BANKING / INVESTMENTS \ ADVISORY

ABLV

ABLV Asset Management, IPAS

Annual Report for 2017

and Independent Auditor's Report

Riga, 2018

Contents

Report of the Council and Management Board of ABLV Asset Management, IPAS

Services and products

ABLV Asset Management, IPAS (hereinafter - the Company), registration No. 40003814724, was registered in the Enterprise Register of Latvia on 30 March 2006. At present, the legal address of the Company is Elizabetes Street 23, Riga, LV-1010, Latvia.

ABLV Asset Management, IPAS has received licence No. 06.03.07.263/458 issued by the Financial and Capital Market Commission that allows the Company to render investment management services. The licence was issued in Riga on 04 August 2006 and re-registered on 09 May 2017.

2017 was the twelfth year of operation for the open-ended investment funds managed by ABLV Asset Management, IPAS. There are nine investment funds operating at the moment – ABLV Emerging Markets Bond Fund with subfunds in USD and EUR; corporate bond funds – ABLV High Yield CIS USD Bond Fund; ABLV Global Corporate USD Bond Fund, ABLV European Corporate EUR Bond Fund and ABLV Emerging Markets Corporate USD Bond Fund; ABLV Global Stock Index Fund with subfunds in USD and EUR; ABLV US Industry USD Equity Fund and ABLV European Industry EUR Equity Fund; and ABLV Multi-Asset Total Return USD Fund. ABLV High Yield CIS RUB Bond Fund subfund was liquidated in 2017. In 2017, the Company began to manage state-funded pension scheme funds, establishing an investment plan – ABLV active investment plan.

The results of 2017 show that the previous financial year was quite beneficial for the global financial markets. A key role was played by the significant macroeconomic improvements both in the USA and Europe. Business activities and industrial sector indicators reached an all-time-high of several recent years, GDP data indicated economic growth and the levels of inflation, which used to be one of the slowdown factors in previous years, rose gradually. European and US companies one by one reported good profitability which provided additional support to the stock market. Also, the political background remained rather calm in the previous year. The elections in Europe passed without unpleasant surprises – euro critics and populists failed to prevail both in the Dutch general election and the French presidential election. Having caused short-term concerns among investors, the North Korean nuclear programme could not significantly affect the overall optimism in the global financial markets. Against this favourable background it is hardly a surprise that one of the leading US financial market indicators S&P 500 grew by 19.4% and the NASDAQ-100 Technology Sector Index increased by 31.5% in 2017. It is worth noting that the US market had another supporting factor – the US president Donald Trump fulfilled one of his presidential campaign promises – he implemented the tax reform. Due to this reform the US companies could enjoy a lower tax burden already from 2018, thus directly increasing the profit of American corporations.

On the downside, the European stock market appeared comparatively weaker, with one of the leading European stock exchange indices Euro Stoxx 600 growing only by 7.7%. However, it must be mentioned that such dynamics was mainly caused by the exchange rate. In 2017, the euro finally started to appreciate against most of the world currencies. A stronger euro typically has an adverse effect on the competitiveness and profit of the European exporters, which, in turn, has an adverse effect on their stock prices. A weaker US dollar has promoted shifting to the stock markets of developing countries whose stock in addition to increase in prices gave the investors the positive difference of exchange rate. Thus MSCI Emerging Markets Index increased by more than 34% during the year.

The overall favourable investors' risk appetite also facilitated growth in bond markets this year. With market players aiming for higher risk, speculative grade bonds yielded better results. In 2017, the US Federal Reserve System raised the interest rate three times. However, these decisions by the US regulator were expected as they matched the overall pattern of communication of the FRS. During the last quarter of the year the US macroeconomic indicators began to significantly fuel inflation expectations, which may potentially translate into quicker future increase in interest rates. It triggered a wave of sell-offs in the US government long-term bonds and adversely reflected upon the investment-grade bond segment. By large, the dynamics of US government bonds set the subsequent direction in the global bond market, which basically stagnated over the last quarter of the year.

In 2017, return of ABLV Emerging Markets Bond Fund was 8.92% (USD subfund) and 9.28% (EUR subfund) , and annual performance since inception was 5.24% and 4.79% (USD and EUR subfund respectively).

In 2017, return of ABLV High Yield CIS USD Bond Fund was 5.53% and annual performance since inception was 5.50%.

In 2017, return of ABLV Global Corporate USD Bond Fund was 3.29%, and annual performance since inception was 2.85%.

In 2017, return of ABLV European Corporate EUR Bond Fund was 2.92%, and annual performance since inception was 4.46%.

In 2017, return of ABLV Global Stock Index Fund was 15.38% (USD subfund) and 10.22% (EUR subfund), and annual performance since inception was 1.58% and 0.13% (USD and EUR subfund respectively).

In 2017, return of US Industry USD Equity Fund was 14.01%, and annual performance since inception was 5.40%.

In 2017, return of ABLV European Industry EUR Equity Fund was 6.96 and its annual performance since inception was 2.86%.

In 2017, return of ABLV Multi-Asset Total Return USD Fund was 8.03% and its annual performance since inception was 1.44%.

In 2017, return of ABLV Emerging Markets Corporate USD Bond Fund was 7.51%, and annual performance since inception was 7.77%.

In 2017, the performance since inception of the state-funded pension scheme plan ABLV active investment plan was 0.24%.

2017 marked 12 years since ABLV Capital Markets, IPAS commenced operating and it completes a significant and labour intensive stage aimed at providing a wide range of investment funds and meet the requirements of various investors. We are proud of our achievements because the Company is the market leader in investment funds management in Latvia.

In order to provide regular updates to the customers and potential investors of ABLV Asset Management, IPAS on the situation in the world's financial markets the Company publishes a monthly detailed analysis of the world macroeconomic situation by the chief analyst and the Company's comment and assessment of the market situation, performance of investment funds and the fund managers' activities.

Financial results

Profit for 2017 of ABLV Asset Management, IPAS amounted to EUR 51 071. As a result of a retrospective correction, retained earnings for previous year increased by EUR 33 038. Total assets under management – customer investments in the investment funds managed by ABLV Asset Management, IPAS at the end of 2017 amounted to EUR 130 626 679. The amount of investments managed by the Company increased by 2.68% compared to 2016.

The Board of the Company recommends that retained earnings of EUR 37 286 brought forward from previous years and profit for 2017 of EUR 51 071 retain undistributed.

Risk management

Risk management is an area of constant and particular focus for the Company that seeks to diversify and mitigate risks. The Investment Committee meets on a regular basis to determine the Company's strategy, exposure limits and financial markets for transactions with financial instruments, as well as strategies and the most effective solutions for the management of customer financial assets.

The Company constantly analyses the current political and economic situation, performs analysis of various financial and macroeconomic factors, as well as follows the evaluation of leading brokerage and analytic companies for various financial markets.

Subsequent events and going concern

On 19 February 2018, the Financial and Capital Market Commission made a decision to impose restrictions to discharge obligations on ABLV Bank AS, which is the main shareholder of the Company and acts as the custodian bank for the investment funds managed by the Company. Due to this decision, the sale and redemption of investment certificates was suspended. Due to these events, ABLV Bank, AS will no longer be able to perform the functions of the custodian bank. In order to normalise the operations of the funds and the pension plan managed by the Company the required measures were carried out to change the custodian bank.

A new custodian bank agreement was signed and it became effective on 9 May 2018 with Citadele Banka, AS, which will act as the custodian bank for pension plan ABLV AKTĪVAIS IEGULDĪJUMU PLĀNS and carry out other activities required by the Law On Investment Management Companies. As at the date of these financial statements, the pension

plan funds were managed in the ordinary course of business and the pension plan was not subject to any encumbrances or restrictions impacting its operation.
On 22 May 2018 a custodian bank agreement was signed with Baltic International Bank, AS, which is intended to become the acting custodian bank for the investment funds managed by the Company. As at the date of these financial statements the assets managed by the funds were being transferred to the new custodian bank. After the transfer, the funds managed by the Company are expected to recommence operations without any restrictions.

Due to the termination of ABLV Bank AS operations, the Company's cash on accounts with ABLV Bank, AS was frozen. The amount of unavailable cash as at 31 May 2018 was EUR 714 608. The cash will be paid out to the Company during the self-liquidation of ABLV Bank AS according to the procedure under the law. The largest share of the currently unavailable cash is expected to be returned to the Company during 2019. The Company continues to manage state funded pension schemes and investment funds and the cash flows generated by operating activities are sufficient to cover all costs and liabilities of the Company.

The management is well aware that the funds under management are likely to reduce over the coming 12 months; however, according to a pessimistic scenario forecasted by the management, the operating cash flows should be sufficient to maintain regular operations of the Company and there will be no need for equity investments in the Company.

Considering that ABLV Bank, AS, the sole shareholder of the Company, is undergoing liquidation process, assets held by the Company are assessed, as well as the Company's ability to continue as a going concern without attracting additional funding. It was established that the Company does not need shareholder's investments to continue its operation, therefore it can be assumed that the most economically beneficial scenario is to not terminate the operation of the Company, and new shareholders are being sought for the Company. Currently, negotiations and agreements are in progress with the potential new shareholders. There is uncertainty related to the change of shareholders, however, according to the management of the Company, the change will not have material impact on the Company. Considering the steps being made towards the change of shareholders and change of custodian bank for the investment funds, the management believes that the self-liquidation process of ABLV Bank, AS will not impact the Company's ability to continue as a going concern. Accordingly, financial statements were prepared on a going concern basis. However, material uncertainty exists related to the Company's ability to continue as a going concern, as it is not clear, whether the change of shareholders will be successful, as well as the outflow of funds from the investment funds managed by the Company after the redemption restrictions regarding investment certificates are cancelled having, thus adversely affecting the Company's revenues.

Employees

Our management and department managers are professionals whose experience in the world's financial markets exceeds 20 years. The Company encourages employees to raise their qualifications by taking part in local and international trainings and conferences.

We are certain that the knowledge and long-term experience of our employees coupled with provision of high quality services and an approach tailored to each customer will become a solid basis for future development of the Company.

The management of ABLV Asset Management, IPAS extends gratitude to customers for their trust and successful cooperation.

Chairman of the Council
Ernests Bernis

Council Member
Aldis Paegle

Chairman of the Board
Leonīds Kiļs

Deputy Chairman of the Board
Jevgenijs Gžibovskis

Riga, 6 July 2018

Council and Management Board of ABLV Capital Markets, IPAS

The Council of the Company:

Chairman of the Council: Ernests Bernis	Date of re-election: 11.05.2017
Council Member Aldis Paegle	Date of election: 11.05.2017
Council Member Andris Kovaļčuks	Date of election: 11.05.2017 Date of dismissal: 02.03.2018.
Deputy Chairman of the Council: Māris Kannenieks	Date of dismissal: 11.05.2017
Council Member: Vadims Reinfelds	Date of dismissal: 11.05.2017

Board:

Chairman of the Board: Leonīds Kiļs	Date of re-election: 15.11.2013
Deputy Chairman of the Board: Jevgenijs Gžibovskis	Date of re-election: 15.11.2013
Board Member: Sergejs Gačenko	Date of election: 15.11.2013

Chairman of the Council
Ernests Bernis

Council Member
Aldis Paegle

Chairman of the Board
Leonīds Kiļs

Deputy Chairman of the Board
Jevgenijs Gžibovskis

Riga, 6 July 2018

Statement of Management's Responsibility of ABLV Asset Management, IPAS

The council and management board of the Company (hereinafter – the management) are responsible for the preparation of the financial statements of the Company. The financial statements are prepared in accordance with the regulations of the Financial and Capital Market Commission and other laws of Republic of Latvia applicable to investment management firms.

The financial statements are prepared in accordance with the source documents and present truly and fairly the financial position of the Company as at 31 December 2017 and 2016, and the results of its operations, changes in capital and reserves and cash flows for the years then ended.

Financial statements were prepared on a going concern basis in accordance with the International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgments and estimates were made by the management in the preparation of these financial statements.

The management of the Company is responsible for the maintenance of a proper accounting system, safeguarding the Company's assets, and the prevention and detection of fraud and other irregularities in the Company. The management of the Company is responsible for compliance with the Financial Instruments Law, regulations of Financial and Capital Market Commission and other regulatory requirements applicable to investment management companies in the Republic of Latvia.

On behalf of the Company's management,

Chairman of the Council
Ernests Bernis

Council Member
Aldis Paegle

Chairman of the Board
Leonīds Kiļs

Deputy Chairman of the Board
Jevgenijs Gžibovskis

Riga, 6 July 2018

Statement of Comprehensive Income of ABLV Asset Management, IPAS for 2017 and 2016

	Note	01.01.2017- 31.12.2017 EUR	01.01.2016- 31.12.2016 Corrected EUR
Commission and fee income	4	1 588 393	1 491 287
Commission and fee expense	4	(381 573)	(292 697)
(Loss)/gain on foreign exchange trading and revaluation		(19 512)	(4 050)
Total operating income		**1 187 308**	**1 194 540**
Administrative expenses	5	(943 813)	(855 685)
Depreciation	9	(5 966)	(5 974)
Gain on disposal of property and equipment		-	2 957
Other income		-	6 619
Other expenses	6	(178 848)	(140 047)
Net operating expense		**(1 128 627)**	**(992 130)**
Profit before corporate income tax		58 681	202 410
Corporate income tax	7	(7 610)	(26 162)
Profit for the reporting period		**51 071**	**176 248**
Total comprehensive income		**51 071**	**176 248**

The accompanying notes on pages 12 to 28 form an integral part of these financial statements.
The financial statements as set on pages 8 through 28 were approved for issue by the Company's management on 6 July 2018.

Chairman of the Council
Ernests Bernis

Council Member
Aldis Paegle

Chairman of the Board
Leonīds Kiļs

Deputy Chairman of the Board
Jevgenijs Gžibovskis

Riga, 6 July 2018

Statement of Financial Position of ABLV Asset Management, IPAS as at 31 December 2017 and 31 December 2016

		31.12.2017	31.12.2016 Corrected
Assets	Note	EUR	EUR
Due from credit institutions	8	764 968	744 321
Corporate income tax receivable	12	53 359	45 135
Property and equipment	9	30 825	36 791
Deferred expense and accrued income	14	165 192	162 613
Other assets		15 261	37 337
Total assets		**1 029 605**	**1 026 197**
Liabilities			
Accrued expenses	10	288 058	160 127
Deferred tax liabilities	7	-	1 134
Other liabilities		3 189	2 149
Total liabilities		**291 247**	**163 410**
Capital			
Paid-up share capital	11	650 000	650 000
Statutory reserves		1	1
Retained earnings from previous years		37 286	36 538
Retained earnings of the reporting period		51 071	176 248
Total capital		**738 358**	**862 787**
Total liabilities and capital		**1 029 605**	**1 026 197**
Memorandum items			
Assets under management	13	130 626 679	127 215 741

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Riga, 6 July 2018

Statement of Changes in Shareholders' Equity of ABLV Asset Management, IPAS for 2017 and 2016

	Note	Paid-in share capital	Reserve capital	Retained earnings	Total shareholders' equity
		EUR	EUR	EUR	EUR
01.01.2016.		**650 000**	**1**	**382 272**	**1 032 273**
Correction		-	-	31 266	31 266
01.01.2016 Corrected		**650 000**	**1**	**413 538**	**1 063 539**
Comprehensive income					
Profit for the period		-	-	174 476	174 476
Transactions with shareholders					
Dividends paid	16	-	-	(377 000)	(377 000)
31.12.2016		**650 000**	**1**	**179 748**	**829 749**
Correction		-	-	1 772	1 772
31.12.2016 Corrected		**650 000**	**1**	**212 786**	**862 787**
01.01.2017		**650 000**	**1**	**212 786**	**862 787**
Comprehensive income					
Profit for the period		-	-	51 071	51 071
Transactions with shareholders					
Dividends paid	16	-	-	(175 500)	(175 500)
31.12.2017		**650 000**	**1**	**88 357**	**738 358**

The accompanying notes on pages 12 to 28 form an integral part of these financial statements.
The financial statements as set on pages 8 through 28 were approved for issue by the Company's management on 6 July 2018.

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Riga, 6 July 2018

Statement of Cash Flows of ABLV Asset Management, IPAS for 2017 and 2016

		01.01.2017-31.12.2017	01.01.2016-31.12.2016 Corrected
Cash flows from operating activities	**Note**	EUR	EUR
Profit before corporate income tax		58 681	202 410
Depreciation	9	5 966	5 974
Gain on disposal of property and equipment		-	(2 957)
Net cash flows from operating activities before changes in assets and liabilities		**64 647**	**205 427**
(Increase)/decrease of deferred expenses and accrued income		(2 579)	3 129
Decrease in other assets		22 076	46 116
Increase in accrued expenses		127 931	73 053
Increase/(decrease) in other liabilities		1 040	(54)
Net cash flows from operating activities before corporate income tax		**213 115**	**327 671**
(Corporate income tax paid)		(16 968)	(78 257)
Net cash flow from operating activities		**196 147**	**249 414**
Cash flow from investing activities			
Disposal of property and equipment		-	12 314
(Acquisition) of property and equipment and intangible assets	9	-	(41 763)
Net cash used in investing activities		**-**	**(29 449)**
Cash flows from financing activities			
Dividends (paid)	16	(175 500)	(377 000)
Net cash flows from financing activities		**(175 500)**	**(377 000)**
Increase/(decrease) in cash and cash equivalents		**20 647**	**(157 035)**
Cash and cash equivalents at the beginning of the period		**744 321**	**901 356**
Cash and cash equivalents at the end of the period*	8	**764 968**	**744 321**

*Components of cash and cash equivalents are presented in Note 8 Due from credit institutions.

The accompanying notes on pages 12 to 28 form an integral part of these financial statements.
The financial statements as set on pages 8 through 28 were approved for issue by the Company's management on 6 July 2018.

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Riga, 6 July 2018

Notes to the Financial Statements of ABLV Asset Management, IPAS

1. Note

General information

ABLV Asset Management, IPAS (hereinafter - the Company), registration No. 40003814724, was registered in the Enterprise Register of Latvia on 30 March 2006. At present, the legal address of the Company is Elizabetes Street 23, Riga, LV-1010, Latvia.

On 4 August 2006 ABLV Asset Management, IPAS received licence No. 06.03.07.263/315 issued by the Financial and Capital Market Commission that allows the Company to render investment management services.

The activities of ABLV Asset Management, IPAS are connected with the management of individual portfolios of financial instruments by investing client funds in various investment programmes, and with management of open investments funds and advising on investments in financial instruments. As at 31 December 2017 ABLV Asset Management, IPAS managed the following open-ended investment funds: ABLV Emerging Markets Bond Fund with subfunds in USD and EUR, ABLV High Yield CIS Bond Fond with subfunds in USD, ABLV Global Corporate USD Bond Fund and ABLV European Corporate EUR Bond Fund, ABLV Global Stock Index Fund with subfunds in USD and EUR, ABLV US Industry USD Equity Fund and ABLV European Industry EUR Equity Fund, ABLV Multi-Asset Total Return USD Fund, as well as ABLV Emerging Markets Corporate USD Bond Fund.

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 Union (EU).

The financial statements cover the period from 1 January 2017 to 31 December 2017.

The financial statements of ABLV Asset Management, IPAS for the year ended 31 December 2017 were approved by the Company's management board and council on 6 July Riga, 2018. The Company's shareholders have the right to amend the financial statements after their issuance.

As at 31 December 2017 the Company had one shareholder with voting rights – ABLV Bank, AS.

2. Note

Information on principal accounting policies

This note lists principal accounting policies that have been consistently applied in years 2017 and 2016.

a) 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 (IFRS) 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.

The financial statements are prepared on a historical cost basis.

The financial statements for the period from 1 January 2017 to 31 December 2017 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.

The accounting and functional currency of the Company is EUR. The presentation currency of the financial statements is EUR.

Information given herein in brackets represents comparative figures for the year ended 31 December 2016 unless stated differently.

b) 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 may impact assumptions that were used as the basis for estimates. The estimates and assumptions are based on the best information available to the management regarding the relevant events and activities. Any impact from changes in the estimates is reflected in the financial statements as determined.

c) Going concern

The Company continues to manage state funded pension schemes and investment funds and the cash flows generated by operating activities are sufficient to cover all costs and liabilities of the Company. For more information on the Company's going concern after the end of the reporting year refer to Note 19 in these financial statements.

d) 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 entity; or an agreement which will or may be settled using own equity instruments of the entity and which is not derivative and which does or may entitle the entity to a variable number of own equity instruments, or is derivate 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. For this purpose, the entity's own equity instruments are not itself agreements to receive or deliver equity instruments in the future.

A financial liability is a 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 entity; or an agreement which will or may be settled using the entity's own equity instruments and which is not derivative and which does or may obligate the entity to deliver a variable number of own equity instruments, or is derivative 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. For this purpose, the entity's own equity instruments are not itself agreements to receive or deliver equity instruments in the future.

Financial assets or financial liabilities are recognised on the Statement of Financial Position when, and only when, the Company 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 Company has transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.

Financial liabilities are derecognised only when the contractual obligations are discharged, cancelled or expire.

e) 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.

f) Impairment of Non-financial Assets

It is assessed at each reporting date if events indicate that there is an indication that a non-financial asset may be impaired. This assessment is carried out more often, if there are events or changes in circumstances that indicate that a non-financial asset may be impaired. If any such indication exists, the bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase constitutes to reversal of impairment losses.

g) Income and Expense Recognition

All major income and expense items are recognised on an accrual basis.

Interest income/ expense is recognised in the statement of comprehensive income for financial assets/ liabilities measured at amortised cost using the effective interest method. The effective interest rate is a method of calculating the amortized cost of a financial asset or liability, which is based on the recognition of interest income and expenses over a specific period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Commission and fee income and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee income/ expense directly attributable to financial assets/ liabilities measured at amortised cost – for these assets/liabilities the respective commission and fee income/ expense are included in the effective interest rate calculation.

h) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rate set by the ECB, and REUTERS exchange rates are applied to foreign currencies that have no reference exchange rate for EUR published by the ECB. Transactions denominated in foreign currencies are recorded in EUR at exchange rates set by the ECB or REUTERS at the date of the transaction. Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as gain or loss from revaluation of foreign currency positions.

The most significant currency exchange rates used in preparing the financial statements of the Company (euro for one foreign currency unit):

Reporting date	USD	RUB
31 December 2017	0.83382	0.01441
31 December 2016	0.94867	0.01555

i) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation and/or liability as a result of a past event and it is probable that an outflow of economic benefits will be required from the Company to settle the obligation, and the amount of obligation can be measured reasonably.

The amount of provisions is based on the best management estimates at the reporting date and the assumption regarding the amount of economic benefits required to settle the current liability taking into account the likelihood of outflow and recovery of resources from related sources.

j) Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the useful life of the asset.

The Company has applied the following depreciation rates:

Type of fixed assets	Annual Rate
Vehicles	14%
Office equipment and software	10% - 33.33%

Costs of maintenance and repair are charged to profit and loss as incurred.

k) Employee benefits

Short-term employee benefits, including salary, statutory social insurance contributions, bonuses and benefits, as well as life insurance premiums, are charged to the statement of comprehensive income as administrative expense in the period when the services are provided.

Provisions for employee vacations pay are calculated for the Company's personnel based on the total number of vacation days earned but not used, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

l) Corporate Income Tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% and is based on the taxable income reported for the taxation period.

<u>Changes to the calculation of Corporate Income Tax as of 1 January 2018</u>

As of 1 January 2018, the new Law on Enterprise Income Tax of the Republic of Latvia comes into effect setting out a conceptually new regime for paying taxes. As of the date, the tax rate will be 20% instead of the current 15%, the taxation period will be one month instead of a year and the taxable base will include:
– distributed profit (dividends calculated, payments equalled to dividends, conditional dividends) and
— conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive expenses which are incurred by entering transactions at prices other than those on the market that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or board (council members) regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

Under IAS 12 *Income taxes* deferred tax assets and liabilities are recognised by applying a rate expected to be applied to retained earnings. According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, a 20% rate is only applied to distributed profit, while a 0% rate is expected to be applied to undistributed profits. Therefore, deferred tax assets and liabilities are recognisable as nil. This principle has been applied in financial statements for the year ended 31 December 2017.

Deferred tax assets and liabilities were reversed and changes were charged to profit or loss in the reporting period.

m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on the account, demand deposits, and balances due and other balances with a contractual original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are highly liquid short term assets that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

n) Subsequent Events

These financial statements reflect subsequent events that are likely to impact the Company's financial position 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.

o) Assets under Management

Assets managed by the Company on behalf of customers, funds and other institutions are not carried as assets of the Company. Such assets are not reflected on the balance sheet. Assets under management are presented in these financial statements only for information purposes.

p) Adoption of new and/ or changed IFRS and IFRIC interpretations in the reporting year

During the reporting period year no new standards have come into effect that would be applicable to the Company. The Company adopted the following amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2017.

The application of amendments did not have any impact on these financial statements:
- IAS 7 ‘Statement of Cash Flows’
- IAS 12 ‘Income taxes’
- Annual improvements to IFRS.

Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Earlier application is permitted.)
The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).
It is expected that the amendment will not have a material impact on the Company’s financial statements.

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 retrospectively. Early application is permitted.)
The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.
It is expected that the amendments, will not have a material impact on the presentation of the financial statements as the Company already measures future taxable profit in a manner consistent with the amendments.

When the adoption of the amendments of standards or interpretation is deemed to have an impact on the financial statements or performance of the Company, the impact is described below.

q) 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 Company has not applied the following IFRS and 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).

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 assets are 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 irrevocably present 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 impairment allowances will need to be recognised before a loss event.
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 judgement 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 an entity’s risk management and hedging activities are required.
The Company does not expect IFRS 9 to have material impact on the financial statements. Due to the nature of the Company’s operations and the types of financial instruments it holds, the classification and measurement of the Company’s financial assets is not expected to change significantly under IFRS 9. The Company believes that impairment losses could increase as losses are expected to become more volatile for assets that qualify for the ECL model. The Company 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. Early application is permitted.)

IFRS 15 establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer, as well as how much and when to recognise the revenue. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.
IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company has completed an initial review of the potential impact of the adoption of IFRS 15 on its financial statements. The management expects that the new Standard, when initially applied, will not have material impact on the Company's financial statements.

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).
IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases,
IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-I5 Operating Leases - Incentives; and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company has assessed the impact of the adaptation of these IFRS regarding their impact on these financial statements. The most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of office premises. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for ROU assets and interest expense on lease liabilities. The Company have not yet decided whether it will use the optional exemptions. No significant impact is expected on finance leases of the Company. The Company currently evaluate the impact on CET1 ratio, in particular with regard to the right-of-use asset in leases when the Company is the lessor.

Transition

The Group plans to apply IFRS 16 as of 1 January 2019. As a lessee, the Company can either apply the standard using a:
- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Company has not yet determined which transition approach to apply. As a lessor, the Company is not required to make any adjustments for leases except where it is an intermediate lessor in a sub-lease.
The Company have not yet quantified the impact on its reported assets and liabilities of the adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Company uses the practical expedients and recognition exemptions, and any additional leases that the group and the bank enter into. The group / bank expect to disclose its transition approach and quantitative information before adoption.

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 retrospectively. Earlier application is permitted.)
The amendments clarify share-based payment accounting on the following areas:
- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations;
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

It is expected that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

Other improvements to IFRS

Regarding other new or amended IFRSs or interpretations issued but not yet approved, the Company cannot estimate its effect on the Company's financial position, performance results, cash flows or disclosures. The Company plans to implement these standards and interpretations on the effective date of their adoption by the EU.

r) Retrospective correction as a result of change in principles of recognition of personnel remuneration

Statement of Financial Position	As reported previously as at 31 December 2015	Change in principles of recognition of personnel remuneration	As corrected as at 31 December 2015	As reported previously as at 31 December 2016	Change in principles of recognition of personnel remuneration	As corrected as at 31 December 2016
Assets						
Deferred expenses and accrued income	133 716	32 026	165 742	128 502	34 111	162 613
Corporate income tax receivable	-	-	-	46 208	(1 073)	45 135
Total assets	**133 716**	**32 026**	**165 742**	**174 710**	**33 038**	**207 748**
Equity						
Corporate income tax payable	10 385	760	11 145	-	-	-
Retained earnings from previous years	1 313	26 962	28 275	5 272	31 266	36 538
Retained earnings of the reporting period	380 959	4 304	385 263	174 476	1 772	176 248
Total Equity	**392 657**	**32 026**	**424 683**	**179 748**	**33 038**	**212 786**

Statements of Comprehensive Income	As reported previously as at 31 December 2015	Change in principles of recognition of personnel remuneration	As corrected as at 31 December 2015	As reported previously as at 31 December 2016	Change in principles of recognition of personnel remuneration	As corrected as at 31 December 2016
Expenses						
Administrative expenses	(864 230)	5 064	(859 166)	(857 770)	2 085	(855 685)
Corporate income tax	(56 611)	(760)	(57 371)	(25 849)	(313)	(26 162)
Total	**(920 841)**	**4 304**	**(916 537)**	**(883 619)**	**1 772**	**(881 847)**

3. Note

Risk Management

Risk management is one of the Company's strategic values. In the ordinary course of business, the Company is exposed to various risks, the most significant of them being credit risk, liquidity risk and market risk, as well as operational risk. Risk management stands for identification, assessment and control of potential risks; it is a structured, coordinated and ongoing process across all levels of the entity aimed at identifying and assessing potential threats and making decisions on the prevention of such threats, maintaining the appropriate balance between risks and profits and minimising potential adverse effects of risks on the entity's financial position and operations. In order to manage these risks, risk management policies have been developed and approved by the Company's management board, while the practical implementation is provided by the respective structural units.

The risk management system has been constantly improved following the Company's operational and financial market development. The improvement process is controlled by the Internal Audit Department of ABLV Bank, AS on a regular basis.

The Company's significant financial assets recognized on the statement of financial position as at 31 December 2017 are balances due from credit institutions, accrued income and other assets in the amount of EUR 897 303 (EUR 898 093), which are recognised at amortised cost.

a) Credit risk

Credit risk is exposure to potential loss in case the Company's counterparty or debtor will be unable to fulfil the contractual obligations to the Company. The maximal exposure of the Company's assets that are exposed to credit risk as at 31 December 2017 amounts to EUR 897 303 (EUR 898 093).

In accordance with the Company's policies, the Company places its available funds only with ABLV Bank, AS.

As at 31 December 2017 the Company did not have any financial assets that would be delinquent or impaired (0 EUR).

b) Liquidity risk

Liquidity is the ability of the Company to provide for or satisfy the expected (daily) or extraordinary (critical) need for cash flows to finance asset appreciation and to discharge financial liabilities in due time. It is understood to be the ability to convert assets into cash with minimum losses or borrow money at reasonable cost.

The analysis of the Company's assets and liabilities term structure as at 31 December 2017:

	On demand	1-3 months	6-12 months	Total up to year	Undated	Total
Assets	EUR	EUR	EUR	EUR	EUR	EUR
Due from credit institutions	764 968	-	-	764 968	-	764 968
Deferred expense and accrued income	117 074	9 391	2 294	128 759	-	128 759
Corporate income tax receivable	-	53 359	-	53 359	-	53 359
Fixed assets	-	-	-	-	30 825	30 825
Other assets	15 261	-	-	15 261	-	15 261
Total assets	**897 303**	**62 750**	**2 294**	**962 347**	**30 825**	**993 172**
Liabilities						
Accrued expenses	288 058	-	-	288 058	-	288 058
Other liabilities	3 189	-	-	3 189	-	3 189
Total liabilities	**291 247**	**-**	**-**	**291 247**	**-**	**291 247**
Net assets	**606 056**	**62 750**	**2 294**	**671 100**	**30 825**	**701 925**

The analysis of the Company's assets and liabilities term structure as at 31 December 2016:

Assets	On demand EUR	1-3 months EUR	6-12 months EUR	Total up to year EUR	Undated EUR	Total EUR
Due from credit institutions	744 321	-	-	744 321	-	744 321
Deferred expense and accrued income	116 435	10 565	1 502	128 502	-	128 502
Corporate income tax receivable	-	46 208	-	46 208	-	46 208
Fixed assets	-	-	-	-	36 791	36 791
Other assets	37 337	-	-	37 337	-	37 337
Total assets	**898 093**	**56 773**	**1 502**	**956 368**	**36 791**	**993 159**
Liabilities						
Accrued expenses	160 127	-	-	160 127	-	160 127
Deferred tax liabilities	-	-	-	-	1 134	1 134
Other liabilities	2 149	-	-	2 149	-	2 149
Total liabilities	**162 276**	**-**	**-**	**162 276**	**1 134**	**163 410**
Net assets	**735 817**	**56 773**	**1 502**	**794 092**	**35 657**	**829 749**

c) Currency risk

The Company are exposed to negative effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies. The Company did not have significant assets and liabilities in foreign currencies at the end of the reporting period.

The Company's assets in foreign currency:

Currency	31.12.2017 Balance, cur.	31.12.2017 Balance, EUR	31.12.2016 Balance, cur.	31.12.2016 Balance, EUR
USD	105 989	88 300	91 579	86 879
RUB	-	-	110 511	1 719
Total	**-**	**88 300**	**-**	**88 598**

In accordance with internal policies, in the balances due from credit institutions the Company does not hold open positions in foreign currencies. The assets of the Company in foreign currency are accrued income, for which the payment was made shortly after the end of the reporting year, when the Company closed its currency position. Accordingly, the management believes that there is no need to include a separate analysis on exposure to currency sensitivity.

d) Interest rate risk

The Company is not exposed to significant interest rate risk.

e) Operational risk

During the course of its operations, the Company encounters also non-financial risks with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. the Company makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the Company's structural units is one of the measures taken to prevent the potential loss.

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.

Operational risk is inherent in all products, activities, processes, and systems of the Company.

4. Note

Commission and fee income and expense

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Commission and fee income	EUR	EUR
commission for the management of open-ended investment funds	1 573 377	1 465 888
commission for the management and creation of individual portfolios	15 016	25 399
Total fee and commission income	**1 588 393**	**1 491 287**
Commission and fee expense		
commission for customer attraction	317 469	229 488
other commission and fee expense	63 783	62 926
commission for bank services	321	283
Total fee and commission expenses	**381 573**	**292 697**

5. Note

Administrative expense

	01.01.2017-31.12.2017	01.01.2016-31.12.2016 Corrected
	EUR	EUR
Remuneration to the Board and the Council members, incl. social insurance contributions and solidarity tax	249 986	239 744
Staff remuneration, incl. social insurance contributions and solidarity tax	189 951	170 030
Risk and financial analysis costs	164 816	142 736
Product development services	63 354	33 955
Professional services	57 098	55 702
Equipment servicing costs	41 082	41 470
Investment services	35 885	33 522
Internal audit services	35 767	26 955
Rent and maintenance costs	23 820	38 194
Compliance services	16 899	10 960
Accounting services	13 317	15 565
Legal services	13 131	1 443
Non-deductible value added tax	11 345	11 469
Donations	9 000	6 000
Record keeping services	8 390	17 798
Remuneration to the auditor	4 960	5 265
Other	5 012	4 877
Total administrative expenses	**943 813**	**855 685**

During the reporting period, the Company did not receive any other services from the auditor.

The Company has signed an agreement with ABLV Bank, AS for the rent of premises. Under this agreement, the Company has no non-cancellable rent payments.

In 2017 the Company employed an average of 8 persons (2016: 8).

Number of employees of the Company at the end of the reporting period:

	31.12.2017	31.12.2016
	number	number
Management	4	3
Other personnel	4	5
Total	**8**	**8**

6. Note

Other expenses

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
	EUR	EUR
Payments to the Financial and Capital Market Commission	143 970	106 497
Registration and annual fees of open-ended mutual funds	31 044	33 550
Other expenses	3 834	-
Total other expense	**178 848**	**140 047**

7. Note

Corporate Income Tax

	01.01.2017-31.12.2017	01.01.2016-31.12.2016 Corrected
	EUR	EUR
Current tax	8 744	21 977
Derecognition of deferred corporate income tax	(1 134)	4 185
Corporate income tax in the profit and loss statement:	7 610	26 162

Deferred tax:

	Balance Sheet		Profit and Loss Statement	
	31.12.2017	31.12.2016	01.01.2017-31.12.2017	01.01.2016-31.12.2016
	EUR	EUR	EUR	EUR
Deferred tax liabilities				
Accelerated impairment for tax purposes	-	(1 134)	1 134	(477)
Gross deferred tax liabilities	**-**	**(1 134)**	**1 134**	**(477)**
Deferred tax asset				
Accrued liabilities for unused vacations	-	-	-	(2 411)
Accrued liabilities	-	-	-	(1 297)
Gross deferred tax asset	**-**	**-**	**-**	**(3 708)**
Net deferred tax	**-**	**(1 134)**	**1 134**	**(4 185)**

Effective versus theoretical corporate income tax:

	01.01.2017- 31.12.2017 EUR	01.01.2016- 31.12.2016 Corrected EUR
Profit before taxation	58 681	202 410
Theoretically calculated corporate income tax – 15% (2016: 15%)	8 802	30 362
Permanent differences	2 041	900
Tax rebate for donations	(2 099)	(5 100)
Change in deferred tax	(1 134)	-
Actual corporate income tax for the reporting year	**7 610**	**26 162**

8. Note

Balances due from credit institutions

	31.12.2017 EUR	31.12.2016 EUR
Cash in bank	764 968	744 321
Total cash and cash equivalents	**764 968**	**744 321**

Due to the termination of business activity of ABLV Bank, AS in liquidation, the Company's funds were frozen in accounts with ABLV Bank, AS in liquidation. Refer to Note 19 Subsequent events and going concern.

9. Note

Property and equipment

	31.12.2017 EUR	31.12.2016 EUR
Vehicles	30 825	36 791
Total fixed assets	**30 825**	**36 791**

Movements in Company's property and equipment in 2017:

	Property and equipment EUR
Acquisition value as at 01.01.2017	**48 183**
Acquisitions	-
Acquisition value as at 31.12.2017	**48 183**
Accumulated depreciation as at 01.01.2017	**(11 392)**
Depreciation charge	(5 966)
Accumulated depreciation as at 31.12.2017	**(17 358)**
Carrying amount as at 01.01.2017	**36 791**
Carrying amount as at 31.12.2017	**30 825**

Movements in Company’s property and equipment in 2016:

	Property and equipment EUR
Acquisition value as at 01.01.2016	**41 993**
Acquisitions	41 763
Disposals and write-offs	(35 573)
Acquisition value as at 31.12.2016	**48 183**
Accumulated depreciation as at 01.01.2016	**(31 634)**
Depreciation charge	(5 974)
Depreciation write-off	26 216
Accumulated depreciation as at 31.12.2016	**(11 392)**
Carrying amount as at 01.01.2016	**10 359**
Carrying amount as at 31.12.2016	**36 791**

As at 31 December 2017, the Company had property and equipment with the carrying amount of 0 EUR (0 EUR), with acquisition cost of 6 420 EUR (6 420 EUR).

10. Note

Accrued expense

	31.12.2017 EUR	31.12.2016 EUR
Commission for customer attraction	144 926	86 091
Services received	42 337	-
Funding to FCMC	36 062	27 711
Accrued expenses for bonuses	35 642	21 023
Accrued expenses for personnel vacation payments	21 960	18 473
Other accrued expenses	7 131	6 829
Total accrued expenses	**288 058**	**160 127**

11. Note

Paid-in share capital

As at 31 December 2017, the paid-in share capital of the Companies amounted to EUR 650 000 (EUR 650 000). The par value of each share is EUR 1.0 (EUR 1.0). The Company’s share capital consists of 585 000 (585 000) ordinary registered voting shares and 65 000 (65 000) registered non-voting shares (personnel shares). Ordinary voting shares are issued based on retained earnings.

Personnel shares were distributed among the Board Members of the Company.

As at 31 December 2017 the Company had 1 (2016: 1) shareholder with voting rights – ABLV Bank, AS.

12. Note

Taxes

Movement in tax balances:

	Personal income tax	State compulsory social insurance contributions and solidarity tax	Corporate income tax
	EUR	EUR	EUR
Tax (debt) as at 01.01.2016 Corrected	**-**	**(177)**	**(11 145)**
Calculated	(67 793)	(108 999)	(21 977)
Adjustment for previous periods	-	6 619	-
Paid in	67 793	102 557	78 257
Overpaid tax as at 31.12.2016 Corrected	**-**	**-**	**45 135**
Calculated	(68 342)	(111 903)	(8 744)
Paid in	68 095	111 494	16 968
Tax (debt) as at 01.01.2017/ receivable	**(247)**	**(409)**	**53 359**

13. Note

Memorandum items

Assets managed on behalf of customers (incl. mutual funds managed by the Company) by type of customer:

	31.12.2017	31.12.2016
	EUR	EUR
Mutual funds managed by ABLV Asset Management, IPAS	123 320 162	125 612 966
Investment plans managed by ABLV Asset Management, IPAS	7 306 517	-
Financial assets of private individuals under management	-	1 602 775
Total assets under trust management	**130 626 679**	**127 215 741**

14. Note

Deferred expense and accrued income

	31.12.2017	31.12.2016 Corrected
	EUR	EUR
Commission and fee income	117 074	116 435
Prepaid expenses	48 118	46 178
Total prepaid expenses and deferred income	**165 192**	**162 613**

15. Note

Capital adequacy

The primary objective of the Company's capital management is to ensure that Company complies with externally imposed capital requirements and maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The goals of the Company's capital management in 2017 are consistent with those of the previous years.

Capital adequacy was calculated in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment management firms.
Capital adequacy refers to the sufficiency of the Company's capital resources to cover credit risk, operational risk, and market risks.

Financing source for ABLV Asset Management, IPAS is its own funds. The Company does not need borrowed funds as its revenues generated from client transactions serviced are sufficient to enable its operations.

Own funds and capital requirements:

Tier 1	31.12.2017 EUR	31.12.2016 Corrected EUR
paid-in share capital	650 000	650 000
reserve capital	1	1
retained earnings brought forward	4 248	5 272
Total CET1	**654 249**	**655 273**
Total Tier 1	**654 249**	**655 273**
Total capital	**654 249**	**655 273**
Capital requirements		
Capital requirements that equal one quarter of the fixed overheads of the preceding year multiplied by 12.5	3 032 003	2 967 178
Total capital requirements	**3 032 003**	**2 967 178**
Tier 1 capital adequacy ratio (%)	21.58	22.08
Total capital adequacy ratio (%)	21.58	22.08

16. Note

Dividends declared and paid

	01.01.2017- 31.12.2017 EUR	01.01.2016- 31.12.2016 EUR
Calculated dividends	175 500	377 000
Dividends paid	175 500	377 000

Dividends declared per one share	0.27	0.58
Dividends paid per one share	0.27	0.58

17. Notes

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The Company has estimated that the fair value of its assets and liabilities does not materially differ from their carrying value.

18. Note

Related party disclosures

Related parties are shareholders of the Company with power to control the Company or exercise significant influence over decisions connected with the operating activities of the Company, members of senior management of the Company or the parent company and close relatives of the above individuals, and companies under the control or significant influence of such individuals.
Related party transactions are carried out according to the general operational principles of the Company and at arm's length.

Due from related parties:

Related party	Description	31.12.2017 EUR	31.12.2016 EUR
Parent company	Due from credit institutions	764 968	744 321
Parent company	Other assets	-	20 712
Total		**764 968**	**765 033**

Due to related parties:

Related party	Description	31.12.2017 EUR	31.12.2016 EUR
Parent company	Accrued expenses	187 263	86 091
Parent company	Other liabilities	1 706	2 149
Total		**188 969**	**88 240**

Expenses from transactions with related parties:

Related party	Description	01.01.2017-31.12.2017 EUR	01.01.2016-31.12.2016 EUR
Parent company	Administrative expenses	419 692	366 082
Parent company	Commission expenses	317 790	229 771
Parent company	Foreign exchange trading	10 960	1 029
Total		**748 442**	**596 882**

19. Note

Subsequent events and going concern

On 19 February 2018, the Financial and Capital Market Commission made a decision to impose restrictions to discharge obligations on ABLV Bank AS, which is the main shareholder of the Company and acts as the custodian bank for the investment funds managed by the Company. Due to this decision, the sale and redemption of investment certificates was suspended. Due to these events, ABLV Bank, AS will no longer be able to perform the functions of the custodian bank. In order to normalise the operations of the funds and the pension plan managed by the Company the required measures were carried out to change the custodian bank.

A new custodian bank agreement was signed and it became effective on 9 May 2018 with Citadele Banka, AS, which will act as the custodian bank for pension plan ABLV AKTĪVAIS IEGULDĪJUMU PLĀNS and carry out other activities required by the Law On Investment Management Companies. As at the date of these financial statements, the pension plan funds were managed in the ordinary course of business and the pension plan was not subject to any encumbrances or restrictions impacting its operation.
On 22 May 2018 a custodian bank agreement was signed with Baltic International Bank, AS, which is intended to become the acting custodian bank for the investment funds managed by the Company. As at the date of these financial statements the assets managed by the funds were being transferred to the new custodian bank. After the transfer, the funds managed by the Company are expected to recommence operations without any restrictions.

Due to the termination of ABLV Bank AS operations, the Company's cash on accounts with ABLV Bank, AS was frozen. The amount of unavailable cash as at 31 May 2018 was EUR 714 608. The cash will be paid out to the Company during the self-liquidation of ABLV Bank AS according to the procedure under the law. The largest share of the currently unavailable cash is expected to be returned to the Company during 2019. The Company continues to manage state funded pension schemes and investment funds and the cash flows generated by operating activities are sufficient to cover all costs and liabilities of the Company.

The management is well aware that the funds under management are likely to reduce over the coming 12 months; however, according to a pessimistic scenario forecasted by the management, the operating cash flows should be sufficient to maintain regular operations of the Company and there will be no need for equity investments in the Company.

Considering that ABLV Bank, AS, the sole shareholder of the Company, is undergoing liquidation process, assets held by the Company are assessed, as well as the Company's ability to continue as a going concern without attracting additional funding. It was established that the Company does not need shareholder's investments to continue its operation, therefore it can be assumed that the most economically beneficial scenario is to not terminate the operation of the Company, and new shareholders are being sought for the Company. Currently, negotiations and agreements are in progress with the potential new shareholders. There is uncertainty related to the change of shareholders, however, according to the management of the Company, the change will not have material impact on the Company. Considering the steps being made towards the change of shareholders and change of custodian bank for the investment funds, the management believes that the self-liquidation process of ABLV Bank, AS will not impact the Company's ability to continue as a going concern. Accordingly, financial statements were prepared on a going concern basis. However, material uncertainty exists related to the Company's ability to continue as a going concern, as it is not clear, whether the change of shareholders will be successful, as well as the outflow of funds from the investment funds managed by the Company after the redemption restrictions regarding investment certificates are cancelled having, thus adversely affecting the Company's revenues.

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Independent Auditors' Report

To the shareholders of ABLV Asset Management, IPAS

Report on the Audit of the Financial Statements

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of ABLV Asset Management, IPAS ("the Company") set out on pages 8 to 28 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2017,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholders' equity 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 ABLV Asset Management, IPAS as at 31 December 2017, 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 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 19 of the financial statements, which discloses that the Company's parent company ABLV Bank, AS which also serves as the custodian bank for the investment funds managed by the Company undergoes self-liquidation. At the moment, ABLV Bank AS is holding negotiations with new potential shareholders. Furthermore, the note discloses that an agreement with a new custodian bank has been signed and after finalisation of this process investment funds are expected to recommence the operations without restriction, which may result in outflow of customer funds from the investment funds. As stated in Note 19 these events or conditions along with other matters set out in Note 19 indicate existence of material uncertainty which may raise doubts as to the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Existence and accuracy of revenue

The Company's revenue for the year ended 31 December 2017 amounted to EUR 1 588 393 (2016: EUR 1 491 287).

Reference to the financial statements: Note 2 g) "Income and Expense Recognition" on page 14 (accounting policy); Note 4 "Commission and fee income and expense" on page 21 (Notes to the financial statements).

Key Audit Matter

As discussed in Note 1 of the financial statements, the Company provides asset management services for a number of investment vehicles it has set up.

The related revenues comprise of management fees. Management fees are calculated at a stated percentage of the managed funds' net asset values.

We focused on this area due to the high daily volume of underlying transactions with an effect on the amount of revenue, coupled with the operational complexity involved in terms of the number of investment vehicles under management and the variety of fee rates to be applied.

Our procedures

Our audit procedures included, among others:

- Documenting, assessing the design, implementation and operating effectiveness of the Company's key internal controls relating to the calculation and recognition of fee revenue, and of internal controls over daily revaluation of the net asset values of the funds under management.
- Tracing fee rates applied by the Company in its computations of the fees and related fee calculation formulas to the statutes of the funds managed by the Company.
- Developing an independent expectation of the base fee revenue by analytically estimating the fees to be recognized by reference to the contractual arrangements and the value of assets under management as reported in custodian reports.
- Assessing the accuracy and completeness of the revenue recognition related disclosures against the requirements of the relevant financial reporting standards.

Reporting on Other Information

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

- Report of the Company's Council and Management Board, as set out on pages 3 to 5 of the accompanying Annual Report,
- Company's Council and Management Board, as set out on page 6 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 7 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 Related to Other Information* 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 Company 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 Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Report of the Company's Council and Management Board, our responsibility is to consider whether the Report of the Company's Council and Management Board is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 46 "Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

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

- the information given in the Report of the Company's Council and Management Board for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Company's Council and Management Board has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 46 "Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

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

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, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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.

- 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 Company'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 to continue 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 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by the shareholder annual meeting on 24 March 2017 to audit the financial statements of ABLV Asset Management, IPAS for the year ended 31 December 2017. Our total uninterrupted period of engagement is 3 years, covering the periods ending 31 December 2015 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, we have not provided any services to the Company in addition to the audit, which have not been disclosed in the Management Report or in the financial statements of the Company.

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Licence No. 55

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Rainers Vilāns
Director pp KPMG Baltics SIA
Latvian Certified Auditor
Certificate No. 200
Riga, Latvia
6 July 2018

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.