

OPEN-END INVESTMENT FUND
"Citadele Eastern European Fixed Income Funds"

Sub-fund
"Citadele Eastern European Bond Fund - USD"

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012
(10th financial year)

PREPARED IN ACCORDANCE WITH
FCMC REGULATIONS "ON ANNUAL ACCOUNTS
OF INVESTMENT FUNDS" AND
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY 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, 2013

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012
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OIF "Citadele Eastern European Bond Fund - USD"
 Annual report for the year ended 31 December 2012
 Information on the investment fund

Name of fund:	Citadele Eastern European Fixed Income Funds ("Parex Eastern European Fixed Income Funds" – until 01.08.2010.)
Type of fund:	Open-end investment fund with sub-funds
Registration date of the fund:	20 July 2009
Number of the fund:	06.03.05.098/50
Name of the sub-fund:	Citadele Eastern European Bond Fund - USD ("Citadele Eastern European Bond Fund" – until 16.09.2011.) ("Parex Eastern European Bond Fund" – until 01.08.2010.)
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 Members and Board Members of the investment management company:	<p><i>Council of the investment management company:</i></p> <p>Chairman of the Council – Juris Jākobsons – appointed on 30.09.2010. Deputy Chairman of the Council – Vladimirs Ivanovs – appointed on 01.11.2012. Member of the Council - Philip Nigel Allard – appointed on 01.11.2012. Member of the Council – Valters Ābele – appointed on 31.01.2012. Deputy Chairman of the Council – Philip Nigel Allard – resigned on 01.11.2012. Member of the Council – Anatolijs Fridmans – resigned on 31.01.2012. Member of the Council – Valters Ābele – resigned on 01.11.2012.</p> <p><i>Board of the investment management company:</i></p> <p>Chairman of the Board – Uldis Upenieks – appointed on 01.11.2012. Member of the Board – Zigurds Vaikulis – appointed on 30.03.2007. Member of the Board – Sergejs Zaicevs – appointed on 25.01.2013. Chairman of the Board – Vladimirs Ivanovs – resigned on 01.11.2012. Member of the Board – Raimonds Vesers – resigned on 18.08.2012.</p>

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012
Information on the investment fund

The related rights and obligations of the management of the investment fund	All the duties of the Council and Board members stated in the legislation of the Republic of Latvia and the Statutes of the investment management company are performed by the Council and Board members.
Names of Fund managers (members of the investment committee)	Andris Kotāns – appointed on 27.10.2008. Edgars Lao – appointed on 16.09.2011.
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.
Auditor:	PricewaterhouseCoopers SIA Certified audit company licence No. 5 Kr. Valdemāra street 21-21 LV-1010, Riga Ilandra Lejiņa Certified auditor in charge Certificate No. 168

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012
Investment management company report

"Citadele Eastern European Bond Fund – USD" (hereinafter– the Fund) is a sub-fund of the open-end investment fund "Citadele Eastern European Fixed Income Funds". It is the debt securities investment fund and the functional currency of the Fund is the US dollar. The assets of the fund are managed by the asset management company "Citadele Asset Management" having its registered office at Republikas laukums 2a, Riga, LV-1010 (hereinafter - the Company) and registration number 40003577500. The Company holds a licence No. 06.03.07.098/285 authorising it to render investment management services. The licence was last re-registered on 5 August 2010.

The Fund aims to achieve long-term capital growth by investing principally in the debt securities issued or guaranteed by central and local governments, central banks, credit institutions and commercial companies of the Eastern European countries. The investment portfolio of the Fund is diversified to include investments in different currencies, industries and countries, thereby achieving a higher security of investments and providing protection against volatility of the Fund's asset value versus investments in single currency, industry or country securities. There were no changes to the Fund's policy during the reporting period.

During the reporting period the Fund's net asset value declined by 2.60% (0.88% in the US dollars) to 10,547,458 lats. The Fund's net asset value declined by 3.20% in lats (by 0.83% in the US dollars) and amounted to 10,462,502 lats (USD 19,706,966) at the end of the year. The decline in the net asset value was due to decrease in the managed assets that was partially compensated by the profit earned on investments. During the year the value of a Fund's share increased by 1.15 LVL (USD 2.59) up to 10.52 LVL (USD 19.82) at the end of the year. In 2012, the Fund's performance on investment Fund's shares was 12.24% in lats and 14.99% in the US dollars. During the period almost all positions of the Fund were profitable. From an industry perspective, the best of the Fund's performers were the securities of the financial, energy and government sector companies. The positive performance and contribution to the Fund's growth was provided by the largest countries of the investments – Russia, Ukraine and Kazakhstan. In 2012 the Fund has received several high international awards – the fund information and research company Lipper recognized the Fund as the best during the period of three years in the emerging Europe countries bond fund category and fund research company Morningstar awarded the Fund with the highest possible five-star overall rating.

During the reporting period the share of the investments in the markets of Russia and Ukraine was decreased by 6% and 5% respectively, however it was increased for the investments in Kazakhstan by 3%. As the result, the largest market of region – Russia – maintains the first position of the Fund's investments of 35.6% from net assets of the Fund, Kazakhstan is placed on second position with the share of 14.4% and Ukraine has dropped to the third position with 10.0% of the Fund's net assets. During the reporting period investments in the debt securities of Hungary, Belarus and international financial institutions were liquidated, however the geography of the investments was spread by the investments made in the debt securities of the government and credit institutions of Turkey, Romania and Slovenia. Regarding the industries of the investments – the major changes occurred for the securities of the commercial banks and raw materials. The reporting period has been successful for the banking sector of Russia, for example, the amount of loans issued has increased by 19% therefore the share of the investments in commercial banks was increased by 14.1% amounting to 42.3% from the Fund's net assets at the end of reporting period. However, as the result of slow recovery of the economics, the downturn of the prices for the metals was observed and therefore the share of the raw materials was reduced by 8.2% amounting to 8.9% from the Fund's net assets. At the end of 2012 the Fund's assets were diversified among 13 countries and 9 industries, the average yield-to-maturity on debt securities were 6.1% with an average duration of 2.6, the weighted average of the credit ratings was Ba3/BB-. The share of the cash and cash equivalents at the end of reporting period comprised 8.23% from the Fund's net assets.

During the reporting period fund management fee of 333,309 USD was paid from the Fund's resources which is 1.70% of the average net asset value and does not exceed the limit of 3% set forth in the Prospectus.

During the period between the last day of the reporting year and the date of approving of the report there have been no significant events that might have a material effect on the financial position of the Fund.

The team of managers at IPAS "Citadele Asset Management" closely monitors the developments both on the domestic and global scale, including sustainability of economic growth, monetary and fiscal policies of leading economies as well as potential inflationary and political risks in light of their material impact on the economic and capital market dynamics of the Eastern European region. A critical selection of instruments will continue to play a decisive role in the process of the Fund's investments, irrespective of the industry or country.



Uldis Upenieks
Chairman of the Board



Andris Kotāns
Member of the investment
committee



Edgars Lao
Member of the investment
committee

Riga, 26 April 2013

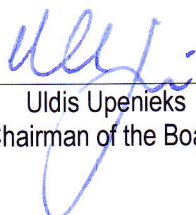
OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012
Statement of responsibility of the Board of the investment management company

The Board of the investment management company (hereinafter - the Company) is responsible for the preparation of the financial statements of the investment fund Citadele Eastern European Bond Fund - USD (hereinafter - the Fund).

The financial statements set out on pages 9 to 29 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2012 and 31 December 2011 and the results of its operations for the respective periods then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Accounts of Investment Funds, on a going concern basis. 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 Eastern European Bond Fund - USD 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



Uldis Upenieks
Chairman of the Board

Riga, 26 April 2013

CUSTODIAN BANK REPORT

For holders of
OIF "Citadele Eastern European Fixed Income Funds"
"Citadele Eastern European Bond fund - USD"
Investment fund applications

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 May 11, 2009., Citadele Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the OIF "Citadele Eastern European Fixed Income 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;

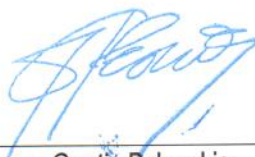
Issuing, sales and repurchasing of the investment certificates is performed according to the requirements of the law "On investment companies", fund prospect and Fund management regulations;

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 Eastern European Fixed Income Funds" 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.



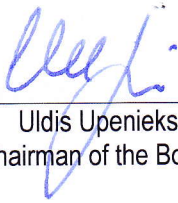
Guntis Beļavskis
Chairman of the Board, p.p.

Riga, February 25, 2013

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012
Statement of financial position
(LVL)

Note	31.12.2012.	31.12.2011.
Assets		
3	860,621	557,755
	Financial assets held for trading	
4	9,686,837	10,188,530
5	-	82,412
	10,547,458	10,828,697
Liabilities		
	Financial liabilities held for trading	
5	(70,210)	-
6	(14,746)	(16,417)
	-	(3,885)
	(84,956)	(20,302)
	10,462,502	10,808,395

The accompanying notes set out on pages 13 to 29 form an integral part of these financial statements.



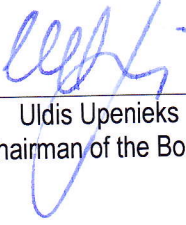
Uldis Upenieks
Chairman of the Board

Riga, 26 April 2013

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012
Statement of financial position
(LVL)

Note	2012	2011
Income		
7	739,946	750,994
	739,946	750,994
Expenses		
	(159,436)	(160,822)
	(18,601)	(18,763)
	(3,460)	(2,880)
	(181,497)	(182,465)
(Decrease) / increase in investment value		
8	439,214	22,041
9	430,726	(655,654)
	869,940	(633,613)
	(166,245)	208,728
	1, 262,144	143,644

The accompanying notes set out on pages 13 to 29 form an integral part of these financial statements.



Uldis Upenieks
Chairman of the Board

Riga, 26 April 2013

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012
Statement of changes in net assets
(LVL)

	2012	2011
Net assets as at the beginning of the period	10,808,395	10,544,761
Total comprehensive income	1,262,144	143,644
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	<i>884,577</i>	<i>2,189,401</i>
<i>Outflow on redemption of investment certificates</i>	<i>(2,492,614)</i>	<i>(2,069,411)</i>
(Decrease)/ increase in net assets from transactions with investment certificates	(1,608,037)	119,990
Increase in net assets for the reporting period	(345,893)	263,634
Net assets as at the end of the reporting period	10,462,502	10,808,395
Issued investment certificates as at the beginning of the reporting period	1,153,191	1,139,566
Issued investment certificates as at the end of the reporting period	994,097	1,153,191
Net asset value per investment certificate as at the beginning of the reporting period	9.37	9.25
Net asset value per investment certificate as at the end of the reporting period	10.52	9.37

OIF "Citadele Eastern European Bond Fund - USD"
 Annual report for the year ended 31 December 2012
 Statement of cash flows
 (LVL)

	<u>2012</u>	<u>2011</u>
Interest income	828,637	821,139
Investment management expenses	(183,590)	(182,495)
Acquisition of financial assets	(10,476,506)	(13,206,247)
Disposal of financial assets	11,658,043	11,843,318
Foreign currency conversion result	122,140	(26,594)
Increase/ (decrease) in cash from operating activities	<u>1,948,724</u>	<u>(750,879)</u>
Inflow from sale of investment certificates	880,692	2,193,286
Outflow on redemption of investment certificates	(2,492,614)	(2,069,411)
(Decrease)/ increase in cash from financing activities	<u>(1,611,922)</u>	<u>123,875</u>
Increase/ (decrease) in cash during the reporting period	<u>336,802</u>	<u>(627,004)</u>
Cash as at the beginning of the reporting period	557,755	1,198,457
Result of revaluation of cash denominated in foreign currencies	(33,936)	(13,698)
Cash as at the end of the reporting period	<u>860,621</u>	<u>557,755</u>

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012
Notes
(LVL)

1. General information

Name of the fund:	Citadele Eastern European Fixed Income Funds
Type of the fund:	Open-end investment fund with sub-funds
Fund's business activity:	Investments in debt securities issued or guaranteed by governments, municipalities, central banks and credit institutions of Eastern European countries, as well as debt securities of corporate entities, with the purpose to balance investment portfolio in terms of investments in different currencies and countries.
Name of the sub-fund:	Citadele Eastern European Bond Fund - USD
Sub-fund's business activity:	The functional currency of the Sub-fund is USA dollar (USD). Investments in equity securities are not provided by the Prospectus.
Name of the investment management company:	IPAS "Citadele Asset Management", Republikas laukums 2a, Riga, LV-1010, Latvia

2. Summary of significant accounting policies

Basis of preparation

The financial statements of OIF Citadele Eastern European Bond Fund - USD have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (hereinafter - FCMC) 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 held-for-trading financial instruments.

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 2012 to 31 December 2012.

Critical accounting estimates and judgements

The preparation of the 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.

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.

Foreign currency translation

The Fund's functional currency is the US dollars 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 presentation currency of the Fund.

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012

Notes
(LVL)

2. Summary of significant accounting policies (continued)

Transactions denominated in foreign currencies are translated 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 exchange rates fluctuations 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>31.12.2012.</u>	<u>31.12.2011.</u>
USD	0.5310	0.5440
RUB	0.0174	0.0170
UAH	0.0660	0.0677

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

Cash comprises Fund's demand deposits with credit institutions.

Financial instruments

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

Financial assets and liabilities at fair value through profit or loss

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

Investments in securities

All investments in securities are classified as held-for-trading securities, i.e. securities are acquired for generating a profit from short-term fluctuations in price or dealer's margin.

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.

Securities are revaluated on the basis of Bloomberg's and NASDAQ OMX Riga available financial information on the bid prices of securities. Unlisted securities are evaluated on the basis of the custodian bank's information on transactions, but in case such information is not available, respective securities are evaluated at their amortised cost. 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) method.

Derivatives

For currency risk management and profit generation purposes, the Fund is involved in forward foreign exchange transactions – forwards and swaps. For the accounting purposes, all derivatives are classified as held-for-trading and accounted as follows.

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012
Notes
(LVL)

2. Summary of significant accounting policies (continued)

Subsequent to initial recognition and measurement, outstanding forward foreign exchange contracts are carried in the statement of financial position at their fair value. The fair value of these instruments is recognised in the statement of financial position under "Derivatives". The notional amounts of these instruments are reported in the notes to the financial statements.

Gains or losses from changes in assets and liabilities arising on forward foreign exchange contracts are recognised in the statement of comprehensive income as foreign currency revaluation result.

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. Where, in the opinion of the Fund management, the fair values of financial assets and liabilities differ materially from their carrying amounts, such fair values are separately disclosed in the notes of the financial statements

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.

Adoption of new or revised standards and interpretations

The following new and amended IFRSs and interpretations became effective in 2012, but are not relevant for the Fund's operations and did not have an impact on these financial statements.

Amendments to IFRS 7 "Financial instruments: Disclosures" on transfers of assets (effective for annual periods beginning on or after 1 July 2011).

Amendments to IFRS 1 "First time adoption" on fixed dates and hyperinflation (effective for annual periods beginning on or after 1 July 2011).

Amendments to IAS 12 "Income taxes" on deferred tax (effective for annual periods beginning on or after 1 January 2012).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2013 or later periods and which are not relevant to the Fund or are not yet endorsed by the EU:

Amendments to IAS 19 "Employee benefits" (effective for annual periods beginning on or after 1 January 2013).

Amendments to IAS 1 "Financial statement presentation" regarding other comprehensive income (effective for annual periods beginning on or after 1 January 2012, endorsed by the EU on June 2012).

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).

Amendments to IAS 19 "Employee benefits" (effective for annual periods beginning on or after 1 July 2012; not yet endorsed by the EU).

IFRS 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 11 "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 12 "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

OIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2012

Notes
(LVL)

2. Summary of significant accounting policies (continued)

Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2013).

IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012).

IAS 27 (revised 2011) "Separate financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IAS 28 (revised 2011) "Associates and joint ventures" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

Amendments to IFRS 7 "Financial instruments: Disclosures" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

Amendments to IAS 32 "Financial instruments: Presentation" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014, endorsed by the EU on December 2012).

Amendments to IFRS 1 "First time adoption" on government loans (effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU).

Improvements to IFRS (issued in May 2012; most of the amendments are effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU):

- IFRS 1 "First time adoption";
- IAS 1 "Financial statement presentation";
- IAS 16 "Property, plant and equipment";
- IAS 32 "Financial instruments: Presentation";
- IAS 34 "Interim financial reporting".

Amendments to IFRS 10, IFRS 12 and IAS 27 on investment entities (effective for annual periods beginning on or after 1 January 2014, 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, endorsed by the EU on December 2012).

3. Demand deposits with credit institutions

	31.12.2012.	31.12.2011.	% of Fund's net assets as at 31.12.2012.
Demand deposits with credit institutions, JSC Citadele banka	860,621	557,755	8.23%
Total demand deposits with credit institutions	860,621	557,755	8.23%

The Fund receives interest on demand deposits at fixed rates.

4. Debt securities and other fixed income securities

	31.12.2012.	31.12.2011.	Annual yield to maturity 31.12.2012.	% of Fund's net assets as at 31.12.2012.
Corporate bonds:	3,822,734	5,625,523	10.13%	36.54%
<i>Other non-OECD region corporate bonds</i>	3,218,378	4,869,387	10.64%	30.75%
<i>OECD region corporate bonds</i>	604,356	744,864	7.39%	5.78%
<i>Latvian corporate bonds</i>	-	11,272	0.00%	0.00%
Credit institution bonds:	4,423,499	3,421,537	6.23%	42.28%
<i>Other non-OECD region credit institution bonds</i>	4,166,199	2,991,948	6.43%	39.82%
<i>OECD region credit institution bonds</i>	-	-	0.00%	0.00%
<i>Latvian credit institution bonds</i>	257,300	429,589	3.00%	2.46%

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	31.12.2012.	31.12.2011.	Annual yield to maturity 31.12.2012.	% of Fund's net assets as at 31.12.2012.
Government bonds:	1,228,007	999,449	3.27%	11.74%
<i>Other non-OECD region government bonds</i>	493,982	999,449	4.00%	4.72%
<i>OECD region government bonds</i>	734,025	-	2.78%	7.02%
Financial institution bonds:	212,598	142,021	15.00%	2.03%
<i>OECD region financial institution bonds</i>	212,598	142,021	15.00%	2.03%
Total debt securities and other fixed income securities	9,686,837	10,188,530	7.59%	92.59%

All debt securities and other fixed income securities are classified as held-for-trading securities.

All fixed income securities are listed, except for securities with the book value LVL 415,493 (2011: LVL 310,581).

The table below presents debt securities by the issuer's country of residence as at 31 December 2012:

Financial instrument	ISIN code	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2012.	% of Fund's net assets as at 31.12.2012.
Financial instruments traded on regulated markets				9,612,525	9,271,344	88.62%
Russian issuers:				3,719,224	3,525,275	33.70%
VTB BANK	XS0223715920	USD	850	450,337	486,203	4.65%
GAZPROMOAO	XS0424860947	USD	650	456,481	461,274	4.41%
VNESHECONOMBANK	RU000A0JR3H8	RUB	21,000	359,917	367,751	3.51%
EVRAZ GROUP SA	XS0618905219	USD	650	359,592	360,009	3.44%
ALFA BANK RUSSIA	XS0544362972	USD	550	327,093	331,243	3.17%
PROMSVYAZBANK	XS0775984213	USD	600	333,796	332,098	3.17%
HOME CREDIT AND FINANCE BANK	XS0606382413	USD	500	294,016	279,363	2.67%
RENAISSANCE CAPITAL	XS0499448370	USD	800	294,111	278,015	2.66%
CREDIT BANK OF MOSCOW	XS0655085081	USD	600	295,202	334,756	3.20%
EVRAZ GROUP	RU000A0JQTQ7	RUB	15,000	253,327	268,463	2.57%
AMURMETALL	RU000A0GN9D1	RUB	10,000	193,286	26,100	0.25%
INCOM LADA	RU000A0JPAS5	RUB	29,990	102,066	-	0.00%
Kazakhstan issuers:				1,473,564	1,504,361	14.39%
BANK CENTERCREDIT	XS0282585859	USD	800	421,801	453,966	4.35%
ZHAIKMUNAI	USN97708AA49	USD	650	348,736	386,516	3.69%
HALYK SAVINGS BANK	XS0358156510	USD	600	349,623	339,677	3.25%
KAZKOMMERTS BANK	XS0167149094	USD	600	353,404	324,202	3.10%
Ukrainian issuers:				1,076,404	1,046,309	10.00%
FIRST UKRAINIAN INTERNATIONAL BANK	XS0287015787	USD	400	207,316	218,069	2.08%
AGROTON	XS0627994477	USD	600	301,354	241,384	2.31%
METINVEST	XS0511379066	USD	500	265,037	277,195	2.65%
AVANGARD AGROHOLDING	XS0553088708	USD	600	302,697	309,661	2.96%
Turkish issuers				570,118	556,729	5.32%
TURKEY GOVERNMENT INTERNATIONAL BOND	US900123AS92	USD	500	313,170	299,429	2.86%
AKBANK TAS	USM0300LAA46	USD	450	256,948	257,300	2.46%
Latvian issuers:				229,009	-	0.00%
CAPITAL DEPARTMENT STORE	LV0000800761	EUR	325,850	229,009	-	0.00%

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Financial instrument	ISIN code	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2012.	% of Fund's net assets as at 31.12.2012.
Georgian issuers:				422,631	420,856	4.02%
BANK OF GEORGIA	XS0283756624	USD	750	422,631	420,856	4.02%
Azerbaijan issuers:				338,136	387,517	3.70%
AZERBAIJAN RAILWAYS	XS0783935561	USD	650	338,136	387,517	3.70%
Czech Republic's issuers:				351,932	368,746	3.52%
NEW WORLD RESOURCES	XS0504814509	EUR	500	351,932	368,746	3.52%
Croatian issuers:				314,556	297,363	2.84%
ZAGREBACKI HOLDING	XS0309688918	EUR	10	314,556	297,363	2.84%
Polish issuers:				249,162	235,610	2.25%
TVN	XS0466451548	EUR	300	249,162	235,610	2.25%
<u>Financial instruments not traded on regulated markets</u>						
Estonian issuers:				210,841	212,598	2.03%
CREDITSTAR GROUP	EE3300110303	EUR	300	210,841	212,598	2.03%
Russian issuers:				-	202,895	1.94%
RBC INFORMATION SYSTEMS	RU000A0JQVB5	RUB	9,559,052	-	126,883	1.21%
RBC INFORMATION SYSTEMS	RU000A0JQVD1	RUB	9,559,052	-	76,012	0.73%
Total securities and other fixed income securities				<u>9,823,366</u>	<u>9,686,837</u>	<u>92.59%</u>

5. Derivatives

The following table presents the notional amounts and fair values of foreign exchange contracts. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

	31.12.2012.		Notional amount	31.12.2011.		% of Fund's net assets as at 31.12.2012.
	Notional amount	Fair value		Notional amount	Fair value	
	Assets	Liabilities		Assets	Liabilities	
Foreign exchange contracts:						
Swaps	2,540,826	(70,210)	2,003,697	82,412	-	(0.67%)
Total foreign exchange contracts	<u>2,540,826</u>	<u>(70,210)</u>	<u>2,003,697</u>	<u>82,412</u>	<u>-</u>	<u>(0.67%)</u>

All contracts are concluded with "Citadele banka" JSC.

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6. Accrued liabilities

	31.12.2012.	31.12.2011.
Accrued commission fees payable to investment management company	(12,013)	(13,424)
Accrued commission fees payable to custodian bank	(1,402)	(1,566)
Accrued fees payable for professional services	(1,331)	(1,427)
Total accrued liabilities	(14,746)	(16,417)

7. Interest income

	2012	2011
Interest income from debt securities and other fixed income securities	730,204	737,283
Interest income from demand deposits with credit institutions	9,742	13,711
Total interest income	739,946	750,994

8. Realised increase in investment value

	2012	2011
Income from sale of investments	10,697,766	11,589,094
Acquisition value of investments sold	(11,223,661)	(11,195,715)
Decrease/ (increase) in value of investments sold, recognised in the prior reporting periods	965,109	(371,338)
Total realised increase in investment value	439,214	22,041

9. Unrealised increase/ (decrease) in investment value

	2012	2011
From debt securities and other fixed income securities	430,726	(655,654)
Total unrealised increase/ (decrease) in investment value	430,726	(655,654)

10. Change in investments during the reporting year

	31.12.2011.	Increase during the reporting year	Decrease during the reporting year	Foreign currency revaluation result	Fair value revaluation result	31.12.2012.
Financial assets held for trading						
Debt securities and other fixed income securities	10,188,530	10,476,506	(12,476,938)	(101,405)	1,600,144	9,686,837
Derivatives	82,412	-	-	(152,623)	-	(70,211)
Total investments	10,270,942	10,476,506	(12,476,938)	(254,028)	1,600,144	9,616,626

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11. 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.

12. Fair values of financial assets and liabilities

According to the estimates of the Company to the credit institutions, trading fixed income securities, equity securities, and derivate book value approximate to their fair value. The fair value is determined according to the market quotation method, based on available quotes of stock exchanges and brokers.

The table below shows the fair value of the Fund's assets and liabilities as at 31 December 2012:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
Assets			
Demand deposits with credit institutions	860,621	-	860,621
Financial assets held for trading			
Debt securities and other fixed income securities	9,686,837	9,448,139	238,698
Total assets	10,547,458	9,448,139	1,099,319
Liabilities			
Financial liabilities held for trading			
Accrued liabilities	(70,210)	-	(70,210)
Other liabilities	(14,746)	-	(14,746)
Total liabilities	(84,956)	-	(84,956)
Net assets	10,462,502	9,448,139	1,014,363

The table below shows the fair value of the Fund's assets and liabilities as at 31 December 2011:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
Assets			
Demand deposits with credit institutions	557,755	-	557,755
Financial assets held for trading			
Debt securities and other fixed income securities	10,188,530	6,791,366	3,397,164
Derivatives	82,412	-	82,412
Total assets	10,828,697	6,791,366	4,037,331
Liabilities			
Financial liabilities held for trading			
Derivatives	(16,417)	-	(16,417)
Accrued liabilities	(3,885)	-	(3,885)
Total liabilities	(20,302)	-	(20,302)
Net assets	10,808,395	6,791,366	4,017,029

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13. 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 (equity price risk), exchange rates (currency risk), interest rates (interest rate risk), 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.

The tables below show a potential effect of changes in market interest rates in certain currencies on the Fund's value. Interest income changes are calculated on an annual basis. The actual changes of the Fund's value may differ from the below calculations and the difference might be significant.

Changes in fixed income securities' prices and interest income (year 2012, LVL)					Changes in fixed income securities' prices and interest income (year 2011, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes	Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-	-	(76,701)	(76,701)	EUR	50	-	(26,191)	(26,191)
USD	-	-	(143,788)	(143,788)	USD	50	-	(131,561)	(131,561)
RUB	-	-	(26,235)	(26,235)	RUB	300	-	(56,850)	(56,850)
LVL	-	-	-	-					
Total		-	(246,814)	(246,814)	Total		-	(214,602)	(214,602)

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Changes in fixed income securities' prices and interest income (year 2012, % of assets)					Changes in fixed income securities' prices and interest income (year 2011, % of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes	Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	100	0.00%	-0.74%	-0.74%	EUR	50	0.00%	-0.24%	-0.24%
USD	100	0.00%	-1.38%	-1.38%	USD	50	0.00%	-1.23%	-1.23%
RUB	100	0.00%	-0.25%	-0.25%	RUB	300	0.00%	-0.53%	-0.53%
LVL	50	0.00%	0.00%	0.00%					
Total		0.00%	-2.37%	-2.37%	Total		0.00%	-2.00%	-2.00%

Changes in fixed income securities' prices and interest income (year 2012, LVL)					Changes in fixed income securities' prices and interest income (year 2011, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes	Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-100	-	(76,701)	(76,701)	EUR	-50	-	26,191	26,191
USD	-100	-	(143,788)	(143,788)	USD	-50	-	131,561	131,561
RUB	-100	-	(26,325)	(26,325)	RUB	-300	-	56,850	56,850
LVL	-50	-	-	-					
Total		-	246,814	246,814	Total		-	214,602	214,602

Changes in fixed income securities' prices and interest income (year 2012, % of assets)					Changes in fixed income securities' prices and interest income (year 2011, % of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes	Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-100	0.00%	0.74%	0.74%	EUR	-50	0.00%	0.24%	0.24%
USD	-100	0.00%	1.38%	1.38%	USD	-50	0.00%	1.23%	1.23%
RUB	-100	0.00%	0.25%	0.25%	RUB	-300	0.00%	0.53%	0.53%
LVL	-50	0.00%	0.00%	0.00%					
Total		0.00%	2.37%	2.37%	Total		0.00%	2.00%	2.00%

Currency risk

Currency risk arises when the nominal value of Fund's securities or other instruments differs from the Fund's currency. Exchange rate fluctuations may result in a gain or loss, depending on the trend of the fluctuations and the Fund's currency position. The Fund's exposure to currency risk is managed effectively by entering into currency forward and swaps transactions, which results in closing of the existing positions and minimisation of potential risk losses.

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2012:

	USD	EUR	RUB	Total
Assets				
Demand deposits with credit institutions	860,621	-	-	860,621
Financial assets held for trading				
Debt securities and other fixed income securities	6,778,733	2,042,895	865,209	9,686,837
Derivatives	-	-	-	-
Total assets	7,639,354	2,042,895	865,209	10,547,458

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	USD	EUR	RUB	Total
Liabilities				
Accrued liabilities	(13,415)	(1,331)	-	(14,746)
Derivatives	2,540,826	(2,246,162)	(364,874)	(70,210)
Total liabilities	2,527,411	(2,247,493)	(364,874)	(84,956)
Net assets	10,166,765	(204,598)	500,335	10,462,502
<i>Net long/ (short) position</i>	<i>97.17%</i>	<i>-1.95%</i>	<i>4.78%</i>	<i>100.00%</i>

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

	USD	EUR	RUB	Total
Assets				
Demand deposits with credit institutions	557,748	7	-	557,755
Financial assets held for trading				
Debt securities and other fixed income securities	7,842,699	1,583,063	762,768	10,188,530
Derivatives	2,003,698	(1,921,286)	-	82,412
Total assets	10,404,145	(338,216)	762,768	10,828,697
Liabilities				
Financial liabilities held for trading				
Derivatives	(14,990)	(1,427)	-	(16,417)
Accrued liabilities	(3,885)	-	-	(3,885)
Total liabilities	(18,875)	(1,427)	-	(20,302)
Net assets	10,385,270	(339,643)	762,768	10,808,395
<i>Net long/ (short) position</i>	<i>96.08%</i>	<i>(3.14)%</i>	<i>7.06%</i>	<i>100.00%</i>

The effect of changes in currency exchange rates on the Fund's value in 2012 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	(1.94)%	8.28%	(0.16)%
USD	97.17%	0.00%	0.00%
RUB	4.78%	10.85%	0.52%
LVL	(0.01)%	8.17%	0.00%
Total	100%		0.36%

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13. Risk management (continued)

The effect of changes in currency exchange rates on the Fund's value 2011 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	(3.14)%	11.89%	(0.37)%
USD	96.08%	0.00%	0.00%
RUB	7.06%	11.51%	0.81%
Total	100%		0.44%

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. The table below shows the issuers of securities and credit institutions in which the Fund has deposits by credit ratings.

- High quality financial instruments: AAA –AA (Standard & Poor's); Aaa-Aa3 (Moody's Investors Service); AAA-AA (Fitch);
- Investment category financial instruments: A+- BBB- (Standard & Poor's); A1 –Baa3 (Moody's Investors Service); A+- BBB- (Fitch);
- High return financial instruments: BB+ - BB- (Standard & Poor's); Ba1 - Ba3 (Moody's Investors Service); BB+ - BB- (Fitch);
- Speculative financial instruments: B+ - C (Standard & Poor's); B1 - C (Moody's Investors Service); B+ - C (Fitch).

The table below shows the Fund's assets by credit ratings as at 31 December 2012:

	Investments category financial instruments	High return financial instruments	Speculative financial instruments	Not rated	Total
Assets					
Demand deposits with credit institutions	-	-	860,621	-	860,621
Financial assets held for trading					
Debt securities and other fixed income securities	2,501,106	2,758,929	3,985,209	441,593	9,686,837
Derivative financial instruments	-	-	(70,210)	-	(70,210)
Total assets	2,501,106	2,758,929	4,775,620	441,593	10,477,248

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13. Risk management (continued)

The table below shows the Fund's assets by credit ratings as at 31 December 2011:

	Investments category financial instruments	High return financial instruments	Speculative financial instruments	Not rated	Total
Assets					
Demand deposits with credit institutions	-	-	557,755	-	557,755
Financial assets held for trading					
Debt securities and other fixed income securities	2,258,040	1,825,841	4,901,204	1,203,445	10,188,530
Derivative financial instruments	-	-	82,412	-	82,412
Total assets	2,258,040	1,825,841	5,541,371	1,203,445	10,828,697

Risk concentration

The issuer's industry and geographic position are additional credit risk factors, which can affect the price of issued security or the issuer's solvency. Therefore, it is vital to identify concentration risk, i.e. to which extent the Fund's value depends on changes in the specific regions or industries. Credit risk concentration by geographic profile (based on the country most affecting the issuer's solvency) and industry profile is presented in the table below.

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2012:

	Latvia	OECD region countries	Other non- OECD region countries	Total
Assets				
Demand deposits with credit institutions	860,621	-	-	860,621
Financial assets held for trading	-	-	-	-
Debt securities and other fixed income securities	-	1,808,279	7,878,558	9,686,837
Derivatives	-	-	-	-
Total assets	860,621	1,808,279	7,878,558	10,547,458
Liabilities				
Derivatives	(70,210)	-	-	(70,210)
Accrued liabilities	(14,746)	-	-	(14,746)
Other liabilities	-	-	-	-
Total liabilities	(84,956)	-	-	(84,956)
Net assets	775,665	1,808,279	7,878,558	10,462,502

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13. Risk management (continued)

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

	Latvia	OECD region countries	Other non- OECD region countries	Total
Assets				
Demand deposits with credit institutions	557,755	-	-	557,755
Financial assets held for trading				
Debt securities and other fixed income securities	440,861	886,885	8,860,784	10,188,530
Derivatives	82,412	-	-	82,412
Total assets	1,081,028	886,885	8,860,784	10,828,697
Liabilities				
Other liabilities	(3,885)	-	-	(3,885)
Accrued liabilities	(16,417)	-	-	(16,417)
Total liabilities	(20,302)	-	-	(20,302)
Net assets	1,060,726	886,885	8,860,784	10,808,395

The table below shows the Fund's assets and liabilities by country profile as at 31 December 2012:

Country	Carrying amount as at 31.12.2012.	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2012.
Russia	3,728,170	4,495,174	35.64%
Ukraine	1,046,309	1,608,605	10.00%
Kazakhstan	1,504,361	1,212,733	14.39%
Latvia	775,665	1,060,726	7.42%
Turkey	556,729		5.32%
Romania	493,982	-	4.72%
Slovenia	434,596	-	4.15%
Georgia	420,856	401,516	4.02%
Azerbaijan	387,517	360,760	3.70%
Czech Republic	368,746	331,515	3.52%
Croatia	297,363	255,317	2.84%
Poland	235,610	221,054	2.25%
Hungary	-	192,295	0.00%
Estonia	212,598	142,021	2.03%
International Financial Institution	-	463,332	0.00%
Belarus	-	63,347	0.00%
Total	10,462,502	10,808,395	100.00%

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13. Risk management (continued)

The table below shows the Fund's securities portfolio by industry profile as at 31 December 2012:

Sector	Carrying amount as at 31.12.2012.	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2012.
Commercial banks	4,423,499	3,040,411	42.28%
Government	1,228,007	999,449	11.74%
Energy resources	1,216,536	1,381,881	11.63%
Raw materials	931,767	1,849,107	8.91%
Food, beverages, tobacco	551,045	526,184	5.27%
Mass media	438,505	389,614	4.19%
Logistics	387,517	762,276	3.70%
Public utilities	297,363	-	2.84%
Financial services	212,598	778,464	2.03%
Real estate	-	268,849	0.00%
Telecommunication services	-	192,295	0.00%
Total:	9,686,837	10,188,530	92.59%

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. In addition, a large portion of the Fund's assets are invested in short-term investment rating government bonds, which is one of the most liquid assets.

Table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2012:

	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1-5 years	More than 5 years	Total
Assets							
Demand deposits with credit institutions	860,621	-	-	-	-	-	860,621
Financial assets held for trading	-	-	-	-	-	-	-
Debt securities and other fixed income securities	26,100	-	602,217	552,275	5,189,209	3,317,036	9,686,837
Derivatives	-	-	-	-	-	-	-
Total assets	886,721	-	602,217	552,275	5,189,209	3,317,036	10,547,458
Liabilities							
Derivatives	-	(70,210)	-	-	-	-	(70,210)
Accrued liabilities	(13,415)	(1,331)	-	-	-	-	(14,746)
Total liabilities	(13,415)	(71,541)	-	-	-	-	(84,956)
Net assets	873,306	(71,541)	602,217	552,275	5,189,209	3,317,036	10,462,502
<i>Net position %</i>	<i>8.35%</i>	<i>(0.68%)</i>	<i>5.76%</i>	<i>5.28%</i>	<i>49.59%</i>	<i>31.70%</i>	<i>100.00%</i>

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13. Risk management (continued)

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

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
Assets							
Demand deposits with credit institutions	557,755	-	-	-	-	-	557,755
Financial assets held for trading	-	-	-	-	-	-	-
Debt securities and other fixed income securities	74,800	848,803	395,563	610,024	5,661,737	2,597,603	10,188,530
Derivatives	-	82,412	-	-	-	-	82,412
Total assets	632,555	931,215	395,563	610,024	5,661,737	2,597,603	10,828,697
Liabilities							
Other liabilities	(3,885)	-	-	-	-	-	(3,885)
Accrued liabilities	(14,990)	-	(1,427)	-	-	-	(16,417)
Total liabilities	(18,875)	-	(1,427)	-	-	-	(20,302)
Net assets	613,680	931,215	394,136	610,024	5,661,737	2,597,603	10,808,395
<i>Net position %</i>	<i>5.68%</i>	<i>8.62%</i>	<i>3.65%</i>	<i>5.64%</i>	<i>52.38%</i>	<i>24.03%</i>	<i>100.00%</i>

14. Information on holders of investment certificates

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

	31.12.2012.	31.12.2011.	% of total certificates as at 31.12.2012.
Investment certificates held by related parties	294	294	0.03%
Investment certificates held by other persons	993,802	1,152,897	99.97%
Investment certificates issued as at the end of the period	994,096	1,153,191	100.00%

15. Related party disclosures

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 6). In addition, the Fund's cash resources (see also Note 3) are held and derivative contracts (see also Note 5) are concluded with JSC Citadele banka.

The remuneration paid to the investment management company during the reporting year is disclosed in the statement of comprehensive income (see also Note 6).

During the reporting period and year 2011 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

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investment certificates held by those related parties, who have been classified as the Fund's related parties both as of 31 December 2012 and 31 December 2011.

During the reporting year the Fund had not invested in bonds issued by the JSC Citadele banka. On 31 December 2011 the book value of these investments was 429,589 lats.

16. Dynamics of net asset value

	31.12.2012.	31.12.2011.	31.12.2010.
Net assets (LVL)	10,462,502	10,808,395	10,544,761
Number of investment certificates	994,097	1,153,191	1,139,566
Value of investment fund's shares (LVL)	10.52	9.37	9.25
Performance on investment fund's shares*	12.24%	1.30%	29.01%
Net assets (USD)**	19,706,966	19,872,102	19,734,339
Number of investment certificates	994,097	1,153,191	1,139,566
Value of investment fund's shares (USD)	19.82	17.23	17.32
Performance on investment fund's shares*	14.99%	(0.52)%	18.23%

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

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



Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AIF Citadele Eastern European Fixed Income Funds sub-fond Citadele Eastern European Bond Fund - USD

Report on the Financial Statements

We have audited the accompanying financial statements of AIF Citadele Eastern European Fixed Income Funds sub-fond Citadele Eastern European Bond Fund - USD set out on pages 9 to 29 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2012 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.



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 Eastern European Fixed Income Funds sub-fond Citadele Eastern European Bond Fund - USD as of 31 December 2012, 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 for 2012 set out on page 5 of the accompanying annual report for 2012 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2012.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A handwritten signature in blue ink, appearing to read 'I. Lejiņa', is written over a faint, illegible stamp.

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
26 April 2013

* 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.