

**OPEN-END INVESTMENT FUND
“Citadele Eastern European Fixed Income Funds”**

**Sub-fund
“Citadele Eastern European Bond Fund - EUR”**

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

Name of fund:	Citadele Eastern European Fixed Income Funds
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 – EUR (Citadele Eastern European Balanced Fund – until 16.09.2011)
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
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> 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 01.11.2012. Member of the Council – Valters Ābele – resigned on 01.11.2012.</p> <p><i>Board of the investment management company:</i> Chairman of the Board – Uldis Upeniņš – 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 - EUR"
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:	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 - EUR"
Annual report for the year ended 31 December 2012
Investment management company report

"Citadele Eastern European Bond Fund – EUR" (hereinafter – the Fund) is a sub-fund of the open-end investment fund "Citadele Eastern European Fixed Income Funds". It is the debt security investment fund having EUR as functional currency. 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). The Company holds a licence No. 06.03.07.098/285 for investment operations, 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 and credit institutions 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 protection against volatility of the Fund's asset value versus investments in single currency, industry of country securities. There were no changes to the Fund's policy during the reporting period.

During the reporting period the total assets of the Fund increased by 21.90% and amounted to 10,078,695 lats at the end of the year. During the reporting period the Fund's net assets increased by 29.72% (30.27% in EUR) and amounted to 10,039,714 lats (EUR 14,304,681) at the end of the year. The rise in net asset value was due to the increase in the amount of managed resources and the profit earned on investments. During the year the value of the Fund's share increased by 1.54 LVL (EUR 2.24) up to 11.38 LVL (EUR 16.21) at the end of the year. The Fund showed positive performance on investment Fund's shares: 15.60% in lats and 15.99% in the functional currency. During the reporting period none of the Fund's debt securities positions were loss making and the major positive impact was caused by the securities of financial services, energy resources and raw materials related sectors. The positive performance and contribution to the Fund's growth was provided by the largest countries of the investments – Russia, Ukraine and Kazakhstan.

In respect of the changes of 16 September 2011 in the Fund's investment policy related to the transformation from balanced fund to bond fund, the total of 24,000 shares of Eurasian Natural Resources (ISIN: GB00B29BCK10) held in the Fund's portfolio were sold during the reporting period. As the result, starting from 31 July 2012 the Fund is completely compliant with the regulations of OIF "Citadele Eastern European Fixed Income Funds". From a country perspective, the share of investments in the risky market of Ukraine was reduced by 11.7% to 9.4% from the Fund's net assets at the end of the reporting period. During the reporting period the investments in the debt securities of the market of Belarus 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 governments and raw materials. During the reporting period a number of investments were made in government securities of the regional countries, resulting in the increase of 6% and comprising 11.2% from the Fund's net assets at the end of the period. However, the downturn of the prices for the metals resulted in reduced share of the raw materials by 8.5% amounting to 11.4% from the Fund's net assets. At the year end of 2012 the Fund's assets were diversified among 13 countries and 9 industries. At the end of the reporting period the average yield-to-maturity on debt securities was 6.1% with an average duration of 2.4, 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 8.99% from the Fund's net assets.

During the reporting period fund management fee of 238,775 EUR was paid from the Fund's resources which is 1.89% of the average net asset value does not exceed the maximum limit of 3% set forth in the Prospectus.

During the period between the last day of the reporting year and the date of the approval of the annual report there have been no significant events that have a material effect on the Fund's financial position and performance.

IPAS "Citadele Asset Management" managers team closely monitors the developments both on the domestic and global scale such as 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

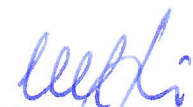
OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2012
Statement of responsibility of the Board of the investment management company

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 Balanced Fund (hereinafter - the Fund).

The financial statements set out on pages 9 to 30 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 Balanced Fund and the prevention and detection of fraud and other irregularities in the Fund. The Board is 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 (FCMC), 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 - EUR"
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 Bejavskis
Chairman of the Board, p.p.

Riga, February 25, 2013

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

	31.12.2012.	31.12.2011.
Assets		
Demand deposits with credit institutions	902,796	788,233
Financial assets held for trading		
Debt securities and other fixed income securities	9,073,837	7,352,362
Shares and other non-fixed income securities	-	127,210
Derivatives	102,062	-
	10,078,695	8,267,805
Liabilities		
Financial liabilities held for trading		
Derivatives	(24,381)	(516,461)
Accrued liabilities	(14,600)	(11,980)
	(38,981)	(528,441)
Net assets	10,039,714	7,739,364

The accompanying notes set out on pages 13 to 30 form an integral part of these financial statements.



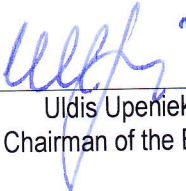
Uldis Upenieks
Chairman of the Board

Riga, 26 April 2013

OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2012
Statement of comprehensive income
(LVL)

	2012	2011
Income		
Interest income	1,043,452	696,693
Dividend income	-	25,084
Total income	1,043,452	721,777
Expenses		
Investment management company fee	(132,374)	(141,209)
Custodian bank fee	(15,444)	(16,474)
Other fund management expenses	(20,640)	(3,917)
Total expenses	(168,458)	(161,600)
Increase/ (decrease) in investment value		
Realized (decrease) in investment value	(6,020)	(790,864)
Unrealized increase / (decrease) in investment value	378,680	(926,123)
Total increase/ (decrease) in investment value	372,660	(1,716,987)
Foreign currency revaluation (loss)	(2,419)	(37,262)
Total comprehensive income/ (decrease)	1,245,235	(1,194,072)

The accompanying notes set out on pages 13 to 30 form an integral part of these financial statements.



 Uldis Upenieks
 Chairman of the Board

Riga, 26 April 2013

OIF "Citadele Eastern European Bond Fund - EUR"
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	7,739,364	10,415,509
Total comprehensive income/ (expense)	1,245,235	(1,194,072)
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	<i>2,414,811</i>	<i>1,575,650</i>
<i>Outflow on redemption of investment certificates</i>	<i>(1,359,696)</i>	<i>(3,057,723)</i>
Increase/ (decrease) in net assets from transactions with investment certificates	1,055,115	(1,482,073)
Increase/ (decrease) in net assets for the reporting period	2,300,350	(2,676,145)
Net assets as at the end of the reporting period	10,039,714	7,739,364
Issued investment certificates as at the beginning of the reporting period	786,323	925,855
Issued investment certificates as at the end of the reporting period	882,551	786,323
Net asset value per investment certificate as at the beginning of the reporting period	9.84	11.25
Net asset value per investment certificate as at the end of the reporting period	11.38	9.84

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

	<u>2012</u>	<u>2011</u>
Interest income	750,911	667,174
Dividend income	-	25,084
Investment management expenses	(165,837)	(164,781)
Acquisition of financial assets	(9,658,151)	(10,027,955)
Disposal of financial assets	8,636,808	10,220,162
Foreign currency translation result	(520,175)	387,928
(Decrease)/ increase in cash from operating activities	<u>(956,444)</u>	<u>1,107,612</u>
Inflow from sale of investment certificates	2,414,811	1,575,650
Outflow of redemption of investment certificates	(1,359,696)	(3,057,723)
Increase/ (decrease) in cash from financing activities	<u>1,055,115</u>	<u>(1,482,073)</u>
Increase/ (decrease) in cash during the reporting period	<u>98,671</u>	<u>(374,461)</u>
Cash as at the beginning of the reporting period	788,233	1,150,109
Result of revaluation of cash denominated in foreign currencies	<u>15,892</u>	<u>12,585</u>
Cash as at the end of the reporting period	<u>902,796</u>	<u>788,233</u>

**OIF "Citadele Eastern European Bond Fund - EUR"
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 securities, generally, issued or guaranteed by governments, municipalities, central banks and credit institutions of Eastern European countries, as well as investments in debt securities and equity shares of corporate entities. Fund's sub-fund's investment portfolios are diversified between investments in equity and debt securities, as well as in different currencies and countries, thus providing higher security and protection against fluctuations in the value of fund's assets, which are inherent for investments in one class, currency or country securities only.
Name of the sub-fund:	Citadele Eastern European Bond Fund – EUR
Sub-fund's business activity:	The functional currency of the Fund is euro (EUR). 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 – EUR 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.

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.

**OIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2012**

**Notes
(LVL)**

2. Summary of significant accounting policies (continued)

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 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 (LVL), which is the presentation currency of the Fund.

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 financial position of the Fund can be specified as follows:

Currency	31.12.2012.	31.12.2011.
BGN	0.3590	0.3590
CAD	0.5350	0.5310
GBP	0.8570	0.8400
LTL	0.2040	0.2040
UAH	0.0660	0.0677
USD	0.5310	0.5440
RUB	0.0174	0.0170

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 and loans and receivables. The classification depends on the purpose of financial instrument acquisition. The management determines classification of financial instruments at the moment of their initial 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.

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 amortized 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 amortized cost and the recoverable amount.

**OIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2012**

**Notes
(LVL)**

2. Summary of significant accounting policies (continued)

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 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 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.

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 of 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% income tax charge. For investment funds capital gain is a difference between selling and purchase value 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 IFRS and interpretations became effective in 2012, but are not relevant for the Fund's operations and do 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).

**OIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2012**

**Notes
(LVL)**

2. Summary of significant accounting policies (continued)

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2012 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).

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).

OIF "Citadele Eastern European Bond Fund - EUR"
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Notes
(LVL)

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	902,796	788,233	8.99%
Total demand deposits with credit institutions	902,796	788,233	8.99%

The Fund receives interest on demand deposits at fixed rates.

4. Bonds 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:	3,823,306	3,947,862	11.17%	38.08%
<i>Non-OECD region corporate bonds</i>	3,062,905	3,123,729	9.08%	30.52%
<i>OECD region corporate bonds</i>	760,401	787,162	19.60%	7.57%
<i>Latvian corporate bonds</i>	-	36,971	0.00%	0.00%
Credit institution bonds:	3,909,807	2,860,390	6.25%	38.94%
<i>Non-OECD region credit institution bonds</i>	3,653,327	2,387,832	6.51%	36.38%
<i>Latvian credit institution bonds</i>	27,769	307,037	0.00%	0.28%
<i>OECD region credit institution bonds</i>	228,711	165,521	2.91%	2.28%
Government bonds:	1,128,126	402,089	3.15%	11.24%
<i>Non-OECD region government bonds</i>	452,816	402,089	52.53%	4.51%
<i>OECD region credit institution bonds</i>	675,310	-	0.99%	6.73%
Financial institution bonds:	212,598	142,021	0.00%	2.12%
<i>OECD region financial institution bonds</i>	212,598	142,021	14.99%	2.12%
Total debt securities and other fixed income securities	9,073,837	7,352,362	8.14%	90.38%

All debt securities (bonds) 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 of LVL 212,598 (2011: LVL 307,542).

The table below presents debt securities by the issuer's country of residence:

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				9,591,852	8,861,239	88.26%
Russian issuers:				3,393,118	3,449,081	34.35%
VTB BANK	XS0223715920	USD	750	410,211	429,003	4.27%
GAZPROM OAO	XS0424860947	USD	600	425,635	425,791	4.24%
PROMSVYAZBANK	XS0775984213	USD	600	333,797	332,098	3.31%
VNESHECONOMBANK	RU000A0JR3H8	RUB	19,000	325,641	332,727	3.31%
EVRAZ GROUP SA	XS0618905219	USD	600	331,929	332,317	3.31%
ALFA BANK RUSSIA	XS0544362972	USD	500	297,358	301,130	3.00%
CREDIT BANK OF MOSCOW	XS0655085081	USD	500	246,003	278,963	2.78%
HOME CREDIT AND FINANCE BANK	XS0606382413	USD	500	294,016	279,363	2.78%
EVRAZ GROUP	RU000A0JQTQ7	RUB	15,000	246,162	268,464	2.67%
RUSSIAN RAILWAYS	RU000A0JQ4F1	RUB	12,500	247,074	246,813	2.46%
RENAISSANCE CAPITAL	XS0499448370	USD	400	235,289	222,412	2.22%

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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.
INCOM LADA	RU000A0JPAS5	RUB	2,212	3	-	0.00%
Kazakhstan issuers:				1,233,519	1,249,131	12.44%
BANK CENTERCREDIT	XS0282585859	USD	650	344,295	368,847	3.67%
ZHAIKMUNAI	USN97708AA49	USD	550	302,127	327,052	3.26%
HALYK SAVINGS BANK	XS0358156510	USD	500	292,593	283,064	2.82%
KAZKOMMERTS INTL BV	XS0167149094	USD	500	294,504	270,168	2.69%
Ukrainian issuers:				950,556	938,589	9.34%
AVANGARD AGROHOLDING	XS0553088708	USD	600	301,970	309,662	3.08%
METINVEST	XS0511379066	USD	500	265,037	277,195	2.76%
FIRST UKRAINIAN INTERNATIONAL BANK	XS0287015787	USD	350	182,646	190,810	1.90%
AGROTON	XS0627994477	USD	400	200,903	160,922	1.60%
Turkish issuers:				538,461	541,858	5.40%
TURKEY GOVERNMENT INTERNATIONAL BOND	DE000A0AU933	EUR	400	310,063	313,147	3.12%
AKBANK TAS	USM0300LAA46	USD	400	228,398	228,711	2.28%
Polish issuers:				558,520	465,404	4.64%
ZLOMREX	XS0283393998	EUR	500	354,794	269,062	2.68%
TVN	XS0466451548	EUR	250	203,726	196,342	1.96%
Rumanian issuers:				430,917	452,816	4.51%
ROMANIAN GOVERNMENT INTERNATIONAL BOND	XS0371163600	EUR	550	430,917	452,816	4.51%
Azerbaijan issuers:				390,249	417,326	4.16%
AZERBAIJAN RAILWAYS	XS0592514144	USD	700	390,249	417,326	4.16%
Georgian issuers:				366,333	364,742	3.63%
BANK OF GEORGIA	XS0783935561	USD	650	366,333	364,742	3.63%
Slovenian issuers:				331,414	362,163	3.61%
REPUBLIC OF SLOVENIA	XS0292653994	EUR	500	331,414	362,163	3.61%
Croatian issuers:				316,241	297,363	2.96%
ZAGREBACKI HOLDING	XS0309688918	EUR	10	316,241	297,363	2.96%
Čhzech issuers:				281,546	294,997	2.94%
NEW WORLD RESOURCES	XS0504814509	EUR	400	281,546	294,997	2.94%
Latvian issuers:				800,978	27,769	0.28%
PAREX BANKA	LV0000800696	EUR	8,000	562,243	27,769	0.28%
CAPITAL DEPARTMENT STORE	LV0000800761	EUR	429,100	238,735	-	0.00%
Financial instruments not traded on regulated markets				210,842	212,598	2.12%
Estonian issuers:				210,842	212,598	2.12%
CREDITSTAR GROUP	EE3300110303	EUR	300	210,841	212,598	2.12%
Q VARA	EE3300079987	EUR	15	1	-	0.00%
Total debt securities and other fixed income securities				9,802,694	9,073,837	90.38%

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5. Shares

	31.12.2012.	31.12.2011.	% of Fund's net assets as at 31.12.2012.
Equity shares	-	127,210	0.00%
Non-OECD region equity shares	-	127,210	0.00%
Total shares	-	127,210	0.00%

All equity shares and other fixed income securities are classified as held-for-trading securities. At the end of the reporting year, there were no equity shares in the portfolio of the Fund. At the 31 December 2011 the value of the equity shares was LVL 127,210.

At the end of the reporting year, the Fund had no investment certificates of investment funds or similar securities.

6. Derivatives

The table below presents the notional amounts and fair values of forward foreign exchange and currency swap instruments. The notional amount of foreign exchange transactions is determined on the basis of requirement arising from contracts.

	31.12.2012.			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 transactions							
Currency swap instruments	6,420,931	102,062	(23,750)	5,463,279	-	(516,461)	0.78%
Forward foreign exchange instruments	89,744	-	(631)	-	-	-	-0.01%
Total derivatives	6,510,675	102,062	(24,381)	5,463,279	-	(516,461)	0.77%

All contracts are concluded with "Citadele banka" JSC.

7. Accrued liabilities

	31.12.2012.	31.12.2011.
Accrued commission fees payable to investment management company	(11,449)	(9,576)
Accrued commission fees payable to custodian bank	(1,336)	(1,117)
Accrued fees payable for professional services	(1,815)	(1,287)
Total accrued liabilities	(14,600)	(11,980)

8. Interest income

	2012	2011
Interest income from debt securities and other fixed income securities	1,033,728	682,909
Interest income from demand deposits with credit institutions	9,724	13,784
Total interest income	1,043,452	696,693

9. Realized (decrease) in investment value

	2012	2011
Income from sale of investments	8,031,168	9,996,224
Acquisition value of investments sold	(8,629,978)	(10,399,613)
Increase/ (decrease) in value of investments sold, recognised in the prior reporting periods	592,790	(387,475)
Total realised (decrease) in investment value	(6,020)	(790,864)

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10. Unrealised increase/ (decrease) in investment value

	2012	2011
From shares and other non-fixed income securities	-	(82,847)
From debt securities and other fixed income securities	378,680	(843,276)
Total unrealised increase/ (decrease) in investment value	378,680	(926,123)

11. Change in investments during the reporting period

	31.12.2011.	Increase during the reporting period	Decrease during the reporting period	Foreign currency revaluation result	Fair value revaluation result	31.12.2012.
Financial assets held for trading						
Debt securities and other fixed income securities	7,352,362	9,658,151	(9,298,219)	(96,149)	1,457,692	9,073,837
Shares and other non-fixed income securities	127,210	-	(79,776)	3,871	(51,304)	-
Derivatives, net	(516,461)	-	-	594,142	-	77,681
Total investments	6,963,111	9,658,151	(9,377,995)	501,864	1,406,388	9,151,518

12. 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.

13. Fair values of financial assets and liabilities

According to the Company's estimates, the carrying amounts of demand deposits with credit institutions, held-for-trading fixed income securities, equity shares and derivatives 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.

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	902,796	-	902,796
Financial assets held for trading			
Debt securities and other fixed income securities	9,073,837	8,833,470	240,367
Shares and other non-fixed income securities	102,062	-	102,062
Total assets	10,078,695	8,833,470	1,245,225
Liabilities			
Financial liabilities held for trading			
Derivatives	(24,381)	-	(24,381)
Accrued liabilities	(14,600)	-	(14,600)
Total liabilities	(38,981)	-	(38,981)
Net assets	10,039,714	8,833,470	1,206,244

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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	788,233	-	788,233
Financial assets held for trading			
Debt securities and other fixed income securities	7,352,362	4,411,697	2,940,665
Shares and other non-fixed income securities	127,210	127,210	-
Total assets	8,267,805	4,538,907	3,728,898
Liabilities			
Financial liabilities held for trading			
Derivatives	(516,461)	-	(516,461)
Accrued liabilities	(11,980)	-	(11,980)
Total liabilities	(528,441)	-	(528,441)
Net assets	7,739,364	4,538,907	3,200,457

14. 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 Company 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.

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14. Risk management (continued)

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
LVL	50	-	-	-	EUR	50	785	(25,971)	(25,206)
USD	100	-	(115,125)	(115,125)	RUB	300	-	(20,459)	(20,459)
EUR	100	-	(75,997)	(75,997)	USD	50	-	(99,072)	(99,072)
RUB	100	-	(15,901)	(15,901)					
Total		-	(207,022)	(207,022)	Total		765	(145,502)	(144,737)
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
LVL	50	0.00%	0.00%	0.00%	EUR	50	0.01%	-0.34%	-0.33%
USD	100	0.00%	-1.15%	-1.15%	RUB	300	0.00%	-0.27%	-0.27%
EUR	100	0.00%	-0.76%	-0.76%	USD	50	0.00%	-1.29%	-1.29%
RUB	100	0.00%	-0.16%	-0.16%					
Total		0.00%	-2.07%	-2.07%	Total		0.01%	-1.89%	-1.88%
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
LVL	-50	-	-	-	EUR	-50	(785)	25,971	25,206
USD	-100	-	(115,125)	(115,125)	RUB	-300	-	20,459	20,459
EUR	-100	-	(75,997)	(75,997)	USD	-50	-	99,072	99,072
RUB	-100	-	(15,901)	(15,901)					
Total		-	(207,022)	(207,022)	Total		(765)	145,502	144,737
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
LVL	-50	0.00%	0.74%	0.74%	EUR	-50	-0.01%	0.34%	0.33%
USD	-100	0.00%	1.15%	1.15%	RUB	-300	0.00%	0.27%	0.27%
EUR	-100	0.00%	0.76%	0.76%	USD	-50	0.00%	1.29%	1.29%
RUB	-100	0.00%	0.16%	0.16%					
Total		0.00%	2.07%	2.07%	Total		0.00%	1.89%	1.88%

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14. Risk management (continued)

Equity price risk

Changes in equity prices depend on the following two groups of factors: changes in stock indices of a respective country (for instance, RIGSE Latvian companies stock index) 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.

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 equity price history.

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 swap 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	12,446	890,350	-	902,796
Financial assets held for trading				
Debt securities and other fixed income securities	5,799,576	2,426,257	848,004	9,073,837
Derivatives	(2,791,437)	2,893,499	-	102,062
Total assets	3,020,585	6,210,106	848,004	10,078,695
Liabilities				
Financial liabilities held for trading				
Derivatives	(3,311,361)	3,617,177	(330,197)	(24,381)
Accrued liabilities	(1,815)	(12,785)	-	(14,600)
Total liabilities	(3,313,176)	3,604,392	(330,197)	(38,981)
Net assets	(292,591)	9,814,498	517,807	10,039,714
<i>Net long / (short) position</i>	<i>(2.92%)</i>	<i>97.76%</i>	<i>5.16%</i>	<i>100%</i>

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

	USD	EUR	Other	Total
Assets				
Demand deposits with credit institutions	585,275	202,958	-	788,233
Financial assets held for trading				
Debt securities and other fixed income securities	5,144,233	1,694,029	514,100	7,352,362
Shares and other non-fixed income securities	-	-	127,210	127,210
Total assets	5,729,508	1,896,987	641,310	8,267,805

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	USD	EUR	Other	Total
Liabilities				
Financial liabilities held for trading				
Derivatives	(5,979,741)	5,463,280	-	(516,461)
Accrued liabilities	-	(11,980)	-	(11,980)
Total liabilities	(5,979,741)	5,451,300	-	(528,441)
Net assets				
	(250,233)	7,348,287	641,310	7,739,364
<i>Net long / (short) position</i>	<i>(3.23)%</i>	<i>94.95%</i>	<i>8.28%</i>	<i>100.00%</i>

As at 31 December 2011, other currencies are distributed as follows: GBP – LVL 127,210 and RUB – LVL 514,100

Effect of the currency exchange rate changes on the Fund's value is represented in the tables below. Changes in exchange rates are annualised standard deviation of a respective rate.

Effect of the currency exchange rate changes (2012)			
Currency	Density in Fund (% of net assets)	Exchange rate against EUR	Effect on Fund value
LVL	(0.02)%	1.24%	0.00%
USD	(2.90)%	8.27%	(0.24)%
EUR	97.76%	0.00%	0.00%
RUR	5.16%	8.20%	0.42%
Kopā	100.00%		0.18%

Effect of the currency exchange rate changes (2011)			
Currency	Density in Fund (% of net assets)	Exchange rate against EUR	Effect on Fund value (2011)
EUR	94.95%	0.00%	0.00%
RUR	6.64%	9.50%	0.63%
USD	(3.23)%	11.92%	(0.38)%
GBP	1.64%	8.82%	0.14%
Kopā	100.00%		0.39%

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 investment financial instruments: AAA –AA (Standard & Poor's); Aaa-Aa2 (Moody's Investors Service); AAA-AA (Fitch);

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14. Risk management (continued)

- Investment category financial instruments: AA- -BBB- (Standard & Poor's); Aa3 -Baa3 (Moody's Investors Service); AA- - 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
Demand deposits with credit institutions	-	902,796	-	--	902,796
Financial assets held for trading					
Debt securities and other fixed income securities	2,478,024	2,585,867	3,769,579	240,367	9,073,837
Shares and other non-fixed income securities					
Derivatives	-	77,681	-	-	77,681
Total assets	2,478,024	3,566,344	3,769,579	240,367	10,054,314

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
Demand deposits with credit institutions	-	-	788,233	-	788,233
Financial assets held for trading					
Debt securities and other fixed income securities	1,451,448	910,808	3,921,169	1,068,937	7,352,362
Shares and other non-fixed income securities	-	-	-	127,210	127,210
Derivatives	-	-	(516,461)	-	(516,461)
Total assets	1,451,448	910,808	4,192,941	1,196,147	7,751,344

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.

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14. Risk management (continued)

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	902,796	-	-	902,796
Financial assets held for trading				
Debt securities and other fixed income securities	27,769	1,877,020	7,169,048	9,073,837
Shares and other non-fixed income securities	-	-	-	-
Derivatives	102,062	-	-	102,062
Total assets	1,032,627	1,877,020	7,169,048	10,078,695
Liabilities				
Financial liabilities held for trading				
Derivatives	(24,381)	-	-	(24,381)
Accrued liabilities	(14,600)	-	-	(14,600)
Total liabilities	(38,981)	-	-	(38,981)
Net assets	993,646	1,877,020	7,169,048	10,039,714

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	788,233	-	-	788,233
Financial assets held for trading				
Debt securities and other fixed income securities	344,008	1,094,704	5,913,650	7,352,362
Shares and other non-fixed income securities	-	-	127,210	127,210
Total assets	1,132,241	1,094,704	6,040,860	8,267,805
Liabilities				
Financial liabilities held for trading				
Derivatives	(516,461)	-	-	(516,461)
Accrued liabilities	(11,980)	-	-	(11,980)
Total liabilities	(528,441)	-	-	(528,441)
Net assets	603,800	1,094,704	6,040,860	7,739,364

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**Notes
(LVL)**

14. Risk management (continued)

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	3,449,081	2,365,556	34.34%
Kazakhstan	1,249,131	1,165,110	12.44%
Latvia	993,646	603,800	9.90%
Ukraine	938,589	1,627,225	9.35%
Turkey	541,858	-	5.40%
Poland	465,404	521,950	4.64%
Rumania	452,816	-	4.51%
Azerbaijan	417,326	277,508	4.16%
Georgia	364,742	286,797	3.63%
Slovenia	362,163	-	3.61%
Croatia	297,363	255,317	2.96%
Czech Republic	294,997	265,212	2.94%
Estonia	212,598	307,542	2.12%
Belarus	-	63,347	0%
Total	10,039,714	7,739,364	100%

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	3,909,807	2,622,186	38.93%
Raw materials	1,147,038	1,541,835	11.42%
Government	1,128,126	402,089	11.24%
Energy resources	1,047,840	692,565	10.44%
Logistics	664,139	816,574	6.62%
Food, beverages, tobacco	470,584	473,914	4.69%
Public utilities	297,363	-	2.96%
Financial services	212,598	635,542	2.12%
Mass media	196,342	257,896	1.96%
Real estate	-	36,971	0.00%
Total	9,073,837	7,479,572	90.38%

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.

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14. Risk management (continued)

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 and no maturity	Total
Assets							
Demand deposits with credit institutions	902,796	-	-	-	-	-	902,796
Financial assets held for trading							
Debt securities and other fixed income securities	-	-	492,580	495,662	5,159,548	2,926,047	9,073,837
Shares and other non-fixed income securities			-				
Derivatives		102,062	-				102,062
Total assets	902,796	102,062	492,580	495,662	5,159,548	2,926,047	10,078,695
Liabilities							
Financial liabilities held for trading							
Derivatives	-	(10,487)	(13,894)	-	-	-	(24,381)
Accrued liabilities	(12,785)	(1,815)	-	-	-	-	(14,600)
Total liabilities	(12,785)	(12,302)	(13,894)	-	-	-	(38,981)
Net assets	890,011	89,760	478,686	495,662	5,159,548	2,926,047	10,039,714
<i>Net position % of net assets</i>	8.86%	0.89%	4.77%	4.94%	51.40%	29.14%	100.00%

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14. 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 and no maturity	Total
Assets							
Demand deposits with credit institutions	788,233	-	-	-	-	-	788,233
Financial assets held for trading							
Debt securities and other fixed income securities	165,521	250,594	36,971	502,425	4,227,759	2,169,092	7,352,362
Shares and other non-fixed income securities	-	-	-	-	-	127,210	127,210
Derivatives	2,517,747	-	-	2,945,533	-	-	5,463,280
Total assets	3,471,501	250,594	36,971	3,447,958	4,227,759	2,296,302	13,731,085
Liabilities							
Financial liabilities held for trading							
Derivatives	(2,711,644)	-	-	(3,268,097)	-	-	(5,979,741)
Accrued liabilities	(10,693)	-	(1,287)	-	-	-	(11,980)
Total liabilities	(2,722,337)	-	(1,287)	(3,268,097)	-	-	(5,991,721)
Net assets	749,164	250,594	35,684	179,861	4,227,759	2,296,302	7,739,364
<i>Net position % of net assets</i>	<i>9.68%</i>	<i>3.24%</i>	<i>0.46%</i>	<i>2.32%</i>	<i>54.63%</i>	<i>29.67%</i>	<i>100.00%</i>

15. 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	153	225	0.02%
Investment certificates held by other persons	882,398	786,098	99.98%
Investment certificates issued as at the end of the reporting period	882,551	786,323	100.00%

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**Notes
(LVL)**

16. 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 7). In addition, the Fund's cash resources (see Note 3) are held and derivative contracts (see Note 6) 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 7).

During the reporting year and during year 2011, the related parties of the Fund made transactions with the Fund's investment certificates. Listed 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 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 250,594 lats.

17. Dynamics of net asset value

	31.12.2012.	31.12.2011.	31.12.2010.
Net assets (LVL)	10,039,714	7,739,364	10,415,509
Number of investment certificates	882,551	786,323	925,855
Value of investment fund's shares (LVL)	11.38	9.84	11.25
Performance on investment fund's shares*	15.60%	(12.53)%	19.94%
Net assets (EUR)**	14,304,681	10,981,025	14,720,661
Number of investment certificates	882,551	786,323	925,855
Value of investment fund's shares (EUR)	16.21	13.97	15.90
Performance on investment fund's shares*	15.99%	(12.14)%	18.92%

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

** The net asset value in euro 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 - EUR

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 - EUR set out on pages 9 to 30 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 - EUR 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 'Ilandra Lejiņa'.

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.