

**OPEN-END INVESTMENT FUND
“CITADELE STRATEGIC ALLOCATION FUNDS”**

**Sub-fund
“Citadele Universal Strategy Fund - EUR”
(4th financial year)**

**ANNUAL REPORT
FOR THE YEAR 2011**

**FCMC REGULATIONS “ON ANNUAL ACCOUNTS
OF INVESTMENT FUNDS” AND
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED IN THE EUROPEAN UNION**

Translation from Latvian original*

*This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Riga, 2012

AIF “Citadele Universal Strategy Fund - EUR”
Annual report for year 2011
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AIF "Citadele Universal Strategy Fund - EUR"
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Information on the investment fund

| | |
|--|---|
| Name of the fund: | "Citadele Strategic Allocation Funds" ("Parex Strategic Allocation Funds" – until 01.08.2010.) |
| Type of fund: | Open- end investment fund with sub-funds |
| Name of the sub-fund: | Citadele Universal Strategy Fund – EUR ("Parex Universal Strategy Fund - EUR" – until 01.08.2010.) |
| Registration date of the fund: | 24 August 2007 |
| Number of the fund: | 06.03.05.098/36 |
| Name of the investment management company: | "Citadele Asset Management" IPAS ("Parex Asset Management" IPAS – until 01.08.2010.) |
| Registered office of the investment management company: | Republikas laukums 2a, Riga LV-1010, Latvia |
| Registration number of the investment management company: | 40003577500 |
| Licence number of the investment management company: | 06.03.07.098/285 |
| Name of the custodian bank: | "Citadele banka" JSC ("Parex banka" JSC – until 01.08.2010.) |
| Registered office of the custodian bank: | Republikas laukums 2a, Riga LV-1010, Latvia |
| Registration number of the custodian bank: | 40103303559 |
| Names and positions of Council and Board Members of the investment management company: | <i>Council of the investment management company:</i> Chairman of the Council – Juris Jākobsons – appointed on 30.09.2010. Deputy Chairman of the Council – Philip Nigel Allard – appointed on 03.11.2010. Council Member – Anatolijs Fridmans – appointed on 01.04.2009. Council Member - James R.Breiding – resigned on 26.09.2011. <i>Board of the investment management company:</i> Chairman of the Board - Vladimirs Ivanovs - appointed on 20.10.2010. Board Member – Zigurds Vaikulis – appointed on 30.03.2007. Board Member - Raimonds Vesers - appointed on 01.01.2011. |
| The related rights and obligations of the management of the Fund | All the duties of the Council and Board members stated in the legislation of the Republic of Latvia and Statutes of the investment management company are performed by the Council and Board members. |
| Names of Fund Managers (investment committee members) | Zigurds Vaikulis – appointed on 26.01.2011. Andris Kotāns – appointed on 29.06.2011. Harijs Beķeris - resigned on 29.06.2011. Edgars Makarovs – resigned on 26.01.2011. |
| The related rights and obligations of the management of the Fund | All the duties of the Fund managers stated in the legislation of the Republic of Latvia, Statutes of the investment management company and Fund Prospectus are performed by the Fund managers. |

AIF "Citadele Universal Strategy Fund - EUR"
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Information on the investment fund

Auditor:

PricewaterhouseCoopers SIA
Certified audit company, licence No. 5
Kr. Valdemāra street 19
LV-1010, Riga

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

AIF "Citadele Universal Strategy Fund - EUR"
Annual report for year 2011
Statement of responsibility of the Board of the investment company

The assets of the sub-fund "Citadele Universal Strategy Fund – EUR" (hereinafter – the Fund) of the open-end investment fund "Citadele Strategic Allocation Funds" are managed by the asset management company "Citadele Asset Management" having its registered office at Republikas laukums 2a, Rīga, LV-1010 (hereinafter – the Company). The Company was founded on 11 January 2002 with a registration number 40003577500. The Company holds a licence No. 06.03.07.098/285 authorising it to provide asset management services. The licence was last re-registered on 5 August 2010.

The Fund aims to achieve long-term capital appreciation by investing in investment fund certificates (shares) and similar securities that are registered in Latvia and other EU and OECD member states. Equity funds may account for as much as 40% of the Fund's assets.

During the reporting period the Fund's net asset value decreased by 4,136 LVL or 3.83%, and amounted to 112,154 LVL at the end of the year. During the year the value of a share declined by 0.67 LVL down to 7.09 LVL. The performance yielded was -8.63% in lats and -8.44% in the functional currency, euro.

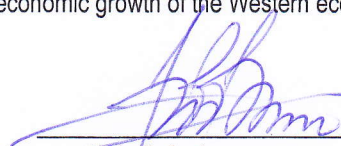
2011 proved impetuous for the world's economy and financial markets. At the outset of the year certain force majeure events such as the earthquake and tsunami in Japan and unrest in the Middle East caused moments of anxiousness. Moderate rise in the prices of risk assets lasted through to mid-year when it was stopped by the escalation of national debt problems. In August the international credit-rating agency Standard & Poor's decided to downgrade the USA's top-notch sovereign rating. The agency's decision was based on its doubts about the ability of the American policymakers to develop an effective long-term public finance balancing and national debt stabilisation plan. The other component of the debt crisis emerged in the Eurozone where speculations on the Greek bankruptcy were reignited with a new vigour which gradually caused concerns about the solvency of the governments of Spain and Italy and ultimately the future of the Eurozone. Investors responded with a mass reduction of risk in the portfolios to such serious risks which resulted in an extensive drop in the prices of risk assets. It is no exaggeration to say that in the fall of 2011 the global financial markets were living in the expectation of downfall similar to the one experienced in 2008. Fortunately, things did not get that far thanks to the interference of central banks once again. Owing to, directly or indirectly, the measures taken by the European Central Bank, the macro situation in the Western economies has improved, risk premiums have taken a downturn trend in interbank markets, both in the Eurozone economies plagued by problems and in the developing markets, while the risk assets are recovering from the losses due to the adjustments made.

In 2011, virtually all stock markets worked with losses. The MSCI World index dropped by 7.62% during the year, while the MSCI Emerging Markets index dropped by 20.41%. Conversely, benchmark bonds demonstrated strong performance last year. EFFAS, the German government's debt securities (denominated in euros) index comprising bonds with maturity of 7 up to 10 years grew by 12.79% over the year, while in the USA the respective index increased by 15.24%.

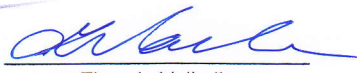
The Fund's investments are diversified among investment funds of different risk levels. During the reporting period the Fund manager has considerably reduced the share of bond funds in the Fund portfolio. The respective share was reduced by 21.02 percentage points to 49.49% of the Fund's net assets. At the end of the year, equity funds and balanced funds accounted for 15.17% and 6.33% of the Fund's net asset value, respectively. In the light of the national debt problems in the Eurozone an open currency position in the US dollars has been set up. At year end the investments in the US dollars accounted for 5.18% of the Fund's net assets. During the reporting period the share of cash resources has been in aggregate increased to 29.12% of the Fund's net assets. Compared to the end of 2010 Fund assets have not been placed in term deposits. All existing investment funds in the Fund are registered in the EU. The funds registered in Luxembourg account a major part - totalling 31.2%. The structure also includes investment funds that are registered in Ireland, Austria and Latvia.

During the reporting period fund management fee of 2,709 EUR was paid from the Fund's resources representing 1.72% of the average net asset value and being within the limit of 3% set forth in the Prospectus.

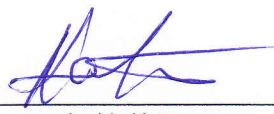
Regrettably, the global economic and financial market environment has become very distressed and volatile, and the trend is likely to continue in the near future. On these grounds the Fund manager will pursue prudent investment policy in the near future. It is most likely that the central banks, under the premise of "a general benefit", will neglect their independence in the future, too, and will continue to prop up public finances as well as the private sector. There are concerns, however, that the economic growth of the Western economies will be "lean" and uneven for several years to come.



Vladimirs Ivanovs
Chairman of the Board



Zigurds Vaikulis
Member of the Investment Committee



Andris Kotāns
Member of the Investment Committee

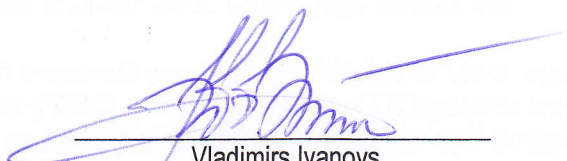
AIF "Citadele Universal Strategy Fund - EUR"
Annual report for year 2011
Statement of responsibility of the Board of the investment company

The Board of the investment management company (hereinafter - the Company) is responsible for the preparation of the financial statements of the investment fund Citadele Universal Strategy Fund - EUR (hereinafter -the Fund).

The financial statements set out on pages 9 to 23 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2011 and 31 December 2010 and the results of its operations for the respective periods then ended.

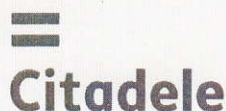
The financial statements are prepared in accordance with the International Financial Reporting Standards as adopted in the European Union on a going concern basis, as provided by the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Accounts of Investment Funds. Appropriate 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 is responsible for the maintenance of proper accounting records, the safeguarding of the assets of Citadele Universal Strategy Fund - EUR 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, regulations of the Financial and Capital Market Commission, and other laws and regulations of the Republic of Latvia.



Vladimirs Ivanovs
Chairman of the Board

Riga,
27 April 2012



CUSTODIAN BANK REPORT

For holders of
OIF "Citadele Strategic Allocation Funds"
„Citadele Universal Strategy Fund – EUR”
Investment fund applications

Nr. 2.2.4.-01/02

With this Citadele Bank JSC, which is registered in LR Enterprise register on June 30, 2010 with No. 40103303559 and located at 2a Republikas square, Riga, certifies, that:

According to the law "On investment companies" of Republic of Latvia, regulations of Financial and Capital Market Commission (FCMC), other requirements of LR legislation and contract with Custodian bank, which is concluded on the August 6, 2007., Citadele Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for OIF "Citadele Strategic Allocation Funds" (further in the text – Fund) founded by IPAS "Citadele Asset Management";

Custodian is responsible for fulfilling of Custodian bank contract and requirements of LR legislation related to custodian banks. The main obligations of the Custodian are the following:

- to store assets of the Fund, as well as documents, which confirm title according to the requirements of LR legislation;
- to ensure maintenance of the Fund account, reception and execution of Company's orders, as well as performance of transactions according with requirements of LR legislation and current market practice;
- to ensure the Company with regular reports on assets of the Fund and its value (prices of the securities);
- to follow the correctness of the value of the Fund and its certificates set by the Company and its conformity with LR legislation acts;
- to follow the correctness and legal status of issuing, sales and repurchasing of investment certificates performed by the Company;

Issuing, sales and repurchasing of the investment certificates is performed according to the requirements of the law "On investment companies", fund prospect and Fund management regulations;

Storage of the Fund assets is performed according to the requirements of the law "On investment companies" and Custodian bank contract;

Calculation of the net value of the Fund assets is performed according to the requirements of the law "On investment companies", regulations of Financial and Capital Market Commission (FCMC), Fund prospect and Fund management regulations;

Orders of the Company, as well as transactions with the assets of OIF "Citadele Strategic Allocation Funds" „Citadele Universal Strategy Fund – EUR” are performed according to the requirements of the law “On investment companies”, Fund prospect and Fund management regulations and Custodian bank contract .

In the accounting period no mistakes and illegal matters were observed in performance of the Company with Fund assets. Citadele bank JSC is very satisfied with co-operation in performing of the functions of Custodian bank.



Juris Jākobsons
Chairman of the Board, p.p.

Riga, February 15, 2012

AIF "Citadele Universal Strategy Fund - EUR"
Annual report 2011
Statement of financial position
(Ls)

| Notes | | <u>31.12.2011.</u> | <u>31.12.2010.</u> |
|-------|---|-----------------------|-----------------------|
| | Assets | | |
| 3 | Demand deposits with credit institutions | 32,659 | 2,972 |
| 3 | Deposits with credit institutions | - | 4,257 |
| 4 | Financial assets held for trading Investment certificates of investment funds and similar securities | 79,616 | 100,922 |
| | Total assets | <u>112,275</u> | <u>108,151</u> |
| | Liabilities | | |
| 5 | Accrued expenses | (121) | (133) |
| | Total liabilities | <u>(121)</u> | <u>(133)</u> |
| | Net assets | <u>112,154</u> | <u>108,018</u> |



Vladimirs Ivanovs
Chairman of the Board

Riga,
27 April 2012

The accompanying notes form an integral part of these financial statements.

AIF "Citadele Universal Strategy Fund - EUR"
Annual report 2011
Comprehensive income statement
(Ls)

| Notes | | 2011 | 2010 |
|-------|--|----------------|----------------|
| | Income | | |
| 6 | Interest income | 261 | 515 |
| | Dividends income | 100 | - |
| | Total income | 361 | 515 |
| | Expenses | | |
| | Remuneration to investment management company | (1,108) | (1,013) |
| | Remuneration to custodian bank | (194) | (177) |
| | Other fund management expenses | (589) | (518) |
| | Total expenses | (1,891) | (1,708) |
| | (Decrease) / Increase in investment value | | |
| 7 | Realised (decrease) / increase in investment value | (4,310) | 2,019 |
| 8 | Unrealised (decrease) / increase in investment value | (2,982) | 5,207 |
| | Total (decrease) / increase in investment value | (7,292) | 7,226 |
| | Foreign currency revaluation (loss) / gain | (1,063) | 2,160 |
| | Total comprehensive (expense) / income | (9,885) | 8,193 |


 Vladimirs Ivanovs
 Chairman of the Board

Riga,
27 April 2012

The accompanying notes form an integral part of these financial statements.

AIF “Citadele Universal Strategy Fund - EUR”
Annual report 2011
Statement of changes in net assets
(Ls)

| | 2011 | 2010 |
|---|----------------|----------------|
| Net assets as at the beginning of the period | 108,018 | 90,409 |
| Total comprehensive (expense) / income | (9,885) | 8,193 |
| Transactions with investment certificates: | | |
| <i>Inflow from sale of investment certificates</i> | 20,522 | 14,392 |
| <i>Outflow on redemption of investment certificates</i> | (6,501) | (4,976) |
| Increase in net assets from transactions with investment certificates | 14,021 | 9,416 |
| Increase in net assets for the period | 4,136 | 17,609 |
| Net assets as at the end of the period | 112,154 | 108,018 |
| Issued investment certificates as at the beginning of the period | 13,922 | 12,659 |
| Issued investment certificates as at the end of the period | 15,813 | 13,922 |
| Net asset value per investment certificate as at the beginning of the period | 7.76 | 7.14 |
| Net asset value per investment certificate as at the end of the period | 7.09 | 7.76 |

The accompanying notes form an integral part of these financial statements.

AIF “Citadele Universal Strategy Fund - EUR”
Annual report 2011
Statement of cash flows
(Ls)

| | 2011 | 2010 |
|--|---------------|-----------------|
| Interest income | 302 | 500 |
| Dividend income | 100 | - |
| Investment management expenses | (1,903) | (1,674) |
| Acquisition of financial assets | (128,444) | (81,278) |
| Disposal of financial assets | 145,189 | 64,803 |
| Foreign currency conversion result | 18 | (36) |
| Increase / (decrease) in cash from operating activities | 15,262 | (17,685) |
| Inflow from sale of investment certificates | 20,522 | 14,392 |
| Outflow on redemption of investment certificates | (6,501) | (4,976) |
| Increase in cash from financing activities | 14,021 | 9,416 |
| Increase / (decrease) in cash | 29,283 | (8,269) |
| Cash as at the beginning of the period | 2,972 | 11,249 |
| Result of revaluation of cash denominated in foreign currencies | 404 | (8) |
| Cash as at the end of the period | 32,659 | 2,972 |

The accompanying notes form an integral part of these financial statements.

AIF "Citadele Universal Strategy Fund - EUR"
Annual report 2011
Notes

1. General information

| | |
|--|---|
| Name of the fund: | "Citadele Strategic Allocation Funds" |
| Type of the fund: | Open-end investment fund with sub-funds |
| Fund's business activity: | Investments mainly in investment certificates (shares) of open-end investment funds registered in Latvia, other EU Member States and the OECD Member countries and similar securities. |
| Name of the sub-fund: | Citadele Universal Strategy Fund - EUR |
| Sub-fund's business activity: | Under normal market conditions, up to 40% of the Sub-fund's assets may be invested, directly or indirectly, in equity or similar securities, while other assets - mainly in debt securities and money market instruments. |
| Name of the investment management company: | "Citadele Asset Management" IPAS Republikas laukums 2a, Riga LV-1010, Latvia |

2. Summary of significant accounting policies

Basis of preparation

The financial statements of AIF "Citadele Universal Strategy Fund - EUR" have been prepared in accordance with the International Financial Reporting Standards as adopted in the European Union as provided by the Regulations of the Financial and Capital Market Commission (hereinafter - FCMC) laws "On Annual Accounts of Investment Funds".

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

The monetary unit used in the financial statements is lats (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2011 to 31 December 2011.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires investment management company's management to make assumptions and exercise its judgement in the process of applying the Fund's accounting policies. IFRS requires that in preparing the financial statements, the management makes estimates and assumptions that affect the reported amounts of assets and liabilities and required disclosure at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Income and expense recognition

Interest income and expense items are recognised on an accruals basis.

Interest income and expense are recognized in the statement of comprehensive income by taking into account the effective interest rate of assets/liabilities. Interest income and expense include amortization of discount or premium or other differences between the accounting amount of an initial interest bearing instrument and its amount at the moment of redemption, calculated by the effective interest rate method.

Dividend income is recognised at the moment of receipt. In some situations dividend income can be recognized when share price decreases after the issuer's announcement on payment of dividends.

Remuneration to investment management company of the Fund and the custodian bank is calculated at a fixed rate of the Fund's assets and is accrued daily, but paid out once a month.

AIF "Citadele Universal Strategy Fund - EUR"
Annual report 2011
Notes

2. Summary of significant accounting policies (continued)

Foreign currency translation

The Fund's functional currency is 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, which is the Fund's presentation currency.

Transactions denominated in foreign currencies are recorded in Latvian lats (LVL) at the official exchange rate established by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats (LVL) at the official exchange rate established by the Bank of Latvia at the last day of the reporting period. Any gain or loss resulting from a change in exchange rates is included in the statement of comprehensive income as gain or loss from the revaluation of foreign currency positions.

The exchange rates established by the Bank of Latvia (LVL to 1 foreign currency unit) and mainly applied when preparing the statement of financial position of the Fund can be specified as follows:

| <u>Currency</u> | <u>31.12.2011.</u> | <u>31.12.2010.</u> |
|-----------------|--------------------|--------------------|
| USD | 0.544 | 0.535 |

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for the Latvian lat against the euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the Fund's future profit or loss due to fluctuations of the euro exchange rate will not be material as long as the Bank of Latvia maintains the above mentioned fixed rate.

Cash and cash equivalents

Cash and cash equivalents include the Fund's balances of current accounts with banks and other short- term highly liquid investments with original maturities up to 90 days.

Term deposits

Term deposits are accounted for at amortised cost, which is determined on the basis of the amount of deposited funds plus capitalised and accrued interest income. Interest income from term deposits is recognised on an accrual basis, i.e. according to the time period from the moment of depositing till the end of the reporting period.

Financial instruments

Financial instruments are classified in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose of financial asset acquisition. The management determines classification of financial assets at their original recognition.

Financial assets at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial assets held for trading. All financial assets at fair value through profit and loss, belonging to the Fund, are classified as financial assets held for trading.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans and receivables include deposits with credit institutions. Deposits with credit institutions are carried at amortised cost, using effective interest rate less provisions for impairment, if applicable.

Impairment provisions are created when there is an objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for impairment is the difference between the amortised cost and the recoverable amount.

Investments in securities

All investments in securities are classified as held-for-trading securities.

Held-for-trading securities are recognised at fair value based on available market prices. The result of re-measuring held-for-trading securities at fair value is included in the statement of comprehensive income as increase/ (decrease) in investment value.

**AIF “Citadele Universal Strategy Fund - EUR”
Annual report 2011
Notes**

2. Summary of significant accounting policies (continued)

Securities are revaluated on the basis of Bloomberg's and NASDAQ OMX Riga available financial information on the bid prices of respective securities. Securities purchase and sale transactions are recognised on the date of settlements. The cost of securities sold is defined using FIFO (first in, first out) basis.

Fair values of financial assets and liabilities

The 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.

Taxes

The Fund's income is subject to income tax 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.

On 1 December 2009 Saeima has approved changes to the law “On personal income tax”, stating that starting with 1 January 2010 capital gains are subject to 15% tax charge. For investment funds capital gain is a difference between selling price and purchase price of investment certificates. In accordance with transition norms of the law “On personal income tax”, in order to calculate income from sale of investment certificates purchased before endorsement of the law (before 01.01.2010) one has to apportion difference between selling and purchase value to the number of months investment held and multiply this by number of months investment held from 01.01.2010 until the settlement date. Changes in the law are applicable only to private persons being residents of the Republic of Latvia.

New accounting standards and interpretations

The following new and amended IFRS and interpretations became effective in 2011, but are not relevant for the Fund's operations and do not have an impact on these financial statements:

Amendment to IAS 24, Related Party Disclosures.
Amendment to IAS 32 - Classification of Rights Issues
Amendment to IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first-time adopters
Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement
IFRIC 19, Extinguishing financial liabilities with equity instruments
Annual Improvements to IFRS.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2011 or later periods and which are not relevant to the Fund or are not yet endorsed by the EU:

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011),
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).
Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).
Employee benefits – Amendment to IAS 19 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).
Financial statement presentation` regarding other comprehensive income – Amendment to IAS 1 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).
IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).
IFRS 10, Consolidated financial statements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
IFRS 11, Joint arrangements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
IFRS 12, `Disclosures of interests in other entities` (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
IFRS 13, `Fair value measurement` (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

AIF "Citadele Universal Strategy Fund - EUR"
Annual report 2011
Notes

2. Summary of significant accounting policies (continued)

'Separate financial statements' - IAS 27 (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

'Associates and joint ventures' - IAS 28 (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

IFRIC 20, 'Stripping costs in the production phase of a surface mine', (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU)

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 1, (effective for annual periods beginning on or after 1 January 2014; not yet endorsed by the EU).

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

3. Demand deposits with credit institutions

| | 31.12.2011. | 31.12.2010. | % of total Fund's net assets as at 31.12.2011. |
|---|---------------|--------------|--|
| Demand deposits with credit institutions – JSC Citadele banka | 32,659 | 2,972 | 29.12% |
| Total demand deposits with credit institutions | 32,659 | 2,972 | 29.12% |

The Fund receives interest on demand deposits at fixed interest rates.

The table below presents term deposits with credit institutions by the partners of transactions.

| | 31.12.2011. | 31.12.2010. | % of total Fund's net assets as at 31.12.2011. | |
|---|-----------------|-----------------------|--|----------|
| | Carrying amount | Incl. interest income | Carrying amount | |
| Term deposits with credit institutions in Latvia | - | - | 4,257 | - |
| JSC "Citadele Banka" | - | - | 4,257 | - |
| Total term deposits with credit institutions | - | - | 4,257 | - |

As at 31 December 2011 the Fund had no term deposits. As at 31 December 2010 average interest rate was 5.90%.

4. Investment certificates of investment funds and similar securities

| | 31.12.2011. | 31.12.2010. | % of total Fund's net assets as at 31.12.2011. |
|---|---------------|----------------|--|
| Investment certificates of investment funds | 79,616 | 100,922 | 70.99% |
| OECD region investment funds | 72,517 | 71,493 | 64.66% |
| Latvian investment funds | 7,099 | 19,806 | 6.33% |
| Other non-OECD region investment funds | - | 9,623 | 0.00% |
| Total investment certificates of investment funds and similar securities | 79,616 | 100,922 | 70.99% |

All investment certificates of investment funds and similar securities are classified as held-for-trading securities.

All the Fund's investment certificates of investment funds and similar securities are traded on regulated markets, except for the securities with book value of LVL 44,290 (31 December 2010 – LVL 9,544)

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4. Investment certificates of investment funds and similar securities (continued)

The table below presents investment certificates of investment funds and similar securities by the issuer's country of residence:

| Financial instrument | ISIN code | Investment currency | Amount | Acquisition value | Carrying amount as at 31.12.2011. | % of total Fund's net assets as at 31.12.2011. |
|---|--------------|------------------------|--------|----------------------|--|---|
| <u>Financial instruments traded on regulated markets</u> | | | | <u>35,731</u> | <u>35,326</u> | <u>31.50%</u> |
| Investment certificates of Luxembourg investment funds | | | | 18,419 | 17,960 | 16.02% |
| BLUEBAY INVESTMENT GRADE BOND FUND | LU0217402501 | EUR | 100 | 9,275 | 9,373 | 8.36% |
| BLUEBAY HIGH YIELD BOND FUND | LU0206510082 | EUR | 76 | 9,144 | 8,587 | 7.66% |
| Investment certificates of Irish investment funds | | | | 10,303 | 10,267 | 9.15% |
| PIMCO TOTAL RETURN BOND FUND | IE00B11XZB05 | EUR | 823 | 10,303 | 10,267 | 9.15% |
| Investment certificates of Latvian investment funds | | | | 7,009 | 7,099 | 6.33% |
| CITADELE EASTERN EUROPEAN BOND FUND - EUR | LV0000400174 | EUR | 724 | 7,009 | 7,099 | 6.33% |
| <u>Financial instruments not traded on regulated markets</u> | | | | <u>45,656</u> | <u>44,290</u> | <u>39.49%</u> |
| Investment certificates of Luxembourg investment funds | | | | 18,663 | 17,019 | 15.18% |
| MORGAN STANLEY GLOBAL BRANDS FUND | LU0335216932 | EUR | 298 | 9,186 | 8,736 | 7.79% |
| VONTOBEL EMERGING MARKETS EQUITY FUND | LU0218912235 | EUR | 37 | 4,763 | 4,302 | 3.84% |
| BLACKROCK WORLD GOLD FUND | LU0326422689 | EUR | 600 | 4,714 | 3,981 | 3.55% |
| Investment certificates of Austrian investment funds | | | | 16,732 | 16,965 | 15.13% |
| PIONEER EURO CORPORATE BOND FUND | AT0000811252 | EUR | 125 | 10,089 | 10,212 | 9.11% |
| ESPA BOND MORTGAGE FUND | AT0000658984 | EUR | 60 | 6,643 | 6,753 | 6.02% |
| Investment certificates of Irish investment funds | | | | 10,261 | 10,306 | 9.18% |
| PIMCO GLOBAL INVESTMENT GRADE CREDIT FUND | IE00B11XZ434 | EUR | 1,086 | 10,261 | 10,306 | 9.18% |
| Total investment certificates of investment funds | | | | 81,387 | 79,616 | 70.99% |

Due to the fact that the Company does not possess enough detailed specification about assets of these investment funds, which are managed on behalf of the investors by the financial institutions, such assets are not analysed by their ultimate issuer.

In 2011 the amount of fee withheld from funds in which investments are made is 0.00%.

The below table presents the Fund's securities portfolio breakdown by investment objects:

| | Carrying amount as at 31.12.2011. | Carrying amount as at 31.12.2010. | % of total Fund's net assets as at 31.12.2011. |
|----------------|--------------------------------------|--------------------------------------|--|
| Equity funds | 55,498 | 76,171 | 49.49% |
| Bond funds | 17,019 | 14,602 | 15.17% |
| Balanced funds | 7,099 | 10,149 | 6.33% |
| | 79,616 | 100,922 | 70.99% |

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5. Accrued expenses

| | 31.12.2011. | 31.12.2010. |
|--|--------------|--------------|
| Accrued commission fees payable to investment management company | (93) | (88) |
| Accrued commission fees payable to custodian bank | (16) | (15) |
| Accrued fees payable for professional services | (12) | (30) |
| Total accrued expenses | (121) | (133) |

6. Interest income

| | 2011 | 2010 |
|---|------------|------------|
| Interest income from demand deposits with credit institutions | 236 | 292 |
| Interest income from deposits with credit institutions | 25 | 223 |
| Total interest income | 261 | 515 |

7. Realised (decrease) / increase in investment value

| | 2011 | 2010 |
|--|----------------|--------------|
| Income from sale of investments | 140,144 | 57,509 |
| Acquisition value of investments sold | (136,071) | (53,655) |
| (Increase) in value of investments sold, recognised in the prior reporting years | (8,383) | (1,835) |
| Total realised (decrease) / increase in investment value | (4,310) | 2,019 |

8. Unrealised (decrease) / increase in investment value

| | 2011 | 2010 |
|---|----------------|--------------|
| From investment certificates of investment funds and similar securities | (2,982) | 5,207 |
| Total unrealised (decrease) / increase in investment value | (2,982) | 5,207 |

9. Change in investments during the reporting period

| | 31.12.2010. | Increase during the reporting period | Decrease during the reporting period | Foreign currency revaluation result | Fair value revaluation result | 31.12.2011. |
|--|----------------|---|---|--|-------------------------------------|---------------|
| Deposits with credit institutions | 4,257 | - | (4,257) | - | - | - |
| Financial assets held for trading | | | | | | |
| Investment certificates of investment funds and similar securities | 100,922 | 128,444 | (140,973) | (1,485) | (7,292) | 79,616 |
| Total investments | 105,179 | 128,444 | (145,230) | (1,485) | (7,292) | 79,616 |

10. Pledged assets

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

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11. Fair values of financial assets and liabilities

Management of the investment management company believes that the carrying amounts of financial assets and liabilities approximate to their fair values. The fair value is determined according to the market quotation method, based on available quotes of stock exchanges and brokers.

12. Risk management

Risks are inherent in the investment process. The risk management process includes risk identification, risk measurement and directly risk management. The Fund is exposed to market risk (i.e. currency risk, interest rate risk and price risk), credit risk, liquidity risk and other risks (including operational risk). The investment strategy of the Fund is aimed at minimising the above mentioned risks, however, the Fund cannot guarantee that these risks can be completely avoided in the future.

Risk management structure

Risk identification and measurement are the responsibility of an independent unit – the Risk Management Division which prepares and presents information about risks to the Fund Manager who decides specifically whether it would be necessary to minimise risks. The risk measurement process employs several models based on historical data and adjusted to consider for the current economic situation. Specific models are used to forecast changes in risk factors in ordinary and extraordinary market situations.

To mitigate the investment risks, the Fund Manager follows the risk diversification and hedging principles. The Fund Manager acquires sufficient information on potential or current investment objects, as well as supervises the financial and economic position of issuers of the securities in which the Fund's property has been or is to be invested.

The Company, when developing the Fund's investment strategy and stating limits, performs an analysis of the Fund's investments by maturity, geographic and currency profile, as well as assesses the risks inherent to each of the above factors. The Fund Manager acts in strict compliance with the Fund Prospectus, Fund Management Regulations, as well as regulations and restrictions imposed by legislation of the Republic of Latvia.

Market risk

Market risk is a risk that the Fund's value will reduce as a result of changes in any of the following market factors: securities prices, exchange rates, interest rates, etc. Evaluated below are the sources of market risk, however they cannot be eliminated completely.

Interest rate risk

The price risk related to fixed income securities (bonds) is to a great extent dependent on fluctuations of market interest rates and changes in the issuer's credit quality. Market interest rate fluctuations affect the attractiveness of securities, as, in fact, it is an alternative source of interest income. With market interest rates growing, the prices of fixed income securities are decreasing, and vice versa. Meanwhile, the increase (decrease) in market interest rates produces a positive (negative) effect on coupon rates of fixed income securities bearing interest at floating rates (when the coupon is fixed as a base rate, like Euribor or Libor, plus a margin). After the revaluation (i.e. when a new interest rate is adopted), the coupon rate of such securities increases (decreases), which results in a respective increase (decrease) in interest income.

In selecting the funds, the Fund Manager considers duration as the key index, based on the forecasts made on the fixed income market development. It is impossible to define the accurate duration of the funds because information on duration components is not published simultaneously (the difference may be three months and more).

Equity price risk

Changes in equity prices depend on the following two groups of factors: changes in stock indices of respective country (for instance, in Latvia these are the changes in RIGSE) and the financial position of issuer (prospects of earnings profit), where the first factor is usually referred to as systematic risk and the second – as specific risk. Systematic risk is managed on the basis of forecasts of the overall economic development in specific geographic regions and industries. Specific risk management is performed by conducting a detailed analysis of the issuer's financial position and profitability, as well as other factors affecting the equity price, based on the published issuer's reports and mass media information.

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12. Risk management (continued)

Equity price deviations and correlations are also a matter of particular focus, making it possible to calculate the total price risk exposure for all shares in the portfolio only based on equity price history.

In selecting the funds, the Fund Manager chooses the most appropriate funds in line with the Fund's strategy, based on the forecasts made on the development of specific geographic regions and industries. It is impossible to calculate accurate the Fund sensitivity to changes in certain market indices; because the respective component information is not published simultaneously (the difference may be three months and more).

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2011, based on the country of incorporation:

| | Latvia | OECD region countries | Total |
|--|---------------|--------------------------|----------------|
| Assets | | | |
| Demand deposits with credit institutions | 32,659 | - | 32,659 |
| Financial assets held for trading | | | |
| Investment certificates of investment funds and similar securities | 7,099 | 72,517 | 79,616 |
| Total assets | 39,758 | 72,517 | 112,275 |
| Liabilities | | | |
| Accrued expense | (121) | - | (121) |
| Total liabilities | (121) | - | (121) |
| Net assets | 39,637 | 72,517 | 112,154 |

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2010, based on the country of incorporation:

| | Latvia | OECD region countries | Other non - OECD region countries | Total |
|--|---------------|-----------------------------|---|----------------|
| Assets | | | | |
| Demand deposits with credit institutions | 2,972 | - | - | 2,972 |
| Deposits with credit institutions | 4,257 | - | - | 4,257 |
| Financial assets held for trading | | | | |
| Investment certificates of investment funds and similar securities | 19,806 | 71,493 | 9,623 | 100,922 |
| Total assets | 27,035 | 71,493 | 9,623 | 108,151 |
| Liabilities | | | | |
| Accrued expense | (133) | - | - | (133) |
| Total liabilities | (133) | - | - | (133) |
| Net assets | 26,902 | 71,493 | 9,623 | 108,018 |

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12. Risk management (continued)

Currency risk

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2011, based on the Fund's functional currencies:

| | EUR | USD | Total |
|--|----------------|--------------|----------------|
| Assets | | | |
| Demand deposits with credit institutions | 26,851 | 5,808 | 32,659 |
| Financial assets held for trading | | | |
| Investment certificates of investment funds and similar securities | 79,616 | - | 79,616 |
| Total assets | 106,467 | 5,808 | 112,275 |
| Liabilities | | | |
| Accrued expense | (121) | - | (121) |
| Total liabilities | (121) | - | (121) |
| Net assets | 106,346 | 5,808 | 112,154 |
| <i>Net long position</i> | 94.82% | 5.18% | 100.00% |

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2010, based on the Fund's functional currencies:

| | EUR | USD | Total |
|--|---------------|---------------|----------------|
| Assets | | | |
| Demand deposits with credit institutions | 2,972 | - | 2,972 |
| Deposits with credit institutions | 4,257 | - | 4,257 |
| Financial assets held for trading | | | |
| Investment certificates of investment funds and similar securities | 77,874 | 23,048 | 100,922 |
| Total assets | 85,103 | 23,048 | 108,151 |
| Liabilities | | | |
| Accrued expense | (133) | - | (133) |
| Total liabilities | (133) | - | (133) |
| Net assets | 84,970 | 23,048 | 108,018 |
| <i>Net long position</i> | 78.66% | 21.34% | 100.00% |

The effect of changes in currency exchange rates on the Fund's value in 2011 is shown in the table below. Changes in currency exchange rates represent annualised standard deviation of the respective exchange rate.

| Currency | Share in Fund (% of net assets) | Change in currency rate against USD | Effect on the Fund's value |
|--------------|------------------------------------|--|----------------------------|
| EUR | 94.82% | 0.00% | 0.00% |
| USD | 5.18% | 11.92% | 0.62% |
| Total | 100.00% | | 0.62% |

The effect of changes in currency exchange rates on the Fund's value 2010 is shown in the table below:

| Currency | Share in Fund (% of net assets) | Change in currency rate against USD | Effect on the Fund's value |
|--------------|------------------------------------|--|----------------------------|
| EUR | 78.66% | 0.00% | 0.00% |
| USD | 21.34% | 11.98% | 2.56% |
| Total | 100.00% | | 2.56% |

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12. Risk management (continued)

Credit risk

Credit risk is a risk that the Fund's value will decrease from counterparty's or issuer's non-performance or default. Only safe and reliable counterparties are selected for transactions involving the Fund's assets. The Fund Manager monitors the solvency position of the counterparties on a regular basis, analyses their credit rating and financial position, as well as mass media information.

Credit quality of the Fund's assets is managed on the basis of the credit ratings granted by the international rating agencies Standard & Poor's, Moody's, and Fitch. In addition, a detailed analysis is performed on the issuer's financial statements, financial position and future prospects.

Liquidity risk

Liquidity risk is a risk that the Fund will have difficulties in meeting its financial obligations. The Fund Manager maintains such asset structure of the Fund which would ensure a possibility of selling securities in due time and with no significant losses. The maturity profile of the Fund's assets and liabilities is provided below. For liquidity assessment purposes, the balances of assets and liabilities are stated according to their remaining maturities.

The table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2011:

| | Within 1 month | 1-6 months | No maturity | Total |
|--|----------------|----------------|---------------|----------------|
| Assets | | | | |
| Demand deposits with credit institutions | 32,659 | - | - | 32,659 |
| Financial assets held for trading | | | | |
| Investment certificates of investment funds and similar securities | - | - | 79,616 | 79,616 |
| Total assets | 32,659 | - | 79,616 | 112,275 |
| Liabilities | | | | |
| Accrued liabilities | (109) | (12) | - | (121) |
| Total liabilities | (109) | (12) | - | (121) |
| Net assets | 32,550 | (12) | 79,616 | 112,154 |
| <i>Net position %</i> | <i>29.02%</i> | <i>(0.01%)</i> | <i>70.99%</i> | <i>100.00%</i> |

The table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2010:

| | Within 1 month | 1 – 3 months | No maturity | Total |
|--|----------------|--------------|----------------|----------------|
| Assets | | | | |
| Demand deposits with credit institutions | 2,972 | - | - | 2,972 |
| Deposits with credit institutions | - | 4,257 | - | 4,257 |
| Financial assets held for trading | | | | |
| Investment certificates of investment funds and similar securities | - | - | 100,922 | 100,922 |
| Total assets | 2,972 | 4,257 | 100,922 | 108,151 |
| Liabilities | | | | |
| Accrued expenses | (103) | (30) | - | (133) |
| Total liabilities | (103) | (30) | - | (133) |
| Net assets | 2,869 | 4,227 | 100,922 | 108,018 |
| <i>Net position %</i> | <i>2.66%</i> | <i>3.91%</i> | <i>93.43%</i> | <i>100.00%</i> |

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13. 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:

| | 31.12.2011. | 31.12.2010. | % of total amount as at 31.12.2011. |
|---|---------------|---------------|-------------------------------------|
| Investment certificates held by JSC Citadele banka | 8,005 | 8,005 | 50.62% |
| Investment certificates held by other persons | 7,808 | 5,917 | 49.38% |
| Investment certificates issued as at the end of the reporting year | 15,813 | 13,922 | 100.00% |

14. Related party disclosures

On 1 August 2010 the restructuring of the Fund's custodian bank JSC "Parex banka" was completed. As a result, a new bank JSC "Citadele banka" was created as well as so called resolution bank that continues to operate under Parex Banka name. After the bank's restructuring the custodian bank of the Fund became JSC "Citadele banka".

The majority of the Fund's investments are acquired with the mediation of the custodian bank JSC Citadele banka. JSC Citadele banka receives remuneration as the custodian bank, as disclosed in the statement of comprehensive income (see also Note 5). In addition, the Fund's cash resources are held in JSC Citadele banka (see also Note 3).

The remuneration paid to the investment management company during the reporting period is disclosed in the statement of comprehensive income (see also Note 5).

During the reporting period, the Fund had investments in the investment fund managed by a related investment management company in amount of LVL 7,099 (31 December 2010 – LVL 29,429).

During the reporting period and in 2010 related parties have not carried out any transactions with the Fund's investment certificates. The Fund's investment certificates purchase and sale back transactions are calculated taking into account only the investment certificates held by those related parties, who have been classified as the Fund's related parties both as of 31 December 2011 and 31 December 2010.

15. Dynamics of the Fund's performance

| | 31.12.2011. | 31.12.2010. | 31.12.2009. |
|---------------------------------|-------------|-------------|-------------|
| Fund's net assets (LVL) | 112,154 | 108,018 | 90,409 |
| Number of Fund's shares | 15,813 | 13,922 | 12,659 |
| Value of Fund's shares | 7.09 | 7.76 | 7.14 |
| Performance on Fund's shares** | (8.63%) | 8.68% | 11.39% |
| Fund's net assets (EUR)* | 159,555 | 153,383 | 128,704 |
| Number of Fund's shares | 15,813 | 13,922 | 12,659 |
| Value of Fund's shares | 10.09 | 11.02 | 10.17 |
| Performance on Fund's shares** | (8.44%) | 8.36% | 11.39% |

* The net asset value in EUR is determined, based on exchange rates fixed at financial markets at the end of each day.

** Performance is calculated supposing that a year consists of 365 days.



Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AIF Citadele Strategic Allocation Funds sub-fond Citadele Universal Strategy Fund - EUR

Report on the Financial Statements

We have audited the accompanying financial statements on pages 9 to 23 of AIF Citadele Strategic Allocation Funds sub-fond Citadele Universal Strategy Fund - EUR which comprise the statement of financial position as of 31 December 2011 and the statements of comprehensive income, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards 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.

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.

*PricewaterhouseCoopers SIA, Kr. Valdemara iela 19, Riga LV-1010, Latvia
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv*

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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 AIF Citadele Strategic Allocation Funds sub-fond Citadele Universal Strategy Fund - EUR as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on page 5 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2011.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A handwritten signature in blue ink, appearing to read "Ilandra Lejiņa".

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
27 April 2012

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.