registered office of the investment management company is at 23 Elizabetes Street, Riga, LV-1010, Latvia.

The subfund's business activity includes investments in debt securities or money market instruments issued or guaranteed by central banks, governments and municipalities of emerging countries as well as debt securities or money market instruments issued or guaranteed by credit institutions or commercial companies provided the equity interest of the emerging country in such credit institutions or commercial companies exceed 50%.

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

2. Note

Information on principal accounting policies

Basis of preparation

These financial statements are based on accounting records kept according to law and are prepared in conformity with International Financial Reporting Standards as adopted by the European Union and their interpretations, as well as FCMC regulations that are in force at the end of the reporting period, on a going concern basis.

Financial statements were prepared on the historical cost basis, except for the financial assets carried at fair value.

Financial statements for the period from 1 January 2016 to 31 December 2016 were prepared on the basis of accounting policies consistent with those disclosed in the prior-year financial statements, except for the changes in IFRS that entered into effect during the reporting period.

Functional currency of the subfund is USD. Presentation currency of the financial statements of the subfund is EUR.

Information given herein in brackets represents comparative figures for the year ended 31 December 2015 unless stated differently.

Significant 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 may impact assumptions that were used as the basis for estimates. 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 is recorded in the financial statements when determinable.

The significant areas of estimation uncertainty and assumptions relate to determining the fair value of financial assets.

Recognition, subsequent measurement 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 subfund; or an agreement which is derived and will or may be settled in a manner 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 subfund; or an agreement that is derived and will or may be settled in a manner 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.

Financial assets or financial liabilities are recognised by the fund on the statement of assets and liabilities when, and only when, the subfund becomes a party to the contractual provisions of the instrument.

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

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 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 subfund 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.

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the subfund 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 recorded on the settlement date. The acquisition value of sold securities is determined on a weighted average cost basis.

Fair Value of Financial Assets and Liabilities

Fair value of the financial assets and liabilities represents the amount that would be received when the asset is sold or paid to for settlement of a liability in an orderly transaction between knowledgeable and willing market participants that are not financially related. 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. The comparison of carrying amounts and fair values of the subfund's financial assets and liabilities is presented in Note 15.

Revenue and Expense Recognition

All income and expense are recognised on an accrual basis. Interest income and expenses are recognised in statement of income and expense, based on a time proportion and the nominal interest rate.

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 recognised in the statement of income and expense during the term of the transaction, or deferred and recognised only either 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. Any changes in the fair value are recognised in the statement of income and expense without adjustments by the deferred 'Day 1' profit or loss.

Foreign Currency Translation

The subfund's functional currency is USD but as required by the FCMC the subfund ensures accounting also in EUR. These financial statements are prepared based on transaction accounting in EUR.

The assets and liabilities denominated in foreign currencies have been revalued into EUR at the exchange rate set by the ECB on the last day of the financial year. Profit or loss resulting from changes in exchange rates has been disclosed in the statement of income and expense as an unrealised change in the value of the investment. Income and expenses in foreign currencies were revalued into EUR at the exchange rate set by the ECB at the date of recognition of the respective items.

Cash and Cash Equivalents

Cash and cash equivalents comprise the subfund's demand deposits with credit institutions and term deposits with credit institutions with original contractual maturities of three months or less. Cash and cash equivalents are highly liquid assets that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

Taxes

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

Subsequent events

These financial statements reflect subsequent events that are likely to impact the financial position of the subfund at the end of the reporting period (adjusting events). If the nature of the subsequent events is other than adjusting, they are disclosed in the notes to the financial statements only if they are significant.

Adoption of new and/ or changed IFRSs and IFRIC interpretations in the reporting year

The subfund has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2016.

The application of new standards and amendments did not have any impact on these financial statements:

- IFRS 11- Accounting for Acquisitions of Interests in Joint Operations
- IAS 1 – Presentation of Financial Statements
- IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets
- IAS 19 – Defined Benefit Plans: Employee Contributions
- IAS 27 – Separate Financial Statements
- Annual Improvements to IFRSs

Standards issued but not yet effective and not early adopted

Standards that are issued, but not yet effective or not endorsed by the EU, and which are not applied prior to their official date of validity.

The subfund has not applied the following IFRS and amendments to IFRIC interpretations that have been issued to the date of authorisation of these financial statements for issue, but which are not yet effective:

- IFRS 9 – Financial Instruments (effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that it is still permitted to apply hedge accounting according to IAS 39 and entities have an accounting policy choice between IFRS 9 and IAS 39.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, an entity may elect to present irrevocably subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding risk management and hedging activities will be required.

The subfund does not expect IFRS 9 to have material impact on the financial statements. Due to the nature of the subfund's operations and the types of financial instruments it holds, the classification and measurement of the subfund's financial assets is not expected to change significantly under IFRS 9. The subfund believes that impairment losses could increase as losses are expected to become more volatile for assets that qualify for the ECL model. The subfund has not yet completed the development of impairment methodology in accordance with IFRS 9.

- IFRS 15 – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)
- IFRS 16 Leases – (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15)
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Earlier application is permitted.)
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)
- Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Earlier application is permitted.)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Earlier application is permitted.)
- Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018).

It is not expected that these IFRS and IFRIC amendments will affect the subfund's financial statements.

Annual improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. None of these amendments are expected to have a significant impact on the subfund's financial statements.

3. Note

Risk management

Risks are inherent in the investment process and risk management is one of the subfund's strategic values, which is based on the confidence that efficient risk management is critical for the success of the subfund. Risk management enables the subfund to maintain exposures on par with its risk appetite and capacity to undertake risks.

The key investment risks are market risk, interest rate risk, liquidity risk, currency risk, credit risk, legal risk, information risk, foreign investment risk, and other business-related risks. Given that the company predominantly makes investments in the fund's base currency (USD), the exposure to currency risk can be considered insignificant.

Risk management stands for identification, assessment and control of potential risks.

The company acts in strict compliance with the provisions and restrictions of the fund prospectus, agreements, and legislation of the Republic of Latvia, as well as assesses the compliance of the investments made on an ongoing basis.

Investment risks are minimised by managing the subfund in line with the principle of risk diversification and hedging. 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 subfund's investments by maturity, geographical placements, 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, specific issuers and counterparties.

When investments are made abroad, particular attention is paid to risk which is related to changes in the economic conditions of these countries which could deteriorate the financial position of a foreign issuer and their ability to meet their financial liabilities (incl. foreign currency fluctuations against the subfund's base currency). To reduce risks the Company conducts various assessments:

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

The subfund's investment strategy seeks to reduce the above risks to the extent possible; however, the company cannot guarantee that these risks can be completely avoided in the future.

Credit risk and financial risks are further presented in Notes 10 and 11.

4. Note

Demand deposits with credit institutions

| | 31.12.2016. | | 31.12.2015. | |
|---|------------------------|--|------------------------|--|
| | Carrying amount EUR | Carrying amount to subfund's assets % | Carrying amount EUR | Carrying amount to subfund's assets % |
| Demand deposits with credit institutions | | | | |
| Demand deposits with ABLV Bank, AS | 33,923 | 0.13 | 18,215 | 0.07 |
| Total demand deposits with credit institutions | 33,923 | 0.13 | 18,215 | 0.07 |

As of 31 December 2016 and 2015, demand deposits with credit institutions were neither past due nor impaired.

5. Note

Financial assets at fair value through profit or loss

All debt securities and other fixed income securities are classified as financial assets at fair value through profit or loss. All securities are quoted on a regulated market (stock exchange) and traded over-the-counter.

Traded debt securities and other fixed income securities on regulated markets by region:

| Region | 31.12.2016. | | 31.12.2015. | |
|---|------------------------|---------------------------------------|------------------------|---------------------------------------|
| | Carrying amount EUR | Carrying amount to fund's assets % | Carrying amount EUR | Carrying amount to fund's assets % |
| Other countries | 20,516,331 | 78.67 | 19,604,629 | 74.11 |
| Other EU countries | 2,935,668 | 11.25 | 3,204,724 | 12.11 |
| OECD countries | 2,594,641 | 9.95 | 2,778,088 | 10.50 |
| EMU countries | - | - | 849,653 | 3.21 |
| Total debt and other fixed income securities | 26,046,640 | 99.87 | 26,437,094 | 99.93 |

Debt securities and other fixed income securities traded on regulated markets by country and issuer as of 31 December 2016:

| Issuer | ISIN code | Amount | Acquisition value | Carrying amount | Carrying amount |
|---|--------------|------------------|-------------------|------------------|----------------------|
| | | | EUR | EUR | to fund's assets (%) |
| Argentina | | 1,000,000 | 997,475 | 1,010,408 | 3.88 |
| REPUBLIC OF ARGENTINA | USP04808AA23 | 250,000 | 243,336 | 255,125 | 0.98 |
| | USP04808AC88 | 750,000 | 754,139 | 755,283 | 2.90 |
| Armenia | | 376,000 | 344,242 | 373,969 | 1.43 |
| REPUBLIC OF ARMENIA | XS0974642273 | 376,000 | 344,242 | 373,969 | 1.43 |
| Azerbaijan | | 450,000 | 415,363 | 422,330 | 1.62 |
| SOCAR-STATE OIL COMPANY OF AZERBAIJAN REPUBLIC | XS0903465127 | 250,000 | 223,730 | 233,766 | 0.90 |
| THE INTERNATIONAL BANK OF AZERBAIJAN REPUBLIC OAO | XS1076436218 | 200,000 | 191,633 | 188,564 | 0.72 |
| Bahrain | | 250,000 | 237,762 | 252,216 | 0.97 |
| KINGDOM OF BAHRAIN | XS1324932273 | 250,000 | 237,762 | 252,216 | 0.97 |
| Brasil | | 1,750,000 | 1,945,945 | 1,866,196 | 7.14 |
| Federative Republic of Brazil | US105756BB58 | 750,000 | 893,180 | 847,368 | 3.25 |
| | US105756BS83 | 250,000 | 250,422 | 249,581 | 0.95 |
| | US105756BX78 | 250,000 | 245,470 | 248,956 | 0.95 |
| PETROLEO BRASILEIRO SA | US71645WAN11 | 500,000 | 556,873 | 520,291 | 1.99 |
| South Africa | | 750,000 | 829,094 | 777,769 | 2.98 |
| REPUBLIC OF SOUTH AFRICA | US836205AL88 | 750,000 | 829,094 | 777,769 | 2.98 |
| Dominican Republic | | 600,000 | 619,182 | 608,041 | 2.33 |
| DOMINICAN REPUBLIC | USP3579EAH01 | 400,000 | 426,904 | 415,789 | 1.59 |
| | USP3579EAS65 | 200,000 | 192,278 | 192,252 | 0.74 |
| Egypt | | 400,000 | 359,252 | 361,130 | 1.39 |
| ARAB REPUBLIC OF EGYPT | XS0505265859 | 150,000 | 146,823 | 144,883 | 0.56 |
| | XS1245432742 | 250,000 | 212,429 | 216,247 | 0.83 |
| Philippines | | 1,000,000 | 1,113,936 | 948,350 | 3.64 |
| REPUBLIC OF PHILIPPINES | US718286BZ91 | 1,000,000 | 1,113,936 | 948,350 | 3.64 |
| Gabon | | 200,000 | 173,608 | 177,219 | 0.68 |
| GABONESE REPUBLIC | XS1003557870 | 200,000 | 173,608 | 177,219 | 0.68 |
| Georgia | | 250,000 | 262,072 | 262,911 | 1.01 |
| REPUBLIC OF GEORGIA | XS0617134092 | 250,000 | 262,072 | 262,911 | 1.01 |
| Croatia | | 1,100,000 | 1,139,773 | 1,159,708 | 4.45 |
| REPUBLIC OF CROATIA | XS0525827845 | 350,000 | 365,060 | 370,687 | 1.42 |
| | XS0997000251 | 750,000 | 774,713 | 789,021 | 3.03 |
| Indonesia | | 1,250,000 | 1,425,861 | 1,397,745 | 5.36 |
| REPUBLIC OF INDONESIA | USY20721AE96 | 250,000 | 353,382 | 326,376 | 1.25 |
| | USY20721BJ74 | 1,000,000 | 1,072,479 | 1,071,369 | 4.11 |
| Iraq | | 250,000 | 190,921 | 201,839 | 0.77 |
| REPUBLIC OF IRAQ | XS0240295575 | 250,000 | 190,921 | 201,839 | 0.77 |
| Kazakhstan | | 1,400,000 | 1,429,119 | 1,464,203 | 5.62 |
| DEVELOPMENT BANK OF KAZAKHSTAN JSC | XS0860582435 | 250,000 | 212,424 | 228,609 | 0.88 |
| KAZMUNAYGAZ NATIONAL CO | XS0506527851 | 400,000 | 418,740 | 420,282 | 1.61 |
| REPUBLIC OF KAZAKHSTAN | XS1263054519 | 250,000 | 250,213 | 258,122 | 0.99 |
| | XS1263139856 | 500,000 | 547,742 | 557,190 | 2.14 |
| Kenya | | 250,000 | 233,404 | 224,411 | 0.86 |
| REPUBLIC OF KENYA | XS1028952403 | 250,000 | 233,404 | 224,411 | 0.86 |

Table (continued):

| Issuer | ISIN code | Amount | Acquisition value | Carrying amount | Carrying amount |
|-------------------------------|--------------|------------------|-------------------|------------------|------------------|
| | | | EUR | EUR | to fund's assets |
| | | | | | % |
| Colombia | | 1,000,000 | 1,112,578 | 1,087,281 | 4.16 |
| REPUBLIC OF COLOMBIA | US195325BK01 | 500,000 | 604,485 | 585,286 | 2.24 |
| | US195325BN40 | 250,000 | 254,737 | 253,092 | 0.97 |
| | US195325CX13 | 250,000 | 253,356 | 248,903 | 0.95 |
| Ivory Coast | | 250,000 | 210,983 | 224,037 | 0.86 |
| REPUBLIC OF COTE D'IVOIRE | XS0496488395 | 250,000 | 210,983 | 224,037 | 0.86 |
| Russia | | 2,000,000 | 2,062,868 | 2,069,912 | 7.94 |
| RUSSIAN FEDERATION | XS0504954347 | 700,000 | 689,773 | 710,214 | 2.72 |
| | XS0767473852 | 400,000 | 426,297 | 413,389 | 1.59 |
| VNESHECONOMBANK | XS0524610812 | 550,000 | 587,655 | 581,117 | 2.23 |
| VTB BANK PJSC | XS0548633659 | 350,000 | 359,143 | 365,192 | 1.40 |
| Morocco | | 250,000 | 269,898 | 241,598 | 0.93 |
| Kingdom of Morocco | XS0864259717 | 250,000 | 269,898 | 241,598 | 0.93 |
| Mexico | | 1,500,000 | 1,486,024 | 1,419,421 | 5.44 |
| PETROLEOS MEXICANOS | US71654QBW15 | 250,000 | 237,762 | 219,585 | 0.84 |
| United Mexican States | US91086QBC15 | 1,000,000 | 994,491 | 960,240 | 3.68 |
| | US91086QBG29 | 250,000 | 253,771 | 239,596 | 0.92 |
| Namibia | | 250,000 | 255,994 | 249,580 | 0.96 |
| REPUBLIC OF NAMIBIA | XS0686701953 | 250,000 | 255,994 | 249,580 | 0.96 |
| Nigeria | | 200,000 | 185,258 | 188,820 | 0.72 |
| FEDERAL REPUBLIC OF NIGERIA | XS0944707222 | 200,000 | 185,258 | 188,820 | 0.72 |
| Oman | | 500,000 | 482,343 | 459,245 | 1.76 |
| SULTANATE OF OMAN | XS1405777589 | 500,000 | 482,343 | 459,245 | 1.76 |
| Pakistan | | 250,000 | 247,397 | 260,786 | 1.00 |
| ISLAMIC REP OF PAKISTAN | XS1056560920 | 250,000 | 247,397 | 260,786 | 1.00 |
| Panama | | 750,000 | 868,840 | 842,702 | 3.23 |
| REPUBLIC OF PANAMA | US698299AV61 | 500,000 | 618,419 | 598,987 | 2.30 |
| | US698299BD54 | 250,000 | 250,421 | 243,715 | 0.93 |
| Paraguay | | 250,000 | 234,797 | 244,311 | 0.94 |
| REPUBLIC OF PARAGUAY | USP75744AA38 | 250,000 | 234,797 | 244,311 | 0.94 |
| Peru | | 750,000 | 758,941 | 748,995 | 2.87 |
| REPUBLIC OF PERU | US715638BU55 | 750,000 | 758,941 | 748,995 | 2.87 |
| Poland | | 500,000 | 465,421 | 458,023 | 1.76 |
| REPUBLIC OF POLAND | US731011AU68 | 500,000 | 465,421 | 458,023 | 1.76 |
| Romania | | 500,000 | 542,946 | 532,346 | 2.04 |
| ROMANIA | US77586TAA43 | 250,000 | 279,688 | 276,433 | 1.06 |
| | US77586TAD81 | 250,000 | 263,258 | 255,913 | 0.98 |
| Senegal | | 200,000 | 188,312 | 194,214 | 0.74 |
| REPUBLIC OF SENEGAL | XS1090161875 | 200,000 | 188,312 | 194,214 | 0.74 |
| Serbia | | 500,000 | 534,139 | 537,297 | 2.06 |
| REPUBLIC OF SERBIA | XS0680231908 | 500,000 | 534,139 | 537,297 | 2.06 |
| Sri Lanka | | 650,000 | 640,129 | 641,357 | 2.46 |
| REPUBLIC OF SRI LANKA | USY2029SAF12 | 650,000 | 640,129 | 641,357 | 2.46 |
| Tunisia | | 250,000 | 221,397 | 226,022 | 0.87 |
| Banque Centrale de Tunisie SA | XS1175223699 | 250,000 | 221,397 | 226,022 | 0.87 |

Table (continued):

| Issuer | ISIN code | Amount | Acquisition value | Carrying amount | Carrying amount |
|------------------------------|--------------|-------------------|-------------------|-------------------|------------------|
| | | | EUR | EUR | to fund's assets |
| | | | | | % |
| Turkey | | 1,250,000 | 1,288,699 | 1,175,219 | 4.50 |
| REPUBLIC OF TURKEY | US900123BJ84 | 500,000 | 512,226 | 451,543 | 1.73 |
| | US900123CF53 | 750,000 | 776,473 | 723,676 | 2.77 |
| Ukraine | | 750,000 | 669,884 | 680,083 | 2.61 |
| UKRAINE GOVERNMENT | XS1303927179 | 750,000 | 669,884 | 680,083 | 2.61 |
| Hungary | | 750,000 | 793,402 | 785,592 | 3.01 |
| REPUBLIC OF HUNGARY | US445545AL04 | 750,000 | 793,402 | 785,592 | 3.01 |
| Uruguay | | 500,000 | 494,711 | 502,478 | 1.93 |
| Oriental Republic of Uruguay | US760942AZ58 | 500,000 | 494,711 | 502,478 | 1.93 |
| Vietnam | | 550,000 | 572,029 | 550,868 | 2.11 |
| SOCIALIST REP OF VIETNAM | USY9374MAF06 | 300,000 | 323,298 | 316,732 | 1.21 |
| | USY9384RAA87 | 250,000 | 248,731 | 234,136 | 0.90 |
| Zambia | | 250,000 | 190,921 | 218,008 | 0.84 |
| REPUBLIC OF ZAMBIA | XS0828779594 | 250,000 | 190,921 | 218,008 | 0.84 |
| TOTAL | | 25,876,000 | 26,494,920 | 26,046,640 | 99.87 |

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

6. Note

Accrued expenses

| Item | EUR | |
|--|---------------|---------------|
| | 31.12.2016. | 31.12.2015. |
| Accrued commission fees payable to investment management company | 16,820 | 17,153 |
| Accrued commission fees payable to custodian bank | 3,925 | 4,003 |
| Accrued fees payable for professional services | 1,573 | 1,960 |
| Accrued payments to the stock exchange | 284 | 298 |
| Total accrued expense | 22,602 | 23,414 |

7. Note

Realised decrease in investments

| Item | EUR | |
|--|-----------------------------|-----------------------------|
| | 01.01.2016.- 31.12.2016. | 01.01.2015.- 31.12.2015. |
| Income from sale of investments | 22,468,047 | 12,512,972 |
| Acquisition value of investments sold | (22,981,622) | (12,748,412) |
| Total realised decrease in investment value | (513,575) | (235,440) |

8. Note

Unrealised increase in investment

| Item | EUR | |
|--|-----------------------------|-----------------------------|
| | 01.01.2016.- 31.12.2016. | 01.01.2015.- 31.12.2015. |
| Revaluation of financial assets at fair value through profit or loss | 1,198,936 | (553,835) |
| Currency exchange difference | 790,086 | 2,673,532 |
| Total unrealised increase in investment value | 1,989,022 | 2,119,697 |

9. Note

Change in investment portfolio during the reporting period

The increase in the investment portfolio during the reporting period is due to cost of acquisition of investments, while the decrease in the investment portfolio is due to income from disposal of investments and accrued coupon change.

| | EUR | |
|--|-----------------------------|-----------------------------|
| | 01.01.2016.- 31.12.2016. | 01.01.2015.- 31.12.2015. |
| Investment portfolio at the beginning of the period | 26,437,094 | 21,652,300 |
| Increase for the reporting year | 21,007,637 | 15,666,619 |
| Decrease for the reporting year | (22,873,538) | (12,766,082) |
| Fair value revaluation result | 685,361 | (789,275) |
| Foreign currency revaluation result | 790,086 | 2,673,532 |
| Investment portfolio at the end of the period | 26,046,640 | 26,437,094 |

10. Note

Credit risk

Credit risk is the risk that the subfund's value will decrease as a result of the failure of counterparties or issuers of debt securities to meet their contractual liabilities towards the subfund.

Credit risk associated with the subfund's assets is managed based on the following classification of credit ratings assigned by international rating agencies:

- High quality: AAA – BBB-;
- Average quality: BB+ - BB-;
- Low quality: B+ - B- and lower.

Assets by credit ratings as of 31 December 2016:

| Assets | EUR | | | | |
|---|-------------------|-------------------|------------------|---------------|-------------------|
| | High quality | Average quality | Low quality | No rating | Total |
| Demand deposits with credit institutions | - | - | - | 33,923 | 33,923 |
| Financial assets at fair value through profit or loss | 10,097,303 | 10,672,765 | 5,276,572 | - | 26,046,640 |
| Total assets | 10,097,303 | 10,672,765 | 5,276,572 | 33,923 | 26,080,563 |

Assets by credit ratings as of 31 December 2015:

| | EUR | | | | |
|---|-------------------|-------------------|------------------|----------------|-------------------|
| Assets | High quality | Average quality | Low quality | No rating | Total |
| Demand deposits with credit institutions | - | - | - | 18,215 | 18,215 |
| Financial assets at fair value through profit or loss | 10,781,251 | 11,537,975 | 3,957,632 | 160,236 | 26,437,094 |
| Total assets | 10,781,251 | 11,537,975 | 3,957,632 | 178,451 | 26,455,309 |

Credit risk concentration by geographical area as of 31 December 2016:

| | EUR | | | | | |
|---|---------------|---------------|------------------|------------------|-------------------|-------------------|
| Assets | Latvia | EMU countries | EU countries | OECD countries | Other countries | Total |
| Demand deposits with credit institutions | 33,923 | - | - | - | - | 33,923 |
| Financial assets at fair value through profit or loss | - | - | 2,935,668 | 2,594,641 | 20,516,331 | 26,046,640 |
| Total assets | 33,923 | - | 2,935,668 | 2,594,641 | 20,516,331 | 26,080,563 |

Credit risk concentration by geographical area as of 31 December 2015:

| | EUR | | | | | |
|---|---------------|----------------|------------------|------------------|-------------------|-------------------|
| Assets | Latvia | EMU countries | EU Member States | OECD countries | Other countries | Total |
| Demand deposits with credit institutions | 18,215 | - | - | - | - | 18,215 |
| Financial assets at fair value through profit or loss | - | 849,653 | 3,204,724 | 2,778,088 | 19,604,629 | 26,437,094 |
| Total assets | 18,215 | 849,653 | 3,204,724 | 2,778,088 | 19,604,629 | 26,455,309 |

Credit risk concentration analysis by industry profile:

| Industry | 31.12.2016. | | 31.12.2015. | |
|--|-------------------|-------------------------------------|-------------------|-------------------------------------|
| | Carrying amount | Carrying amount to subfund's assets | Carrying amount | Carrying amount to subfund's assets |
| | EUR | % | EUR | % |
| Central governments | 23,063,213 | 88.44 | 22,053,582 | 83.36 |
| Energy | 1,393,925 | 5.34 | 1,750,716 | 6.62 |
| Finance | 1,363,481 | 5.23 | 2,222,969 | 8.40 |
| Central banks | 226,021 | 0.86 | - | - |
| Utilities | - | - | 409,827 | 1.55 |
| Total debt securities and other fixed income securities | 26,046,640 | 99.87 | 26,437,094 | 99.93 |

The maximum exposure to credit risk is equal to the carrying amount.

11. Note

Financial risks

Interest rate risk

Interest rate risk represents the effect of changes in market rates on the subfund's value, affecting the subfund's interest income and the market value of financial assets.

The effect on net interest income is calculated as 1% of the nominal value of securities bearing interest at a floating rate (a 1% decrease in the interest rate will lead to the respective reduction of interest revenue). The effect on the value of financial assets at fair value through profit or loss is calculated by multiplying the value of these financial assets with changes in the interest rate.

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

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

Sensitivity to changes in interest rates:

| | EUR | | | |
|------------------|--------------------------|-----------|--------------------------|-----------|
| | 01.01.2016.- 31.12.2016. | | 01.01.2015.- 31.12.2015. | |
| | +100bps | -100bps | +100bps | -100bps |
| Effect on profit | (1,652,977) | 1,652,977 | (1,303,099) | 1,303,099 |

Liquidity risk

Liquidity risk is the risk that the subfund will sustain a loss if the subfund's assets cannot be realised at minimal transaction costs within a certain period of time.

Liquidity risk is minimised by holding a part of the subfund's assets as cash and high-quality, highly liquid securities to maintain an adequate diversification of investments, a wide maturity spread of investments and by forecasting cash flows related to the subfund's participants.

To maintain liquidity and to meet the requirements related to the operation of the subfund, the subfund may attract funding for a period not exceeding three months if the total amount of such funding does not exceed 10 percent of the value of the subfund.

Maturity analysis of assets and liabilities as of 31 December 2016:

| | EUR | | | | |
|---|-----------------|----------------|------------------|-------------------|-------------------|
| | Up to 1 month | 1 - 12 months | 1 - 5 years | More than 5 years | Total |
| Assets | | | | | |
| Demand deposits with credit institutions | 33,923 | - | - | - | 33,923 |
| Financial assets at fair value through profit or loss | - | - | 7,108,879 | 18,937,761 | 26,046,640 |
| Total assets | 33,923 | - | 7,108,879 | 18,937,761 | 26,080,563 |
| Liabilities | | | | | |
| Accrued expense | (20,745) | (1,857) | - | - | (22,602) |
| Total liabilities | (20,745) | (1,857) | - | - | (22,602) |
| Net assets | 13,178 | (1,857) | 7,108,879 | 18,937,761 | 26,057,961 |

Maturity analysis of assets and liabilities as of 31 December 2015:

| | EUR | | | | |
|---|-----------------|----------------|------------------|-------------------|-------------------|
| | Up to 1 month | 1 - 12 months | 1 - 5 years | More than 5 years | Total |
| Assets | | | | | |
| Demand deposits with credit institutions | 18,215 | - | - | - | 18,215 |
| Financial assets at fair value through profit or loss | - | - | 9,963,437 | 16,473,657 | 26,437,094 |
| Total assets | 18,215 | - | 9,963,437 | 16,473,657 | 26,455,309 |
| Liabilities | | | | | |
| Accrued expense | (21,156) | (2,258) | - | - | (23,414) |
| Total liabilities | (21,156) | (2,258) | - | - | (23,414) |
| Net assets | (2,941) | (2,258) | 9,963,437 | 16,473,657 | 26,431,895 |

12. Note

Information on holders of investment certificates

Proportion of investment certificates held by related parties of the company:

| Item | 31.12.2016. | | 31.12.2015. | |
|--|------------------------|-------------------------|------------------------|-------------------------|
| | Number of certificates | % of total certificates | Number of certificates | % of total certificates |
| Investment certificates held by shareholders | - | - | 13,432 | 0.69 |
| Investment certificates held by related parties | 91,730 | 5.30 | 68,599 | 3.54 |
| Investment certificates held by other persons | 1,639,302 | 94.70 | 1,858,166 | 95.77 |
| Investment certificates issued at the end of the period | 1,731,032 | 100.00 | 1,940,197 | 100.00 |

13. Note

Related party disclosures

The majority of the subfund's investments are acquired with the mediation of the custodian bank ABLV Bank, AS. ABLV Bank, AS receives custodian bank fees, as well as the subfund has paid interest to ABLV Bank, AS for negative account balances presented in the statement of income and expense. The subfund's cash is held with ABLV Bank, AS (see Note 4).

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

During the reporting period, related parties acquired 36,619 (47,114) investment certificates and sold 26,920 (7,597) investment certificates of the subfund.

14. Note

Pledged assets

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

15. Note

Fair values

Fair value of financial instruments, such as financial assets at fair value through profit or loss, is predominantly defined based on quoted prices in an active market. In the absence of observable prices, the respective instruments are valued based on observable prices in less active markets. The fair value of the financial assets which are not quoted and for which no quoted prices of similar assets in active markets are available is estimated using valuation models which are based on assumptions and estimates regarding the potential future performance of the investee, risks inherent to the industry of the investee and the geographical region of operation of the investee. The fair value of other assets and liabilities carried at fair value, which have short maturities (less than three months) is assumed to approximate 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 fair value of assets and liabilities is determined using several sources of fair value distributed into three level according to the following hierarchy:

- 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.

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

| | EUR | |
|-------------------------------|-------------------|-------------------|
| | 31.12.2016. | 31.12.2015. |
| Financial assets | Level 1 | Level 1 |
| Pārējie aktīvi | 26,046,640 | 26,437,094 |
| Total financial assets | 26,046,640 | 26,437,094 |

There has been no significant movement between the levels during the reporting year.

16. Note

Dynamics of performance indicators

Subfund's annual performance*:

| Item | 31.12.2016. | 31.12.2015. | 31.12.2014. |
|--|-----------------------------|-----------------------------|-----------------------------|
| Net assets (EUR) | 26,057,961 | 26,431,895 | 22,132,504 |
| Number of investment certificates | 1,731,032 | 1,940,197 | 1,848,895 |
| Value of investment fund's investment certificates (EUR) | 15.05 | 13.62 | 11.97 |
| Net assets (USD) | 27,467,697 | 28,776,404 | 26,871,073 |
| Number of investment certificates | 1,731,032 | 1,940,197 | 1,848,895 |
| Value of the subfund's investment certificates (USD) | 15.87 | 14.83 | 14.53 |
| | 01.01.2016.- 31.12.2016. | 01.01.2015.- 31.12.2015. | 01.01.2014.- 31.12.2014. |
| Annual performance of the subfund's investment certificates (USD) | 6.99% | 2.05% | 2.75% |

* - Performance is calculated as the value of the subfund'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.

17. Note

Events after the reporting date

No significant subsequent events have occurred in the period from the reporting date to the date of these financial statements that would materially impact the subfund's financial position, performance and cash flows in the reporting period.



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Independent Auditors' Report

To the investment certificate holders of Open-end investment fund ABLV Emerging Markets Bond Fund subfund ABLV Emerging Markets USD Bond Fund

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of Open-end investment fund ABLV Emerging Markets Bond Fund subfund ABLV Emerging Markets USD Bond Fund ("the Subfund"), which is managed by the investment management company ABLV Asset Management, IPAS, (further – the Company), set out on pages 8 to 24 of the accompanying Annual Report, which comprise:

- the statement of assets and liabilities as at 31 December 2016,
- the statement of income and expense for the year then ended,
- the statement of changes in net assets for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Open-end investment fund ABLV Emerging Markets Bond Fund subfund ABLV Emerging Markets USD Bond Fund as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

We are independent of the Subfund and the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

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



Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- the Investment management company report, as set out on pages 4 to 5 of the accompanying Annual Report,
- the Statement of responsibility of the Board of the investment management company, as set out on page 6 of the accompanying Annual Report,

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Subfund and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Investment management company report, our responsibility is to consider whether the Investment management company report is prepared in accordance with the requirements of the regulations No. 99 *Regulations on the preparation of the annual report, consolidated annual report and half-year report of an investment fund and an open-end investment fund* of the Financial and Capital Market Commission of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Investment management company report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Investment management company report has been prepared in accordance with the requirements of the regulations No. 99 *Regulations on the preparation of the annual report, consolidated annual report and half-year report of an investment fund and an open-end investment fund* of the Financial and Capital Market Commission of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance of the Subfund for the Financial Statements

Company's management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union 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.



In preparing the financial statements, the Company's management is responsible for assessing the Subfund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Company's management either intends to liquidate the Subfund or to cease its operations, or has no realistic alternative but to do so.

Those charged with governance of the Subfund are responsible for overseeing the Subfund's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control related to the management of the Subfund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Subfund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease the Subfund's operations as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.



We communicate with those charged with governance of the Subfund regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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A handwritten signature in blue ink, appearing to read 'Rainers Vilāns'.

Rainers Vilāns
Director pp KPMG Baltics SIA
Latvian Certified Auditor
Certificate No. 200
Riga, Latvia
20 April 2017