

**Open-end investment fund**  
**AB.LV Emerging Markets EUR Bond Fund**

**AUDITED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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

**TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

Riga, 2009

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## AIF AB.LV Emerging Markets EUR Bond Fund

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#### General information

Name of the fund:	AB.LV Emerging Markets EUR Bond Fund
Type of the fund:	Open-end investment fund
Registration date of the fund:	11 July 2007
Number of the fund:	06.03.05.263/32
Name of the investment manager:	IPAS AB.LV Asset Management
Registered office of the investment manager:	Elizabetes iela 23, Riga, LV-1010
Registration number of the investment manager:	40003814724
Licence number of the investment manager:	06.03.07.263/204
Date of the licence:	4 August 2006
Name of the custodian bank:	AS Aizkraukles banka
Registered office of the custodian bank:	Elizabetes iela 23, Riga, LV-1010
Registration number of the custodian bank:	50003149401
Names and positions of Council Members, Board Members, and Fund Manager:	Council of the investment manager:  <i>Chairman of the Council</i> - Ernests Bernis <i>Deputy Chairman of the Council</i> – Māris Kannenieks <i>Council Member</i> - Vadims Reinfelds

#### Board of the investment manager:

*Chairman of the Board* - Leonīds Kiļs  
*Deputy Chairman of the Board* - Jevgenijs Gžibovskis  
*Board Member* - Oļegs Fiļs

*Fund Manager* - Jevgenijs Gžibovskis

Duties of the Fund Manager	The Fund Manager operates the Fund's property according to the Company's Articles of Association and the Fund Management Regulations. The Fund Manager may be employed only by one investment manager and manage several funds of one investment manager.
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Auditors:	SIA Ernst & Young Baltic Muitas iela 1, Riga, Latvia, LV-1010, Licence No. 17 Diāna Krišjāne, Chairperson of the Board Latvian Certified Auditor, Certificate No. 124
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Investment manager report

The open-end investment fund AB.LV Emerging Markets EUR Bond Fund (hereinafter – the Fund) was registered on 11 July 2007 as a bond fund having the euro as its base currency.

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

The investment objective of the Fund is long-term capital growth, by making investments in debt securities issued by emerging countries, and corporations and financial institutions, in which the state has a majority control, as well as in money market instruments.

The Fund's investment portfolio is diversified among investments in various countries, thus ensuring higher investment safety and protection against fluctuations of the Fund's asset value, which are characteristic of investments in securities of only one country.

The year 2008 was the second business year for AIF AB.LV Emerging Markets EUR Bond Fund. At the end of 2008, the Fund's assets amounted to EUR 2,363,506 (LVL 1,661,082), while its net assets were EUR 2,360,901 (LVL 1,659,251), the annual return since inception was -18.32%, the average term to maturity was 7.6 years, the weighted average rating of the investment portfolio was BB+, and the yield to maturity was 14.00%.

Such a low annual return of the Fund is mostly due to the global financial crisis of 2008 and the rapid drop in prices of financial instruments on world's stock markets, which produced a negative effect on the emerging government and corporate bond markets.

On 1 August 2008, the annual remuneration payment for the Fund's management was reduced from 1.00% to 0.50% of the average asset value, which does not exceed the maximum expense limit fixed in the Prospectus, i.e. 3%.

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

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

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

The Company has always been focusing specifically on risk management in order to ensure proper diversification and achieve risk minimisation. The Company has the Investment Committee set up, which determines the investment policy to be pursued by the Company, hedging limits, and financial markets to enter into transactions involving financial

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instruments. The members of the Investment Committee are the leading financial market specialists of AS Aizkraukles banka and the Company.

The Company will seek to provide the utmost efficiency in management of the Fund's assets also in future in order to increase the number of investors and achieve growth of net assets in 2009. The management of IPAS AB.LV Asset Management would like to express their deep gratitude to customers for loyalty and successful cooperation.

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

Leonīds Kiļs

Fund Manager

Jevgenijs Gžibovskis

Riga, 30 March 2009

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Statement of responsibility of the Board of the investment manager

The Board of the investment manager (hereinafter – the Company) are responsible for the preparation of the financial statements of the investment fund AB.LV Emerging Markets EUR Bond Fund (hereinafter – the Fund).

The financial statements set out on pages 8 to 28 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2008 and the results of its operations for the year then ended.

The aforementioned financial statements are prepared on a going concern basis, applying laws of the Republic of Latvia, the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Reports of Investment Funds, and International Financial Reporting Standards as adopted in the European Union. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

The Board of the Company are responsible for the maintenance of proper accounting records, the safeguarding of the assets of AIF AB.LV Emerging Markets EUR Bond Fund, and the prevention and detection of fraud and other irregularities in the Fund. They are also responsible for operating the Fund in compliance with the Law of the Republic of Latvia on Investment Management Companies, FCMC regulations, and other laws of the Republic of Latvia.

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

Leonīds Kiļs

Riga, 30 March 2009

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To the investors of AIF AB.LV Emerging Markets EUR Bond Fund

No. \_\_\_\_\_

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

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

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

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

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

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

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

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

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

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

Ernests Bernis

Riga, 30 March 2009

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Statement of assets and liabilities

	Notes	<u>31/12/2008</u>	<u>31/12/2007</u>
<b>ASSETS</b>		<b>LVL</b>	<b>LVL</b>
Demand deposits with credit institutions	4	98,525	30,659
Financial assets at fair value through profit or loss		1,556,561	4,379,713
Debt securities and other fixed income securities	5	1,556,561	4,379,713
Other assets		5,996	8,345
<b>TOTAL ASSETS</b>		<b><u>1,661,082</u></b>	<b><u>4,418,717</u></b>
 <b>LIABILITIES</b>			
Accrued expense	6	(1,831)	(6,739)
<b>TOTAL LIABILITIES</b>		<b><u>(1,831)</u></b>	<b><u>(6,739)</u></b>
 <b>NET ASSETS</b>		<b><u>1,659,251</u></b>	<b><u>4,411,978</u></b>

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

Leonīds Kijs

Fund Manager

Jevgenijs Gžibovskis

Riga, 30 March 2009



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Statement of income and expense

	Notes	01/01/2008- 31/12/2008 LVL	11/07/2007 - 31/12/2007 LVL
<b>INCOME</b>			
Interest revenue	7	199,256	20,037
<b>TOTAL</b>		<b>199,256</b>	<b>20,037</b>
<b>EXPENSE</b>			
Remuneration to investment manager		(31,761)	(21,001)
Remuneration to custodian bank		(5,611)	(2,450)
Other fund management expense		(953)	(370)
Interest expense		(146)	(9)
<b>TOTAL</b>		<b>(38,471)</b>	<b>(23,830)</b>
<b>INCREASE/ (DECREASE) IN INVESTMENT VALUE</b>			
Realised (decrease)/ increase in investment value	8	(273,743)	8,277
Unrealised (decrease) in investment value	9	(513,489)	(9,668)
<b>(DECREASE) IN NET ASSETS FROM INVESTMENT</b>		<b>(626,447)</b>	<b>(5,184)</b>

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

Leonīds Kiļs

Fund Manager

Jevgenijs Gžibovskis

Riga, 30 March 2009

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Statement of changes in net assets

	01/01/2008- 31/12/2008 LVL	11/07/2007- 31/12/2007 LVL
<b>Net assets at the beginning of the year</b>	<b>4,411,978</b>	-
<b>(Decrease) in net assets from investment activities</b>	<b>(626,447)</b>	<b>(5,184)</b>
<b>Transactions with investment certificates</b>		
Inflow from sale of investment certificates	-	4,417,162
Outflow of redemption of investment certificates	(2,126,280)	-
<b>Total</b>	<b>(2,126,280)</b>	<b>4,411,978</b>
<b>(Decrease)/ increase in net assets for the year</b>	<b>(2,752,727)</b>	<b>4,411,978</b>
<b>Net assets at the end of the year</b>	<b>1,659,251</b>	<b>4,411,978</b>
Issued investment certificates at the beginning of the year	627,657	-
Issued investment certificates at the end of the year	312,684	627,657
Net assets per investment certificate at the beginning of the year	7.03	-
<b>Net assets per investment certificate at the end of the year</b>	<b>5.31</b>	<b>7.03</b>

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

Leonīds Kiļs

Fund Manager

Jevgenijs Gžibovskis

Riga, 30 March 2009

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Statement of cash flows

	<u>31.12.2008</u>	<u>31.12.2007</u>
	LVL	LVL
Interest received	199,256	20,037
Interest paid	(146)	(9)
Investment management income	-	8,277
Investment management expense	(314,976)	(25,427)
(Acquisition) of financial assets	(2,002,925)	(5,539,966)
Disposal of financial assets	4,312,588	1,150,585
<b>Increase/ (decrease) in cash from operating activities</b>	<b><u>2,193,797</u></b>	<b><u>(4,386,503)</u></b>
Inflow from sale of investment certificates	-	4,417,162
Outflow of redemption of investment certificates	(2,125,931)	-
<b>(Decrease)/ increase in cash from financing activities</b>	<b><u>(2,125,931)</u></b>	<b><u>4,417,162</u></b>
<b>Increase in cash</b>	<b><u>67,866</u></b>	<b><u>30,659</u></b>
<b>Cash at the beginning of the year</b>	<b>30,659</b>	<b>-</b>
<b>Cash at the end of the year</b>	<b><u>98,525</u></b>	<b><u>30,659</u></b>

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

Leonīds Kiļs

Fund Manager

Jevgenijs Gžibovskis

Riga, 30 March 2009

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**NOTE 1            GENERAL INFORMATION**

Name of the fund:	AB.LV Emerging Markets EUR Bond Fund
Type of the fund:	Open-end investment fund
Registered office:	Elizabetes iela 23, Riga, LV-1010, Latvia
Fund's business activity:	Investments in debt securities issued by emerging countries, and corporations and financial institutions, in which the state has a majority control, as well as in money market instruments
Name of the investment manager:	IPAS AB.LV Asset Management Elizabetes iela 23, Riga, LV-1010, Latvia

The following abbreviations are used in the notes to the financial statements: Financial and Capital Market Commission (FCMC), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

**NOTE 2            INFORMATION ON PRINCIPAL ACCOUNTING POLICIES**

***Statement of Compliance***

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

During 2008, the Fund consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in *Amended IFRS and IFRIC that came into effect in the reporting period*.

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

The Fund has applied the following IFRIC which were amended or enter into force in the reporting year but which do not have a material impact on the financial statements.

IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* adopted on 13 October 2008 by the International Accounting Standards Board and the EU

IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*

IFRIC 12 *Service Concession Agreements*

IFRIC 14 *IAS 19 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

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***IFRS and IFRIC that have been issued but are not yet effective***

The Standards and Interpretations which have been issued as at the date of these financial statements but will be effective for annual periods beginning on or after 1 January 2009 and which have not been applied by the Fund retrospectively:

IFRS 8 *Operating Segments* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The Standard sets out requirements for disclosure of information about an entity's operating segments in breakdown by components that management uses to make decisions about operating matters.

IAS 1 *Presentation of Financial Statements* (revised) - *Capital Disclosures* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This amendment requires the company to make disclosures of the objectives, policies and processes of managing capital.

IAS 23 *Borrowing Costs* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This Standard shall be applied in accounting for borrowing costs. This Standard requires disclosing the policy regarding the accounting for borrowing costs.

IFRIC 13 *Customer Loyalty Programmes* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). The Interpretation deals with the accounting for loyalty credits.

IFRS 3 *Business Combinations* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

Amendment to IFRS 2 *Share-based Payment* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). This Standard is applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of the investor and in accounting for investments in separate financial statements of the investor's parent.

IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

IFRS 1 and IAS 27 *Accounting for Investments in Subsidiaries, Jointly Controlled Entities or Associates* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

Improvement to IFRS (2008) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

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IFRIC 15 *Agreement for the Construction of Real Estate* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

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

#### ***Significant Accounting Estimates and Assumptions***

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

#### ***Basis of Preparation***

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

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2008 through 31 December 2008.

Information given herein in brackets represents comparative figures for the year ended 31 December 2007, unless otherwise stated.

#### ***Revenue and Expense Recognition***

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

#### ***Foreign Currency Translation***

The Fund's functional currency is the euro but, according to the FCMC requirements, the Fund ensures accounting also in Latvian lats. These financial statements are prepared based on transaction accounting in Latvian lats.

Assets and liabilities denominated in foreign currencies are translated into Latvian lats at the following official exchange rates established by the Bank of Latvia at the balance sheet date:

	<u>31/12/2008</u>	<u>31/12/2007</u>
EUR 1	LVL 0.702804	LVL 0.702804

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**Cash**

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

**Debt Securities and Other Fixed Income Securities**

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

*Financial assets at fair value through profit or loss*

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

Securities are initially recognised at cost and subsequently re-measured at fair value based on the bid prices. Securities purchase and sale transactions are recognised on the trading date. The cost of securities sold is defined on a FIFO (first in, first out) basis.

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Fund has transferred the financial asset and all the risks and rewards of the asset to the counterparty.

**Fair Value of Financial Assets and Liabilities**

Fair value of financial assets and liabilities represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Where, in the opinion of the Fund's management, the fair values of financial assets and liabilities differ materially from their carrying amounts, such fair values are separately disclosed in the notes to the financial statements.

**Provisions**

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

**Taxes**

The Fund's income is subject to income taxes in the country of its origin. Basically, the Fund's income is exempt from income taxes. The Fund is not a Latvian corporate income tax payer, and upon annulment of the Fund's investment certificates, no income taxes are charged on increase in value.

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**NOTE 3 RISK MANAGEMENT**

The key investment risks are market risk (price risk and interest rate risk), liquidity risk, credit risk, legal risk, strategic risk, informational risk, foreign investment risk, and other business-related risks. The Fund believes that its exposure to credit risk arises mainly from investments in fixed income securities and balances due from credit institutions.

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

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

	<u>31/12/2008</u>	<u>31/12/2008</u>
	Carrying amount	Maximum exposure
<b>ASSETS</b>	<b>LVL</b>	<b>LVL</b>
Demand deposits with credit institutions	98,525	98,525
Financial assets at fair value through profit or loss	1,556,561	1,556,561
Other assets	5,996	5,996
<b>TOTAL ASSETS</b>	<b><u>1,661,082</u></b>	<b><u>1,661,082</u></b>

The table below provides the analysis of the Fund's maximum credit risk exposure as at 31 December 2007:

	<u>31/12/2007</u>	<u>31/12/2007</u>
	Carrying amount	Maximum exposure
<b>ASSETS</b>	<b>LVL</b>	<b>LVL</b>
Demand deposits with credit institutions	30,659	30,659
Financial assets at fair value through profit or loss	4,379,713	4,379,713
Other assets	8,345	8,345
<b>TOTAL ASSETS</b>	<b><u>4,418,717</u></b>	<b><u>4,418,717</u></b>



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

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

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

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

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

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

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

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**NOTE 4          DEMAND DEPOSITS WITH CREDIT INSTITUTIONS**

	31/12/2008	31/12/2007	% of total Fund's assets as at 31/12/2008
	LVL	LVL	(%)
Demand deposits with credit institutions, AS Aizkraukles banka	98,525	30,659	5.94
<b>Total demand deposits</b>	<b>98,525</b>	<b>30,659</b>	<b>5.94</b>

The Fund receives interest on demand deposits fixed as monthly average LIBOR EUR o/n -0.2%.

**NOTE 5          DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES**

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

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

	31/12/2008	31/12/2007	% of total Fund's assets as at 31/12/2008
	LVL	LVL	(%)
EU Member States	101,602	374,742	6.12
OECD countries	279,613	681,881	16.85
Other countries	1,175,346	3,323,090	70.84
<b>Total debt securities and other fixed income securities</b>	<b>1,556,561</b>	<b>4,379,713</b>	<b>93.81</b>

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31/12/2008				
Issuer	Amount	Acquisition value	Carrying amount	% of total Fund's assets
		LVL	LVL	(%)
<b>Argentinian issuers</b>		<b>376,610</b>	<b>61,716</b>	<b>3.72</b>
REPUBLIC OF ARGENTINA	300,000	196,036	61,716	3.72
<b>Colombian issuers</b>		<b>83,630</b>	<b>79,215</b>	<b>4.77</b>
REPUBLIC OF COLOMBIA	100	83,630	79,215	4.77
<b>Moroccan issuers</b>		<b>69,737</b>	<b>59,975</b>	<b>3.61</b>
KINGDOM OF MOROCCO	100	69,737	59,975	3.61
<b>Mexican issuers</b>		<b>107,882</b>	<b>120,852</b>	<b>7.28</b>
PEMEX PROJ FGD MASTER TR	125	50,012	58,330	3.52
UNITED MEXICAN STATES	100	57,871	62,522	3.77
<b>Peruvian issuers</b>		<b>63,311</b>	<b>68,585</b>	<b>4.13</b>
REPUBLIC OF PERU	100	63,311	68,585	4.13
<b>Philippine issuers</b>		<b>106,738</b>	<b>139,128</b>	<b>8.38</b>
REPUBLIC OF PHILIPPINES	225	106,738	139,128	8.38
<b>Croatian issuers</b>		<b>71,398</b>	<b>71,978</b>	<b>4.34</b>
CROATIA	100	71,398	71,978	4.34
<b>Romanian issuers</b>		<b>80,682</b>	<b>101,602</b>	<b>6.12</b>
ROMANIA	150	80,682	101,602	6.12
<b>Kazakhstan issuers</b>		<b>172,089</b>	<b>92,920</b>	<b>5.60</b>
KAZKOMMERTS INTL BV	150	82,187	49,111	2.96
TURANALEMFINANCE BV	150	89,903	43,809	2.64
<b>Russian issuers</b>		<b>199,656</b>	<b>180,550</b>	<b>10.88</b>
GAZ CAPITAL SA	125	82,794	58,167	3.51
TRASNACAPIT (TRANSNEFT)	100	51,466	52,054	3.14
VTB CAPITAL SA	125	65,396	70,329	4.24
<b>Tunisian issuers</b>		<b>67,472</b>	<b>70,761</b>	<b>4.26</b>
BANQUE CENT DE TUNISIE	100	67,472	70,761	4.26
<b>Turkish issuers</b>		<b>142,021</b>	<b>158,761</b>	<b>9.57</b>
REPUBLIC OF TURKEY	250	142,021	158,761	9.57
<b>Ukrainian issuers</b>		<b>59,220</b>	<b>80,302</b>	<b>4.84</b>
UKRAINE GOVERNMENT	300	59,220	80,302	4.84
<b>Uruguayan issuers</b>		<b>73,689</b>	<b>60,776</b>	<b>3.66</b>
REPUBLICA ORIENT URUGUAY	100	73,689	60,776	3.66
<b>Venezuelan issuers</b>		<b>66,064</b>	<b>94,451</b>	<b>5.69</b>
REPUBLIC OF VENEZUELA	250	66,064	94,451	5.69
<b>South African issuers</b>		<b>131,674</b>	<b>114,989</b>	<b>6.93</b>
ESKOM HOLDINGS LIMITED	2	66,752	58,527	3.53
REPUBLIC OF SOUTH AFRICA	100	64,922	56,462	3.40
<b>Total debt securities and other fixed income securities</b>		<b>1,871,872</b>	<b>1,556,561</b>	<b>93.81</b>

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Breakdown of fixed income securities by industry profile:

	31/12/2008	31/12/2007	% of total Fund's assets as at 31/12/2008
	LVL	LVL	(%)
Central government	1,154,000	3,461,006	69.55
Finance	234,010	203,993	14.10
Oil and gas production	168,551	577,798	10.16
Energy	-	136,916	-
<b>Total debt securities and other fixed income securities</b>	<b>1,556,561</b>	<b>4,379,713</b>	<b>93.81</b>

**NOTE 6 ACCRUED EXPENSE**

	31/12/2008	31/12/2007
	LVL	LVL
Accrued commission fees payable to investment manager	704	5,713
Accrued commission fees payable to custodian bank	246	667
Accrued fees payable for professional services	857	335
Accrued fees payable to third parties	24	24
<b>Total accrued expense</b>	<b>1,831</b>	<b>6,739</b>

**NOTE 7 INTEREST REVENUE**

	31.12.2008	31.12.2007
	LVL	LVL
From demand deposits with credit institutions	4,274	5,437
From financial assets at fair value through profit or loss	194,982	14,597
Other revenue	-	3
<b>Total interest revenue</b>	<b>199,256</b>	<b>20,037</b>

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**NOTE 8 REALISED (DECREASE)/ INCREASE IN INVESTMENT VALUE**

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LVL</b>	<b>LVL</b>
Income from sale of investments	3,911,018	1,091,406
Acquisition value of investments sold	(4,184,761)	(1,083,129)
<b>Total realised (decrease)/ increase in investment value</b>	<b>(273,743)</b>	<b>8,277</b>

**NOTE 9 UNREALISED (DECREASE) IN INVESTMENT VALUE**

	<b>31/12/2008</b>	<b>31/12/2007</b>
	<b>LVL</b>	<b>LVL</b>
Financial assets at fair value through profit or loss	( 513,489)	( 9,668)
<b>Total unrealised (decrease) in investment value</b>	<b>(513,489)</b>	<b>(9,668)</b>

**NOTE 10 CHANGE IN INVESTMENT ASSETS DURING THE REPORTING YEAR**

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

	<b>31.12.2007</b>	<b>Investments made during the year</b>	<b>Investments annulled during the year</b>	<b>Fair value revaluation result</b>	<b>31.12.2008</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
Financial assets at fair value through profit or loss	4,379,713	2,002,925	(4,312,588)	(513,489)	1,556,561
<b>Total assets</b>	<b>4,379,713</b>	<b>2,002,925</b>	<b>(4,312,588)</b>	<b>(513,489)</b>	<b>1,556,561</b>

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The table below shows changes in the Fund's investment portfolio in 2007:

	11.07.2007	Investments made during the year	Investments annulled during the year	Fair value revaluation result	31.12.2007
	LVL	LVL	LVL	LVL	LVL
Financial assets at fair value through profit or loss	-	5,539,966	(1,150,585)	(9,668)	4,379,713
<b>Total assets</b>	-	5,539,966	(1,150,585)	(9,668)	4,379,713

**NOTE 11 FUND'S ASSETS BY GEOGRAPHICAL PLACEMENT**

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

	EU				
	Latvia	Member States	OECD countries	Other countries	Total
ASSETS	LVL	LVL	LVL	LVL	LVL
Demand deposits with credit institutions	98,525	-	-	-	98,525
Financial assets at fair value through profit or loss	-	102,602	279,613	1,175,346	1,557,561
Other assets	-	-	-	5,996	5,996
<b>TOTAL ASSETS</b>	<b>98,525</b>	<b>102,602</b>	<b>279,613</b>	<b>1,181,342</b>	<b>1,662,082</b>
<b>LIABILITIES</b>					
Accrued expense	(1,831)	-	-	-	(1,831)
<b>TOTAL LIABILITIES</b>	<b>(1,831)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,831)</b>
<b>NET ASSETS</b>	<b>96,694</b>	<b>102,602</b>	<b>279,613</b>	<b>1,181,342</b>	<b>1,660,251</b>

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The table below shows the Fund's assets and liabilities by geographical placement as at 31 December 2007:

	Latvia	EU Member States	OECD countries	Other countries	Total
	LVL	LVL	LVL	LVL	LVL
<b>ASSETS</b>					
Demand deposits with credit institutions	30,659	-	-	-	30,659
Financial assets at fair value through profit or loss	-	374,742	681,881	3,323,090	4,379,713
Other assets	-	-	-	8,345	8,345
<b>TOTAL ASSETS</b>	<b>30,659</b>	<b>374,742</b>	<b>681,881</b>	<b>3,331,435</b>	<b>4,418,717</b>
<b>LIABILITIES</b>					
Accrued expense	(6,739)	-	-	-	(6,739)
<b>TOTAL LIABILITIES</b>	<b>(6,739)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,739)</b>
<b>NET ASSETS</b>	<b>23,920</b>	<b>374,742</b>	<b>681,881</b>	<b>3,331,435</b>	<b>4,411,978</b>

**NOTE 12 MATURITY PROFILE OF ASSETS AND LIABILITIES (BASED ON INTEREST RATE CHANGES)**

The table below shows the distribution of the Fund's assets and liabilities into maturity bands as at 31 December 2008:

	Up to 1 month	1 - 5 years	More than 5 years	Non-interest bearing	Total
	LVL	LVL	LVL	LVL	LVL
<b>ASSETS</b>					
Demand deposits with credit institutions	98,525	-	-	-	98,525
Financial assets at fair value through profit or loss	-	548,275	1,008,286	-	1,556,561
Other assets	-	-	-	5,996	5,996
<b>TOTAL ASSETS</b>	<b>98,525</b>	<b>548,275</b>	<b>1,008,286</b>	<b>5,996</b>	<b>1,661,082</b>
<b>LIABILITIES</b>					
Accrued expense	-	-	-	(1,831)	(1,831)
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,831)</b>	<b>(1,831)</b>
<b>TOTAL</b>	<b>98,525</b>	<b>548,275</b>	<b>1,008,286</b>	<b>4,165</b>	<b>1,659,251</b>
<i>Net position</i>	<i>98,525</i>	<i>548,275</i>	<i>1,008,286</i>	<i>4,165</i>	<i>1,659,251</i>
<i>Accumulating net position</i>	<i>98,525</i>	<i>646,800</i>	<i>1,655,086</i>	<i>1,659,251</i>	<i>x</i>

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The table below shows the distribution of the Fund's assets and liabilities into maturity bands as at 31 December 2007:

	Up to 1 month	1 - 5 years	More than 5 years	Non-interest bearing	Total
	LVL	LVL	LVL	LVL	LVL
<b>ASSETS</b>					
Demand deposits with credit institutions	30,659	-	-	-	30,659
Financial assets at fair value through profit or loss	-	1,334,058	3,045,655	-	4,379,713
Other assets	-	-	-	8,345	8,345
<b>TOTAL ASSETS</b>	<b>30,659</b>	<b>1,334,058</b>	<b>3,045,655</b>	<b>8,345</b>	<b>4,418,717</b>
<b>LIABILITIES</b>					
Accrued expense	-	-	-	(6,739)	(6,739)
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,739)</b>	<b>(6,739)</b>
<b>TOTAL</b>	<b>30,659</b>	<b>1,334,058</b>	<b>3,045,655</b>	<b>1,606</b>	<b>4,411,978</b>
<i>Net position</i>	<i>30,659</i>	<i>1,334,058</i>	<i>3,045,655</i>	<i>1,606</i>	<i>4,411,978</i>
<i>Accumulating net position</i>	<i>30,659</i>	<i>1,364,717</i>	<i>4,410,372</i>	<i>4,411,978</i>	<i>x</i>

**NOTE 13 MATURITY PROFILE OF ASSETS AND LIABILITIES (LIQUIDITY)**

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

	Up to 1 month	1 - 12 months	1 - 5 years	More than 5 years	Total
	LVL	LVL	LVL	LVL	LVL
<b>ASSETS</b>					
Demand deposits with credit institutions	98,525	-	-	-	98,525
Financial assets at fair value through profit or loss	-	-	477,947	1,078,614	1,556,561
Other assets	5,996	-	-	-	5,996
<b>TOTAL ASSETS</b>	<b>104,521</b>	<b>-</b>	<b>477,947</b>	<b>1,078,614</b>	<b>1,661,082</b>
<b>LIABILITIES</b>					
Accrued expense	(974)	(857)	-	-	(1,831)
<b>TOTAL LIABILITIES</b>	<b>(974)</b>	<b>(857)</b>	<b>-</b>	<b>-</b>	<b>(1,831)</b>
<b>NET ASSETS</b>	<b>103,547</b>	<b>(857)</b>	<b>477,947</b>	<b>1,078,614</b>	<b>1,659,251</b>



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The table below presents the distribution of the Fund's assets and liabilities into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2007:

	Up to 1 month	1 - 12 months	1 - 5 years	More than 5 years	Total
	LVL	LVL	LVL	LVL	LVL
<b>ASSETS</b>					
Demand deposits with credit institutions	30,659	-	-	-	30,659
Financial assets at fair value through profit or loss	-	-	1,130,066	3,249,647	4,379,713
Other assets	8,345	-	-	-	8,345
<b>TOTAL ASSETS</b>	<b>39,004</b>	<b>-</b>	<b>1,130,066</b>	<b>3,249,647</b>	<b>4,418,717</b>
<b>LIABILITIES</b>					
Accrued expense	(6,404)	(335)	-	-	(6,739)
<b>TOTAL LIABILITIES</b>	<b>(6,404)</b>	<b>(335)</b>	<b>-</b>	<b>-</b>	<b>(6,739)</b>
<b>NET ASSETS</b>	<b>32,600</b>	<b>(335)</b>	<b>1,130,066</b>	<b>3,249,647</b>	<b>4,411,978</b>

**NOTE 14 INTEREST RATE RISK**

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

The effect on net interest revenue is calculated as 1% of the par value for securities at a floating interest rate (the decrease in the interest rate by 1% will lead to a respective reduction in interest revenue). The effect on the value of financial assets at fair value through profit or loss is calculated as duration of financial assets (the effect of changes in interest rates on the price of securities and, accordingly, the Fund's value).

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

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

	01/01/2008 - 31/12/2008		11/07/2007 - 31/12/2007	
	+100bps	-100bps	+100bps	-100bps
	LVL	LVL	LVL	LVL
Effect on profit	(91)	91	(342)	342

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

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**NOTE 15 CREDIT RISK**

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

	High quality	Average quality	Low quality	No rating	Total
	LVL	LVL	LVL	LVL	LVL
<b>ASSETS</b>					
Demand deposits with credit institutions	98,525	-	-	-	98,525
Financial assets at fair value through profit or loss	-	766,906	647,638	142,018	1,556,561
Other assets	-	-	-	5,996	5,996
<b>TOTAL ASSETS</b>	<b>98,525</b>	<b>766,906</b>	<b>647,638</b>	<b>148,014</b>	<b>1,661,082</b>

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

High quality: AAA – BBB- (Standard & Poor's); Aaa – Baa3 (Moody's Investors Service); AAA – BBB- (Fitch);

Average quality: BB+ - BB- (Standard & Poor's); Ba1 - Ba3 (Moody's Investors Service);

Low quality: B+ - B- (Standard & Poor's); B1 - B3 (Moody's Investors Service); B+ - B- (Fitch), and lower ratings.

**NOTE 16 INFORMATION ON HOLDERS OF INVESTMENT CERTIFICATES**

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

	31/12/2008	31/12/2007	% of total certificates as at 31/12/2008 (%)
Investment certificates held by related parties	59,610	58,610	19.1%
Investment certificates held by other persons	253,074	569,047	80.9%
<b>Investment certificates issued as at the year end</b>	<b>312,684</b>	<b>627,657</b>	<b>100.0%</b>

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**NOTE 17 RELATED PARTY DISCLOSURES**

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

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

During the reporting year, related parties acquired 1,000 (58,610) investment certificates and sold 0 (0) investment certificates.

**NOTE 18 PLEDGED ASSETS**

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

**NOTE 19 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**





The management of the Company believes that the carrying amounts of financial assets and liabilities approximate to their fair values. The Company assumes that the fair value of liquid financial assets and financial liabilities or financial assets and financial liabilities having short maturities (less than three months) approximates to their carrying amount. The fair value of financial instruments that have no official price quotations on an active market is determined on the basis of the market inputs, by questioning market participants.

	<u>31/12/2008</u>	<u>31/12/2007</u>
	Market observable inputs	Market observable inputs
	LVL	LVL
<b>FINANCIAL ASSETS</b>		
Demand deposits with credit institutions	98,525	30,659
Financial assets at fair value through profit or loss	1,556,561	4,379,713
<b>TOTAL FINANCIAL ASSETS</b>	<u>1,655,086</u>	<u>4,410,372</u>

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**NOTE 20                      PERFORMANCE OF INVESTMENTS**

The following table demonstrates the performance of Fund's investments as at 31 December 2008:

	<u>31/12/2008</u>	<u>31/12/2007</u>
<b>Net assets (LVL)</b>	<b>1,659,251</b>	<b>4,411,978</b>
Number of investment certificates	312,684	627,657
Value of investment fund's shares (LVL)	5.306	7.029
<b>Performance on investment fund's shares *</b>	 <b>-24.40%</b> 	<b>0.0%</b>
 <b>Net assets (EUR)</b>	 <b>2,360,901</b>	 <b>6,277,680</b>
Number of investment certificates	312,684	627,657
Value of investment fund's shares (EUR)	7.550	10.002
<b>Performance on investment fund's shares *</b>	 <b>-24.40%</b> 	<b>0.0%</b>
*Performance for the year 2007 is calculated starting from the date when the first Fund's investment certificates were issued, i.e. 11 July 2007.		

## INDEPENDENT AUDITORS' REPORT

To the shareholders of IBAS "AB.LV Emerging Markets EUR Bond Fund"

### Report on the Financial Statements

We have audited 2008 financial statements of IBAS "AB.LV Emerging Markets EUR Bond Fund" (the "Fund"), which are set out on pages 8 through 28 of the accompanying 2008 Annual Report and which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

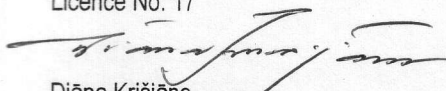
#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of IBAS "AB.LV Emerging Markets EUR Bond Fund" as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on pages 4 through 5 of the accompanying 2008 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

SIA Ernst & Young Baltic  
Licence No. 17

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

Rīga, 30 March 2009