

**OPEN-END INVESTMENT FUND
"CITADELE STRATEGIC ALLOCATION FUNDS"**

**Sub-fund
"Citadele Balanced Strategy Fund - EUR"
(5th financial year)**

**ANNUAL REPORT
FOR THE YEAR 2012**

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

Translation from Latvian original*

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

Riga, 2013

OIF "Citadele Balanced Strategy Fund - EUR"
Annual report for year 2012
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**OIF "Citadele Balanced Strategy Fund - EUR"
Annual report for year 2012
Information on the investment fund**

Name of the fund:	"Citadele Strategic Allocation Funds"
Type of fund:	Open- end investment fund with sub-funds
Name of the sub-fund:	Citadele Balanced Strategy Fund – EUR
Registration date of the fund:	24 August 2007
Number of the fund:	06.03.05.098/36
Name of the investment management company:	"Citadele Asset Management" IPAS
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 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 – Valters Ābele – appointed on 31.01.2012. , resigned on 01.11.2012 Member of the Council – Philip Nigel Allard – appointed on 01.11.2012 Deputy Chairman of the Council – Philip Nigel Allard – resigned on 01.11.2012. Member of the Council – Anatolijs Fridmans – resigned on 31.01.2012.</p> <p><i>Board of the investment management company:</i> 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>
The related rights and obligations of the management of the Fund:	All the duties of the Council and Board members stated in the legislation of the Republic of Latvia and Statutes of the investment management company are performed by the Council and Board members.
Names of Fund Managers (investment committee members):	Zigurds Vaikulis – appointed on 26.01.2011 Andris Kotāns - appointed on 29.06.2011.

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Information on the investment fund

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.

Auditors:

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 Balanced Strategy Fund - EUR"
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Investment management company report

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

The Fund aims to achieve long-term capital growth by investing in investment fund certificates (shares) and similar securities that are registered in Latvia and other EU and OECD member states. Equity funds may account for 30%-70% of the Fund's assets/portfolio.

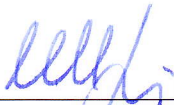
In 2012, the Fund's net asset value increased by 202,521 LVL or 30.17%, and amounted to 873,886 LVL at the end of the year. During the year the value of a share increased by 0.61 LVL up to 6.56 LVL. The yield was -10.22% in lats and -10.37% in the functional currency, euro.

The beginning of the year 2012 was relatively positive for the financial markets. The investors were reassured by the liquidity measures carried out by the European Central Bank and improvements in the economical situation of USA. As the result, during the first three months of the year significant increase of the risk assets was observed. However, in March the situation was adjusted by the concerns in respect of the ability of the Eurozone countries to manage the debts, as well as by the downturn of the macro environment and the uncertain results of the elections in Greece and France. The adjustment impacted only the equity shares, the situation in the market of the debt securities remained stable. During the following months of the reporting year the globally leading central banks demonstrated an aggressive policy in respect of the stimulation of the economical recovery and ensuring the functionality of the financial markets. Regarding the concerns about the future of the unified currency the European Central Bank announced euro to be irreversible. Additionally, the ECB made an announcement in respect of the ability to acquire the bonds of the countries facing the financial difficulties in an unlimited amount to reduce the increase of the loan rates and further expansion of the crisis. However, prior the acquisition the requirement of the participation in the financial support programme of the EC/IMF for the countries should have been submitted. Considering the fact that none of the countries applied for the programme, the announcement made a significant impact – the yield of the 10-year bonds of Italy declined by 2.1% by the end of the year and the yield for the bonds with the same maturity of Spain declined by 2.4%. In the autumn the System of Federal Reserves of the USA launched another campaign in respect of the issuance of the funds and announcing the continuance of the further increase of the assets as long as the unemployment level would reduce and the inflation would reach satisfactory level. The actions performed by the central banks significantly reduced the level of the risks and the improvement of the economical situation was observed in the USA as well as in the Eurozone. As the result, the activity level of the investors raised. Due to the recovery of the markets of the investments in the second half of the reporting year, the global equity markets concluded the year 2012 with the positive results. The year was successful for the debt securities as well – the performance was satisfactory for the investment rating bonds as well as the segment of the elevated risk bonds. Considering the decreased level of the risks, improvement of the overall environment and the indicators of the increasing interest of investors over the risk assets, the Fund manager was gradually implementing additional investments in the equity funds.

During the reporting period a number of changes were made in the structure of the Fund. The share of equity funds was increased from 33.46% to 40.65% of the Fund's net assets. The proportion of the bond funds was increased by 20.73% comprising 45.81% of the Fund's net assets. During the year the share of the balanced funds was decreased by 1.53% amounting to 6.62% of the Fund's net assets. As the result of these circumstances the proportion of cash has decreased to 7.03%. Fund's manager has retained an open position in the US dollars. At the end of the year investments in US dollars comprised 13.51% of the Fund's net assets, which is by 3.24% more than at the beginning of the year. All of the investment funds of the portfolio of the Fund are registered in the EU. The majority of the funds (equal to 47.4%) are registered in Luxembourg. The portfolio of the Fund also includes the investment funds registered in Ireland, Latvia, Germany, Austria and Lithuania.

During the reporting period fund management fee of 15,157 EUR was paid from the Fund's resources which is 1.35% of the average net asset value and does not exceed the maximum limit of 3% set forth in the Prospectus.

The Fund manager will pursue to follow on the changes of the global markets. The structure of the Fond will be adjusted according to the evaluation of the present and the expected future situation, mostly by adjusting with the share of investments in equity funds. Considering the debt crisis in Eurozone, it is planned to maintain an open currency position in the US dollars to ensure the balancing function.



 Uldis Upeniņš
 Chairman of the Board



 Zigurds Vaikulis
 Member of the Investment Committee



 Andris Kotāns
 Member of the investment Committee

OIF "Citadele Balanced Strategy Fund - EUR"
Annual report for year 2012

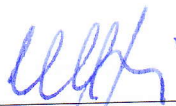
Statement of responsibility of the Board of the investment management company

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

The financial statements set out on pages 9 to 23 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 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 the International Financial Reporting Standards as adopted in the European Union on a going concern basis, as provided by the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Accounts of Investment Funds. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

The Board of the Company is responsible for the maintenance of proper accounting records, the safeguarding of the assets of Citadele Balanced Strategy Fund - EUR and the prevention and detection of fraud and other irregularities in the Fund. They are also responsible for operating the Fund in compliance with the Law of the Republic of Latvia on Investment Management Companies, regulations of the Financial and Capital Market Commission, and other laws and regulations of the Republic of Latvia.



Uldis Upenieks
Chairman of the Board

Riga,
26 April 2013



CUSTODIAN BANK REPORT

For holders of
OIF "Citadele Strategic Allocation Funds"
„Citadele Balanced Strategy 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 August 6, 2007., Citadele Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for OIF "Citadele Strategic Allocation Funds" (further in the text – Fund) founded by IPAS "Citadele Asset Management";

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

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

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

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

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

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

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



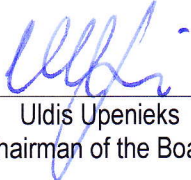
Guntis Beļavskis
Chairman of the Board, p.p.

Riga, February 25, 2013

OIF "Citadele Balanced Strategy Fund - EUR"
Annual report 2012
Statement of financial position
(Ls)

Notes		31.12.2012.	31.12.2011.
	Assets		
3	Demand deposits with credit institutions	61,467	224,404
4	Financial assets held for trading Investment certificates of investment funds and similar securities	813,398	447,745
	Total assets	<u>874,865</u>	<u>672,149</u>
	Liabilities		
5	Accrued expenses	(979)	(784)
	Total liabilities	<u>(979)</u>	<u>(784)</u>
	Net assets	<u>873,886</u>	<u>671,365</u>

The accompanying notes set out on pages 13 to 23 form an integral part of these financial statements.



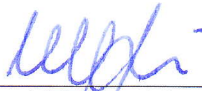
Uldis Upenieks
Chairman of the Board

Riga,
26 April 2013

OIF "Citadele Balanced Strategy Fund - EUR"
Annual report 2012
Statement of comprehensive income
(Ls)

Notes	2012	2011
Income		
6	1,697	1,938
	561	-
	2,258	1,938
Expenses		
	(8,661)	(7,471)
	(1,378)	(1,189)
	(644)	(662)
	(10,683)	(9,322)
Increase / (decrease) in investment value		
7	5,566	(18,159)
8	81,860	(36,693)
	87,426	(54,852)
	(3,980)	(9,651)
	75,021	(71,887)

The accompanying notes set out on pages 13 to 23 form an integral part of these financial statements.



 Uldis Upenieks
 Chairman of the Board

Riga,
 26 April 2013

OIF "Citadele Balanced Strategy Fund - EUR"
Annual report 2012
Statement of changes in net assets
(Ls)

	<u>2012</u>	<u>2011</u>
Net assets as at the beginning of the reporting period	671,365	711,113
Total comprehensive income / (expense)	75,021	(71,887)
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	<i>190,209</i>	<i>80,827</i>
<i>Outflow on redemption of investment certificates</i>	<i>(62,709)</i>	<i>(48,688)</i>
Increase in net assets from transactions with investment certificates	<u>127,500</u>	<u>32,139</u>
Increase / (decrease) in net assets for the reporting period	<u>202,521</u>	<u>(39,748)</u>
Net assets as at the end of the reporting period	<u><u>873,886</u></u>	<u><u>671,365</u></u>
Issued investment certificates as at the beginning of the reporting period	<u>112,847</u>	<u>107,682</u>
Issued investment certificates as at the end of the reporting period	<u>133,188</u>	<u>112,847</u>
Net asset value per investment certificate as at the beginning of the reporting period	<u>5.95</u>	<u>6.60</u>
Net asset value per investment certificate as at the end of the reporting period	<u><u>6.56</u></u>	<u><u>5.95</u></u>

OIF "Citadele Balanced Strategy Fund - EUR"
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 Statement of cash flows
 (Ls)

	2012	2011
Interest income	1,697	1,938
Dividend income	561	-
Investment management expenses	(10,489)	(9,456)
Acquisition of financial assets	(347,640)	(1,089,724)
Disposal of financial assets	62,464	1,235,066
Foreign currency conversion result	(121)	238
(Decrease) / increase in cash from operating activities	<u>(293,528)</u>	<u>138,062</u>
Inflow from sale of investment certificates	190,209	80,827
Outflow on redemption of investment certificates	<u>(62,709)</u>	<u>(48,688)</u>
Increase in cash from financing activities	<u>127,500</u>	<u>32,139</u>
(Decrease) / increase in cash	<u>(166,028)</u>	<u>170,201</u>
Cash as at the beginning of the reporting period	224,404	50,414
Result of revaluation of cash denominated in foreign currencies	<u>3,091</u>	<u>3,789</u>
Cash as at the end of the reporting period	<u><u>61,467</u></u>	<u><u>224,404</u></u>

OIF "Citadele Balanced Strategy Fund - EUR"
Annual report 2012
Notes
(Ls)

1. General information

Name of the fund:	"Citadele Strategic Allocation Funds"
Type of the fund:	Open-end investment fund with sub-funds
Fund's business activity:	Investments mainly in investment certificates (shares) of open-end investment funds registered in Latvia, other EU Member States and the OECD Member countries and similar securities.
Name of the sub-fund:	Citadele Balanced Strategy Fund - EUR
Sub-fund's business activity:	Under normal market conditions, from 30% to 70% of the Sub-fund's assets may be invested, directly or indirectly, in equity or similar securities, while other assets - mainly in debt securities and money market instruments.
Name of the investment management company:	"Citadele Asset Management" IPAS Republikas laukums 2a, Riga LV-1010, Latvia

2. Summary of significant accounting policies

Basis of preparation

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

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

The monetary unit used in the financial statements is lats (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2012 to 31 December 2012.

Critical accounting estimates and judgements

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

Income and expense recognition

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

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

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

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

Foreign currency translation

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

OIF "Citadele Balanced Strategy Fund - EUR"

Annual report 2012

Notes

(Ls)

2. Summary of significant accounting policies (continued)

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

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

Currency	31.12.2012.	31.12.2011.
USD	0.531	0.544

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

Cash and cash equivalents

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

Financial instruments

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

Financial assets at fair value through profit or loss

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

IFRS determines hierarchy of evaluation methods, which is based on whether in the evaluation method observable or non-observable market data are used. Company classifies all of its financial assets in the 1st level category of this hierarchy. In evaluation method of the Company there are used unadjusted prices that are listed in active markets. This level includes listed equities, securities and other financial instruments quoted on stock exchange.

Loans and receivables

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

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

Investments in securities

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

Held-for-trading securities are recognised at fair value based on available market prices. The result of re-measuring of 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 respective securities. Securities purchase and sale transactions are recognised on the date of settlement. The cost of securities sold is defined using FIFO (first in, first out) method.

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.

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2. Summary of significant accounting policies (continued)

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 IFRS and interpretations became effective in 2012, but are not relevant for the Company'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 Company 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).

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2. Summary of significant accounting policies (continued)

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 total Fund's net assets as at 31.12.2012.
Demand deposits with credit institutions – JSC Citadele bank	61,467	224,404	7.03%
Total demand deposits with credit institutions	61,467	224,404	7.03%

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

4. Investment certificates of investment funds and similar securities

	31.12.2012.	31.12.2011.	% of total Fund's net assets as at 31.12.2012.
Investment certificates of investment funds	813,398	447,745	93.08%
OECD region investment funds	697,166	371,216	79.78%
Latvian investment funds	63,533	54,709	7.27%
Other non-OECD region investment funds	52,699	21,820	6.03%
Total investment certificates of investment funds and similar securities	813,398	447,745	93.08%

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

All the Fund's investment certificates of investment funds and similar securities are traded on regulated markets, except for securities with the book value as at 31 December 2012 in the amount of LVL 491,717 (31 December 2011 – LVL 205,787).

The table below presents investment certificates of investment funds and similar 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				279,596	321,681	36.81%
Investment certificates of Luxembourg investment funds				111,502	126,452	14.47%
BLUEBAY INVESTMENT GRADE BOND FUND				609	56,639	7.53%
BLUEBAY HIGH YIELD BOND FUND				456	54,863	6.94%

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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.
Investment certificates of German investment funds						
DWS DEUTSCHLAND	DE0008490962	EUR	890	58,922	78,997	9.04%
				58,922	78,997	9.04%
Investment certificates of Latvian investment funds						
				61,847	63,533	7.27%
CITADELE EASTERN EUROPEAN BOND FUND - EUR	LV0000400174	EUR	5,580	61,847	63,533	7.27%
Investment certificates of Lithuanian investment funds						
				47,325	52,699	6.03%
CITADELE BALTIC SEA EQUITY FUND	LT0000950008	EUR	1,937	47,325	52,699	6.03%
<u>Financial instruments not traded on regulated markets</u>				<u>484,098</u>	<u>491,717</u>	<u>56.27%</u>
Investment certificates of Luxembourg investment funds						
TEMPLETON GLOBAL BOND FUND	LU0316492775	EUR	6,175	287,272	287,748	32.93%
VONTOBEL EMERGING MARKETS EQUITY FUND	LU0218912235	EUR	478	67,831	73,126	8.37%
MORGAN STANLEY GLOBAL BRANDS FUND	LU0218912235	EUR	478	61,538	65,720	7.52%
MORGAN STANLEY GLOBAL INFRASTRUCTURE FUND	LU0360482987	USD	3,180	60,924	59,455	6.81%
BLACKROCK WORLD GOLD FUND	LU0384383872	USD	2,755	55,124	57,887	6.62%
	LU0326422689	EUR	5,051	41,855	31,560	3.61%
Investment certificates of Ireland investment funds						
				137,335	138,232	15.82%
PIMCO TOTAL RETURN BOND FUND	IE0033989843	EUR	4,973	70,070	71,470	8.18%
GLG EUROPEAN EQUITY ALTERNATIVE	IE00B5429P46	EUR	880	67,265	66,762	7.64%
Investment certificates of Austria investment funds						
				59,491	65,737	7.52%
PIONEER EURO CORPORATE BOND FUND	AT0000811252	EUR	732	59,491	65,737	7.52%
Total investment certificates of investment funds and similar securities				763,694	813,398	93.08%

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

In 2012 the amount of fee withheld from funds in which investments are made is 0.07%.

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

	Carrying amount as at 31.12.2012.	Carrying amount as at 31.12.2011.	% of total Fund's net assets as at 31.12.2012.
Equity funds	355,193	224,678	40.65%
Bond funds	400,318	168,358	45.81%
Balanced funds	57,887	54,709	6.62%
	813,398	447,745	93.08%

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5. Accrued expenses

	31.12.2012.	31.12.2011.
Accrued commission fees payable to investment management company	(740)	(603)
Accrued commission fees payable to custodian bank	(118)	(96)
Accrued fees payable for professional services	(121)	(85)
Total accrued expenses	(979)	(784)

6. Interest income

	2012	2011
Interest income from demand deposits with credit institutions	1,697	1,938
Total interest income	1,697	1,938

7. Realised increase / (decrease) in investment value

	2012	2011
Income from sale of investments	62,464	1,239,141
Acquisition value of investments sold	(59,831)	(1,184,917)
Decrease / (increase) in value of investments sold, recognised in the prior reporting years	2,933	(72,383)
Total realised increase / (decrease) in investment value	5,566	(18,159)

8. Unrealised increase / (decrease) in investment value

	2012	2011
From investment certificates of investment funds and similar securities	81,860	(36,693)
Total unrealised increase / (decrease) in investment value	81,860	(36,693)

9. 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						
Investment certificates of investment funds and similar securities	447,745	347,640	(62,464)	(6,949)	87,426	813,398
Total investments	447,745	347,640	(62,464)	(6,949)	87,426	813,398

10. Pledged assets

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

11. Fair values of financial assets and liabilities

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

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12. Risk management

Risks are inherent in the investment process. The risk management process includes risk identification, risk measurement, and directly risk management. The investment process is exposed to 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 aforementioned 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: interest rates (interest rate risk), securities prices (price risk), exchange rates, interest rates, etc. Evaluated below are the sources of market risk, however they cannot be eliminated completely.

Interest rate risk

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

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

Equity price risk

Changes in equity prices depend on the following two groups of factors: changes in stock indices of respective country (for instance, 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 on equity price history.

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

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12. Risk management (continued)

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2012, based on the country of incorporation:

	Latvia	OECD region countries	Other non - OECD region countries	Total
Assets				
Demand deposits with credit institutions	61,467	-	-	61,467
Financial assets held for trading Investment certificates of investment funds and similar securities	63,533	697,166	52,699	813,398
Total assets	125,000	697,166	52,699	874,865
Liabilities				
Accrued expenses	(979)	-	-	(979)
Total liabilities	(979)	-	-	(979)
Net assets	124,021	697,166	52,699	873,886

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

	Latvia	OECD region countries	Other non - OECD region countries	Total
Assets				
Demand deposits with credit institutions	224,404	-	-	224,404
Financial assets held for trading Investment certificates of investment funds and similar securities	54,709	371,216	21,820	447,745
Total assets	279,113	371,216	21,820	672,149
Liabilities				
Accrued expenses	(784)	-	-	(784)
Total liabilities	(784)	-	-	(784)
Net assets	278,329	371,216	21,820	671,365

Currency risk

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

	EUR	USD	LVL	Total
Assets				
Demand deposits with credit institutions	60,732	735	-	61,467
Financial assets held for trading Investment certificates of investment funds and similar securities	696,056	117,342	-	813,398
Total assets	756,788	118,077	-	874,865
Liabilities				
Accrued expenses	(858)	-	(121)	(979)
Total liabilities	(858)	-	(121)	(979)
Net assets	755,930	118,077	(121)	873,886
<i>Net long position</i>	<i>86.50%</i>	<i>13.51%</i>	<i>(0.01)%</i>	<i>100.00%</i>

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12. Risk management (continued)

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

	EUR	USD	Total
Assets			
Demand deposits with credit institutions	155,451	68,953	224,404
Financial assets held for trading			
Investment certificates of investment funds and similar securities	447,745	-	447,745
Total assets	603,196	68,953	672,149
Liabilities			
Accrued expenses	(784)	-	(784)
Total liabilities	(784)	-	(784)
Net assets	602,412	68,953	671,365
<i>Net long position</i>	<i>89.73%</i>	<i>10.27%</i>	<i>100.00%</i>

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

The effect of changes in currency exchange rates (2012)			
Currency	Density in fund (% of net assets)	Exchange rate against EUR	Effect on Fund value
EUR	86.50%	0.00%	0.00%
USD	13.51%	8.27%	1.12%
LVL	(0.01)%	1.24%	0.00%
Total	100.00%		1.12%

The effect of changes in currency exchange rates (2011)			
Currency	Density in fund (% of net assets)	Exchange rate against EUR	Effect on Fund value
EUR	89.73%	0.00%	0.00%
USD	10.27%	11.92%	1.22%
Total	100.00%		1.22%

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 selecting the funds, the Fund Manager analyses their average credit rating, financial statements and future perspectives.

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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12. Risk management (continued)

For liquidity assessment purposes, the balances of assets and liabilities are stated according to their remaining maturities.

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

	Within 1month	1 – 6 months	No maturity	Total
Assets				
Demand deposits with credit institutions	61,467	-	-	61,467
Financial assets held for trading Investment certificates of investment funds and similar securities	-	-	813,398	813,398
Total assets	61,467	-	813,398	874,865
Liabilities				
Accrued expenses	(858)	(121)	-	(979)
Total liabilities	(858)	(121)	-	(979)
Net assets	60,609	(121)	813,398	873,886
<i>Net position %</i>	<i>6.93%</i>	<i>(0.01)%</i>	<i>93.08%</i>	<i>100.00%</i>

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

	Within 1month	1 – 3 months	No maturity	Total
Assets				
Demand deposits with credit institutions	224,404	-	-	224,404
Financial assets held for trading Investment certificates of investment funds and similar securities	-	-	447,745	447,745
Total assets	224,404	-	447,745	672,149
Liabilities				
Accrued expenses	(699)	(85)	-	(784)
Total liabilities	(699)	(85)	-	(784)
Net assets	223,705	(85)	447,745	671,365
<i>Net position %</i>	<i>33.32%</i>	<i>(0.01)%</i>	<i>66.69%</i>	<i>100.00%</i>

13. Information on holders of investment certificates

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

	31.12.2012.	31.12.2011.	% of total amount as at 31.12.2012
Investment certificates held by related parties	200	200	0.15%
Investment certificates held by other persons	132,988	112,647	99.85%
Investment certificates issued as at the end of the reporting year	133,188	112,847	100.00%

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14. 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 note 5). In addition, the Fund's cash resources are held in JSC Citadele banka (see Note 3).

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

During the reporting period, the Fund had investments in investment funds managed by related investment management Company IPAS "Citadele Asset Management" in amount of LVL 116,232 (31 December 2011 – LVL 76,529).

During the reporting period related parties did not make any transactions with Fund's investment certificates. During the year 2011 related parties purchased 171.5527 and sold 216.2 Fund's investment certificates. The Fund's investment certificates purchase and sold 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.

15. Dynamics of the Fund's performance

	31.12.2012.	31.12.2011.	31.12.2010.
Fund's net assets (LVL)	873,886	671,365	711,113
Number of Fund's shares	133,188	112,847	107,682
Value of Fund's shares	6.56	5.95	6.60
Performance on Fund's shares**	10.22%	(9.85)%	15.38%
Fund's net assets (EUR)*	1,243,674	954,957	1,008,746
Number of Fund's shares	133,188	112,847	107,682
Value of Fund's shares	9.34	8.46	9.37
Performance on Fund's shares**	10.37%	(9.71)%	14.97%

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

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



Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of AIF Citadele Strategic Allocation Funds sub-fond Citadele Balanced Strategy Fund - EUR set out on pages 9 to 23 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 Strategic Allocation Funds sub-fond Citadele Balanced Strategy 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.