INVESTMENT FUND
CBL Baltic Sea Equity Fund

ANNUAL REPORT FOR 2016
(4th financial year)

PREPARED IN ACCORDANCE WITH
FCMC NORMATIVE REGULATIONS ON PREPARATION OF ANNUAL REPORTS, CONSOLIDATED ANNUAL REPORTS AND SEMI-ANNUAL REPORTS OF INVESTMENT FUND AND OPEN ALTERNATIVE INVESTMENT FUND AND
INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EUROPEAN UNION

Riga, 2017

IF CBL Baltic Sea Equity Fund
Annual Report for 2016
Information on the investment fund

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Name of the Fund:	CBL Baltic Sea Equity Fund
Type of the Fund:	Investment fund
Registration date of the Fund:	7 March 2013
Date of commencing operations of the Fund:	20 November 2013
Number of the Fund:	FL127
Investment management company name:	CBL Asset Management IPAS
Investment management company's registered office:	Republikas laukums 2a, Riga, LV-1010, Latvia
Investment management company's registration number:	40003577500
Number of the license for investment management company operations:	06.03.07.098/367
Name of the Fund's Custodian	AS Citadele Banka
Registered office of the Fund's Custodian	Republikas laukums 2a, Riga, LV-1010, Latvia
Registration number of the Fund's Custodian:	40103303559
Investment management company's Council and Board members and their positions:	*Council of the investment management company:* Chairperson of the Council – Juris Jākobsons – appointed on 30.09.2010. Deputy Chairperson of the Council - Vladimirs Ivanovs - appointed on 01.11.2012. Member of the Council - Peter Meier - appointed on 30.09.2015. Member of the Council - Aldis Paegle – appointed on 04.07.2014, dismissed on 24.08.2016. *Board of the investment management company:* Chairperson of the Board – Uldis Upenieks – appointed on 01.11.2012. Board Member - Zigurds Vaikulis - appointed on 30.03.2007. Board Member - Andris Kotāns - appointed on 11.05.2015. Board Member - Lolita Sičeva - appointed on 11.05.2015.
Rights and responsibilities related to investment fund management:	Council and Board members shall perform all duties of council and board members prescribed in laws and regulations of the Republic of Latvia and in the Articles of Association of the investment management company.
Fund managers (members of the Investment Committee):	Andris Kotāns - appointed on 07.03.2007. Elchin Jafarov - appointed on 07.03.2007. Igors Lahtadirs - appointed on 21.11.2013. Kristiāna Janvare – appointed on 07.03.2007, dismissed on 19.08.2016.
Rights and responsibilities related to the Fund's management:	The Fund Manager shall perform all duties prescribed in laws and regulations of the Republic of Latvia, in the Articles of Association of the investment management company and in the prospectus of the Fund, which must be performed by the Fund's manager.
Auditor:	KPMG Baltics SIA Vesetas iela 7, Riga, LV-1013 License No 55 Latvia

The manager of the investment fund CBL Baltic Sea Equity Fund (hereinafter the Fund) is investment management company CBL Asset Management, registered office Republikas laukums 2a, Riga, LV-1010, registration number 40003577500 (hereinafter the Company). The Company's operating license number is 06.03.07.098/367, which was last re-registered on 19 January 2015.

On 20 November 2013 Investment Fund "Citadele Baltic Sea Countries Equity Fund" which is registered in Lithuania (ISIN LT0000950008) was merged with Latvian "CBL Baltic Sea Equity Fund" (ISIN LV0000400794). Following the merger, Lithuanian "Citadele Baltic Sea Countries Equity Fund" ceased to exist, whereas all investors received the same amount of Latvian fund shares.

The investment objective of the Fund is to achieve long-term capital appreciation by investing primarily in the shares of those issuers that are registered in or whose principal activities are carried out in the Baltic Sea region. The Fund's return is generated through a combination of share price appreciation and dividend income. The currency of the Fund is euro.

The year started in a downbeat mood for global risk assets, triggered by concerns about Chinese currency devaluation, Emerging Markets capital outflows, and slowing global economic growth momentum. Extreme oil price weakness added to the overall uncertainty, leaving a negative impact on global industrial demand and earnings, and requiring several oil-driven economies to tap their oil funds to fill the holes in national budgets.

Despite that, partially due to monetary support actions of global central banks and recovered oil prices, European macroeconomic situation started to recover towards the second half of the year, whereas Markit Eurozone Manufacturing PMI reached almost 55 point level by the end of 2016. European Central Bank (ECB) in its turn was supportive for the markets by announcing a series of policy measures, such as deposit rate cuts and increase in the pace of monthly asset purchases. In contrary, the US Federal Reserve System continued with modest hiking of the interest rates with one 0.25% raise in December 2016. That resulted in modest 3.8% depreciation of Euro against US dollar over the year, which overall positively affected European exporters. Major political events that potentially could affect the market in Europe were *Brexit* and the US presidential election. The outcome of these two events surprised the markets, but despite the increase in short-term volatility, they managed to recover rather quickly.

Overall, European stock index Stoxx 600 delivered negative return over the year, declining by 1.7%. The major negative contribution came from the UK market, which declined in euro terms, as British pound lost ground due to "Brexit". Amongst the focus markets of the Fund, Norway gained the most in euro terms (21%), as the market priced in strong oil price rebound, with Brent gaining 56% over the year. Finnish (+4%) and German (+7%) markets also finished the year on a positive note, as global economic rebound made cyclical companies attractive again. Baltic market also held well with 15% gain, as listed companies exposed to CIS markets benefited from the signs of geopolitical and economic stabilization in the region. On the other side, Denmark (-13%) was clear underperformer, as its dominant Heath Care sector fell victim to policy discussions in the US towards tighter regulation of pharmacy prices. Other markets within the Fund's radar ended the year close to flat.

In 2016, the Fund's net assets decreased by EUR 141,804 and represented EUR 3,861,752 at the end of the year. Gross asset value as at 31.12.2016 amounted to EUR 3,869,776. Whereas, the value of the unit of the Fund in 2016 increased by EUR 0.60, reaching EUR 42.54. The Fund's overall return in 2016 was 1.43% in euro-terms and 1.35% in the Fund's base currency (euro) at financial markets foreign exchange rates set at end of the day.

From geographical perspective, in 2016 the largest positive contribution came from the Fund's investments in German, Norwegian, and Baltic equities. German market has substantial weight of cyclical companies, thus weaker euro (-3.8% versus US dollar over the year) and strengthening global economies made this segment attractive for investors, pushing the market higher. Meanwhile, 56% rise in oil price supported Norwegian oil producers and the related sectors of the economy. Baltic market in its turn enjoyed improved geopolitical situation in the Eastern European region, while European recovery spillover effect positively affected local businesses as well. On the other hand, the most negative contributing countries were Denmark and Sweden. While weaker performance in Swedish segment was mainly due overall market movement, in Denmark the major drag came from the Healthcare sector. Concerns about new price-restrictive regulations towards pharmacy in the US had significantly shaken the ground for Healthcare sector, which remains one of the dominant sectors in Danish economy. Other countries, namely Finland and Poland, had a flat contribution to the Fund's performance. From sector perspective, the majority of losses that contributed negatively to the Fund's performance were in Health

Care, Consumer Discretionary, and Financials sectors. On the other hand, Industrials, Materials, Information Technology, Consumer Staples, and Energy sectors contributed well.

Over the year, the Fund increased exposure to Germany (+6.8%), Estonia (2.4%), Poland (+1.6%), Finland (+1.5%), Denmark (+1.0%), while the exposure to Lithuania (-0.6%), Latvia (-3.1% including cash positions), Norway (-4.4%), and Sweden (-5.3%) was decreased. From sector perspective, the exposure to Telecoms (4.3%), Healthcare (+3.9%), IT (3.2%), Energy (1.9%), Consumer Discretionary (+0.3%) increased, while weights of Financials (-8.6%), Industrials, Utilities, and Consumer Staples (-0.3%) decreased.

Management expenses during the period amounted to EUR 86,433 or 2.26% of average value of net assets during the period, which does not exceed the minimum amount of 4.00% as laid down in the Fund's prospectus.

Since the end of the reporting year to the date of the approval of the report, there have been no events that would significantly affect the financial position of the Fund.

Although improving economic conditions both in Developed and Emerging economies increasingly support equity markets, political risks remain a significant constraint. The series of upcoming elections in Europe, where France will be watched the most closely, could have significant influence on the markets. Given no major surprises on the political front, the markets can fundamentally support higher valuations, as corporate earnings improve. Realisation of promised infrastructure projects in the US could serve as another boost for the markets, but many will depend on the path and the level of implementation. The ECB and the Fed monetary policy can continue to play in favour of equity markets, however faster pace of rate hike or decrease in monetary stimulus can weigh on emerging economies. Important to mention, European company sales and earnings growth will remain significantly dependent on growth of Emerging Economies, like China, where the signs of stabilization have been observed.

Uldis Upenieks
Chairman of the Board

Andris Kotāns Investment Committee Member	Igors Lahtadirs Investment Committee Member	Elchin Jafarov Investment Committee Member

Riga, 27 April 2017

Statement of responsibility of the Board of the investment management company

The Board of Investment Management Company (hereinafter - the Company) is responsible for preparation of financial statements of the investment fund CBL Baltic Sea Equity Fund (former Citadele Baltic Sea Equity Fund) (hereinafter - the Fund).

The financial statements on pages 8 to 25 are prepared based on source documents and present fairly the financial position of the Fund as at 31 December 2016 and the results of its operations in 2016.

Financial statements mentioned above are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, as required by the regulation of the Financial and Capital Market Commission (FCMC) "On preparation of annual reports, consolidated annual reports and semi-annual reports of investment fund and open alternative investment fund" on a going concern basis. Appropriate accounting methods have been consistently applied in the reporting period. Prudent and reasonable judgments 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 CBL Baltic Sea Equity Fund assets and the prevention and detection of fraud and other irregularities. The Board is also responsible for ensuring compliance with the Law 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,
27 April 2017

Citadele

Riga, February 28, 2017

CUSTODIAN BANK REPORT

For holders of IF "CBL Baltic Sea Equity fund"
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 February 05, 2013, Citadele Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the IF "CBL Baltic Sea Equity fund" (further in the text – Fund) founded by IPAS "CBL 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 IF "CBL Baltic Sea Equity fund" 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.

IF CBL Baltic Sea Equity Fund
Annual Report for 2016
Statement of assets and liabilities
(EUR)

Note		31.12.2016	31.12.2015
	Assets		
3	Due on demand from credit institutions	54,937	200,546
	Financial assets held for trading		
4	Shares	3,814,839	3,810,820
	Total assets	**3,869,776**	**4,011,366**
	Liabilities		
5	Accrued expenses	(8,024)	(7,810)
	Total liabilities	**(8,024)**	**(7,810)**
	Net assets	**3,861,752**	**4,003,556**

The accompanying notes on pages 12 to 25 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

IF CBL Baltic Sea Equity Fund
Annual Report for 2016
Statement of income and expenses
(EUR)

Note		2016	2015
	Income of the reporting period		
	Dividend income	115,312	91,066
	Total income	**115,312**	**91,066**
	Expenses of the reporting period		
	Remuneration to investment management company	(76,509)	(72,555)
	Custodian Fee	(6,886)	(6,530)
	Other Fund management expenses	(3,038)	(2,520)
	Total expenses	**(86,433)**	**(81,605)**
	Decrease in investment value		
6	Realized decrease in investment value	(163,526)	(202,383)
7	Unrealized increase/(decrease) in investment value	182,397	(52,192)
	Total increase/(decrease) in investment value	**18,871**	**(254,575)**
	Foreign currency revaluation result	(6,152)	245,444
	Increase in net assets from investment	**41,598**	**330**

The accompanying notes on pages 12 to 25 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

IF CBL Baltic Sea Equity Fund
Annual Report for 2016
Statement of changes in net assets
(EUR)

	2016	**2015**
Net assets at the beginning of the reporting period	4,003,556	2,865,001
Increase in net assets from investment	41,598	330
Transactions with share certificates		
Income from sale of share certificates	*704,089*	*1,729,437*
Expenses of share certificate redemption	*(887,491)*	*(591, 212)*
(Decrease)/increase in net assets from transactions with share certificates	(183,402)	1,138,225
Net asset (decrease)/increase in the reporting period	**(141,804)**	**1,138,555**
Net assets at the end of the reporting period	**3,861,752**	**4,003,556**
The number of share certificates issued as at the beginning of the reporting period	95,454	69,767
The number of share certificates issued at the end of the reporting period	90,780	95,454
Net assets per share certificate as at the beginning of the reporting period	41.94	41.07
Net assets per share certificate as at the end of the reporting period	**42.54**	**41.94**

The accompanying notes on pages 12 to 25 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

IF CBL Baltic Sea Equity Fund
Annual Report for 2016
Cash flow statement
(EUR)

	2016	2015
Dividend income	115,312	91,066
Investment management expenses	(86,213)	(79,667)
Acquisition of financial investments	(1,589,892)	(2,476,097)
Sale/disposal of financial investments	1,596,612	1,414,551
Foreign currency translation result	(868)	(87)
Increase/(decrease) in cash and cash equivalents from operating activities	**34,951**	**(1,050,234)**
Income from sale of share certificates	704,089	1,729,437
Expenses of share certificate redemption	(887,491)	(591,212)
(Decrease)/increase in cash and cash equivalents from financing activities	**(183,402)**	**1,138,225**
Increase/(decrease) in cash and cash equivalents	**(148,451)**	**87,991**
Cash and cash equivalents at the beginning of the reporting period	**200,546**	**109,067**
Result of revaluation of cash and cash equivalents denominated in foreign currencies	**2,842**	**3,488**
Cash and cash equivalents at the end of the reporting period	**54,937**	**200,546**

The accompanying notes on pages 12 to 25 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

1. General information

Name of the Fund:	CBL Baltic Sea Equity Fund
Type of the Fund:	Investment fund
Scope of the Fund:	Investing primarily in equities of issuers that are registered or carry out their core activities in the Baltic Sea Region.
Investment management company name:	CBL Asset Management IPAS (hereinafter the Company) Republikas laukums 2a, Riga, LV-1010, Latvia

2. Summary of significant accounting policies

Basis of preparation

Financial statements of IF CBL Baltic Sea Equity Fund (hereinafter - the Fund) are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS), as required by the regulation of the Financial and Capital Market Commission (FCMC) On preparation of annual reports, consolidated annual reports and semi-annual reports of investment fund and open alternative investment fund.

The financial statements are prepared on a historical cost basis and adjusted for the fair value of the financial instruments held for trading.

The functional and presentation currency in the financial statements is the official currency of the Republic of Latvia, euro (EUR). The financial statements cover the period from 1 January 2016 to 31 December 2016.

Opening balances of Statement of assets and liabilities as at 1 January 2016 agree with the closing balances of the published financial statements for the year 2015.

Functional and financial reporting currency

Financial accounting of the Fund is carried out in euro, which is the Fund's reporting and functional currency.

Significant estimates and assumptions

Preparation of financial statements in compliance with IFRS as adopted by EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures in the financial statements at the date of financial statements, as well as income and expenses recognized in the reporting period. Moreover, when preparing the financial statements, the management of the Company has to make assumptions and judgments to apply the Fund's accounting policy.

The most significant estimates and assumptions relate to determination of the fair value of financial assets.

Income and expense recognition

All interest income and expenses are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. Interest income and expenses include discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Income from dividends is recognized as received; in certain cases income from dividends may be recognized following a decrease in stock prices after the issuer has announced the dividend payment.

Remuneration for Fund's management and Custodian fee is calculated as a certain part of the value of Fund's assets, accrued on a daily basis but paid out on a monthly basis.

Foreign currency revaluation

Transactions in foreign currencies are translated into euro at the foreign exchange rate published by the European Central Bank as at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into euro according to the foreign exchange rate published by the European Central Bank as at the end of the last day of the reporting period. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency using the exchange rate at the date on which the fair value was determined. Profit or loss arising from changes in foreign exchange rate is charged to the profit and loss statement as profit or loss on revaluation of foreign exchange positions.

The exchange rates (foreign currency units against EUR) published by the European Central Bank that were mainly applied when preparing the Statement of Assets and Liabilities of the Fund were as follows:

Currency	31.12.2016	31.12.2015
DKK	7.43440	7.4626
NOK	9.08630	9.6030
PLN	4.41030	4.2639
SEK	9.55250	9.1895
RUB	64.30000	80.6736
USD	1.05410	1.0887

Cash and cash equivalents

Cash and cash equivalents comprise Fund's current account balances and other short term high liquidity investments with original maturity of less than 3 months.

Financial instruments

Financial instruments are classified into the following categories: instruments measured at fair value through profit or loss and loans and receivables. Classification depends on the purpose of acquisition of the financial instrument. Management determines the classification of the financial instrument at initial recognition.

Financial instruments measured at fair value through profit and loss

Financial assets measured at fair value through profit and loss are financial assets that are purchased or acquired for the purpose of selling in the near future or that are classified as measured at fair value through the profit or loss after initial recognition. A financial instrument is held for trading if the Fund holds it for the sole purpose of profiting from short-term fluctuations of financial instrument prices. Financial instruments held for trading include shares, investment certificates of investment funds, debt securities with fixed income, as well as derivative financial instruments. IFRS determine the hierarchy of financial instrument fair value assessment techniques, based on whether observable market data is used when determining the fair value of financial instruments or whether such data are unavailable. All financial assets of the Fund, which are measured at fair value, are classified in the 1st level category of this assessment technique. In order to determine the fair value, quoted market prices in an active market are used (unadjusted). This level includes publicly traded equities and other financial instruments traded on the stock exchange.

Securities are revalued on the basis of financial information provided by Bloomberg on the market demand (bid) prices of these securities. Unlisted securities are assessed according to the custodian's information on effected transactions, but in case such information is not available, the securities are assessed at amortized cost. Purchase and sales transactions with securities are recognized at the settlement date. The historical cost is measured using the F|FO (*first in, first out*) method.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include amounts due from credit institutions. Fund's claims against credit institutions are carried at their amortized cost using the effective interest rate method less impairment, if any.

Provision for impairment of receivables is created when there is objective evidence that the Fund will not be able to collect the full amount due according to the original repayment terms. Provision for impairment is defined as the difference between the amortized cost and the recoverable amount.

Fair value of financial assets and liabilities

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an arm's length transaction between market participants at the measurement date in the principal market, or in its absence, the most advantageous market to which the Fund has access at that date. The fair value of liabilities reflects the risk of default.

When possible, the Company measures the fair value of the Fund's financial instruments using the price of the respective financial instrument quoted in an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

As regards initial recognition, the best evidence of fair value is the transaction price, i.e., the fair value of remuneration given or received. If the Fund determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by the quoted market price of an identical asset or liability in an active market, nor by results of assessment methods that use only observable data, the financial instrument is initially carried at fair value which is adjusted to reflect the difference between the fair value at initial recognition and the transaction price. Later this difference is recognized in the profit or loss statement, taking into account the instrument's expected useful life, but no later than the time when the value may be fully justified by observable market data or when the transaction is completed.

Financial asset and financial liability portfolios that are exposed to market risk and credit risk, managed by the Fund based on the net exposure to either market risk or credit risk, are assessed taking into account the price that would be paid for the sale of the net long position (or paid to transfer net short position) for particular risks. These portfolio-level adjustments are allocated to individual assets and liabilities based on relative risk adjustments related to each of the individual instruments in the portfolio.

Taxes

Fund's income is subject to taxes in the country where it has been generated. The Fund is not subject to Latvian corporate income tax.

Changes in accounting policies

The Fund has consistently applied the accounting policies through all the periods presented in these financial statements, except for the changes described below.

The Fund has considered the following new standards and amendments to standards, including the resulting amendments to other standards, whose initial effective date was 1 January 2016, and have concluded that they do not apply to the Fund.

- IFRS 11 : *Accounting for Acquisition of Interests in Joint Operations*
- IAS 1: *Presentation of Financial Statements*
- IAS 16: *Property, Plant and Equipment* and IAS 38: *Intangible Assets*
- IAS 16: *Property, Plant and Equipment* and IAS 41: *Agriculture*
- IAS 19: *Benefit Plans: Employee Benefits*
- IAS 27: *Separate Financial Statements*
- Annual amendments to IFRS

New standards and interpretations

Several new standards, amendments and interpretations of standards enter into force in the period after 1 January 2017, and they have not been applied in these financial statements. Standards and interpretations applicable to the Fund are described below. There are no plans to apply these standards to the Fund before the prescribed time.

(i) IFRS 9: *Financial instruments* (2014) (In force for the period beginning on or after 1 January 2018, and with certain exceptions will be applied retrospectively. There is no requirement to reclassify comparative data and it is only allowed if the information is available without revaluation. Earlier application is permitted.)

This standard is the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* specifying an exception with regard to hedge accounting where IAS 39 can still be applied and companies may choose whether to apply IFRS 9 or IAS 39.

Although permissible basic categories of financial asset classification are similar to those provided for in IAS 39 - amortized cost, fair value reported in other comprehensive income (FVOCI) or fair value reported at profit or loss statement (FVPL), the classification in the respective valuation category is based on significantly different criteria.

Financial assets are valued at amortized cost if they meet the following two criteria:

- the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, the Fund may permanently choose to charge any changes in fair value (including profit or loss from fluctuations in foreign exchange rates) of equity instruments that are not actively traded to other comprehensive income. They may not, in any circumstances, be charged to the profit or loss statement.

Interest income, expected credit losses or gains or losses from foreign exchange fluctuations of debt instruments that are measured at fair value through other comprehensive income are recognized in the profit or loss statement in the same way as those derived from the assets recognized at amortized cost. Other gains and losses are recognized in other comprehensive income and transferred to profit or loss after the respective instruments are derecognized.

IFRS 9 introduces a new expected loss impairment model replacing the 'incurred loss model' of IAS 39, which means that the impairment provision will have to be recognized before the loss event.

IFRS 9 introduces a new comprehensive hedge accounting model, aligning the hedge accounting with risk management. The risk hedging methods: fair value hedge, cash flow hedge and hedge of a net investment in a foreign operation remain unchanged, yet, additional judgments will have to be made for classification purposes.

The standard includes new requirements, based on which the hedge accounting shall be commenced, continued and terminated, and this allows for additional exposures to be designated as hedged items.

The Fund will have to disclose extensive additional information on risk management and the performed hedging transactions.

It is not expected that IFRS 9 (2014) will significantly affect the financial statements of the Fund. Taking into account the activities of the Fund and its financial instruments, it is not expected that the introduction of the requirements specified in IFRS 9 will change classification and valuation of financial instruments.

(ii) IFRS 15 *Revenue from Contracts with Customers* (effective for accounting periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new standard replaces the currently effective IFRS guidelines on the recognition of revenue. To determine when and to what extent revenue shall be recognized, companies will have to use a five-step model. The new model provides that the entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Depending on whether certain criteria are met, revenue is recognized:

- over time, reflecting the company's financial results; or
- when the control over goods or services is transferred to the customer.

IFRS 15 prescribes principles that should be followed to provide useful qualitative and quantitative information to users of financial statements, enabling them to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Even though the initial assessment of the potential impact of IFRS 15 on financial statements have not yet been completed, the management does not expect that the initial application of the new standard will significantly affect financial statements of the Fund.

(iii) IFRS 16 *Leases* (effective for accounting periods beginning on or after 1 January 2019. Earlier application is permitted if the company also applies IFRS 15).

IFRS 16 replaces IAS 17, *Leases* and its interpretations. This standard cancels the double accounting model currently applied by lessees and instead prescribes that most leases shall be recognized in the balance sheet under a single model, abolishing classification of leases as operating or finance.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new lease model prescribes that in the case of such contract a lessee recognizes a right-of-use asset and a lease liability. With regard to the right-of-use asset depreciation must be assessed and interest expense must be recognized with regard to the liability on accrual basis. As a result, most of the lease expenses will be recognized at the beginning of the lease period, even in cases where the lessee will pay the same amount each year.

The new standard offers the lessees several exceptions restricted as to their volume, which include:

- lease with a term not exceeding 12 months without a buy-out option, and
- lease of an asset with a low value.

The introduction of the new standard will not affect the accounts of lessors where the difference between the operational and financial lease will be retained.

It is not expected that application of the new standard will significantly affect financial statements of the Fund, as no contracts within the scope of IFRS 16 have been concluded

(iv) Amendments to IFRS 2 : *Classification and Measurement of Share-based Payment* (effective for the reporting period that begins on or after 1 January 2018; must be applied retrospectively. Earlier application is permitted).

Amendments clarify the accounting for share-based payments in the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

It is expected that at the time of the initial application these amendments will not substantially affect the Fund's financial statements as no share-based payments are being performed.

(v) Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (IASB has not yet determined the effective date but earlier application is permitted).

The Amendments clarify that recognition of gains or losses from a transaction with associate or join venture depends on whether the sold or invested assets constitute a business, thus:

- the full amount of gain or loss resulting from a transaction between the investor and its associate or a joint venture is recognized if in the framework of the transaction an asset or assets that constitute a business (disregarding whether it is a part of the subsidiary) are being transferred, but
- only a part of the gain or loss resulting from the transaction between the investor and its associate or a joint venture is recognized if in the framework of the transaction assets that do not constitute a business are being transferred, even if these assets are a part of the subsidiary).

It is not expected that at the time of the initial application these amendments will significantly affect financial statements of the Fund, as the Fund has no subsidiaries, associated companies or joint ventures.

(vi) Amendments to IAS 7 (effective for accounting periods beginning on or after 1 January 2017; must be applied retrospectively. Earlier application is permitted).

The Amendments prescribe additional disclosures that will help users to assess the changes in liabilities from financing activities, including changes resulting from cash flows and other changes (for example, profit or loss from foreign exchange fluctuations, changes incurred in gaining or losing control over subsidiaries, changes in fair value).

It is expected that at the time of the initial application these amendments will not substantially affect the Fund's financial statements.

(vii) Amendments to IAS 12 : *Recognition of Deferred Tax Assets for Unrealized Losses* (effective for reporting periods beginning on or after 1 January 2017; must be applied retrospectively. Earlier application is permitted).

The Amendments clarify how and when, in specific circumstances, the deferred tax assets must be recognized, and explain how to determine future taxable income to consider the recognition of the deferred tax asset.

It is expected that at the time of the initial application these amendments will not affect the Fund's financial statements as the Fund is not subject to corporate income tax.

(viii) Amendments to IAS 40 *Transfers of Investment Property* (effective for accounting periods beginning on or after 1 January 2018; must be applied retrospectively).

The Amendments reinforce the principle prescribed in IAS 40, *Investment property,* regarding the transfer of assets to, or from, investment property, stating that reclassification may only be performed when there has been a change in use of the property. In accordance with the Amendments, reclassification may only be performed when the type of use has actually changed, i.e. the asset meets, or ceases to meet, the definition of investment property and there was an evident change in use. Reclassification may not be based solely on management's intentions for the use of a property.

It is expected that at the time of the initial application these amendments will not affect the Fund's financial statements as the Fund does not hold investment property.

(ix) IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective for reporting periods beginning on or after 1 January 2018).

The Interpretation clarifies how to determine the date of transaction in order to establish the effective foreign exchange rate to be used for the initial recognition of an underlying asset, expense or revenue (or its part) or derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in foreign currency. In these circumstances, the date of the transaction is the date of initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

It is not expected that at the time of its initial application this interpretation will have significant impact on the financial statements of the Fund because, for initial recognition, the Fund uses the foreign currency exchange rate effective on the transaction date.

Annual improvements — 2014-2016 cycle were published on 8 December 2016 introducing two amendments in two standards and further amendments to other standards and interpretations resulting thereof, changing the accounting principles applicable to information disclosure, recognition or valuation. Amendments to IFRS 12, *Disclosure of Interests in Other Entities* are effective for reporting periods starting on or after 1 January 2017, and Amendments to IAS 28, *Investments in Associates and Joint Ventures* are effective for reporting periods starting on or after 1 January 2018 and must be applied retrospectively. Earlier application is permitted.

It is not expected that either of these amendments will significantly affect the financial statements of the Fund.

It is planned to implement the above standards and interpretations of their effective date.

3. Due on demand from credit institutions

	31.12.2016	31.12.2015	% of the Fund's net assets as at 31.12.2016
Due on demand from credit institutions, AS Citadele Banka	54,937	200,546	1.42%
Total demand deposits with credit institutions	**54,937**	**200,546**	**1.42%**

4. Shares

	31.12.2016	31.12.2015	% of the Fund's net assets as at 31.12.2016
Corporate shares			
Shares of companies of other OECD countries	3,689,379	3,663,364	95.55%
Shares of companies in non-OECD countries	31,850	69,356	0.82%
Latvia	93,610	78,100	2.42%
Total shares	**3,814,839**	**3,810,820**	**98.79%**

All commercial company shares are classified as held for trading securities. As at 31 December 2016, all shares owned by the Fund are traded on regulated markets.

IF CBL Baltic Sea Equity Fund
Annual Report for 2016
Notes
(EUR)

The following table presents the distribution of the shares by the issuer's country of origin:

Financial instrument	ISIN code	Currency	Amount	Acquisition value (EUR)	Carrying value as at 31.12.2016	% of the Fund's net assets as at 31.12.2016
Financial instruments traded in regulated markets				**3 596 419**	**3 814 839**	**98.79%**
Shares of German issuers:				**1 806 353**	**1 941 342**	**50.28%**
SIEMENS AG	DE0007236101	EUR	1,893	174,717	220,202	5.70%
ALLIANZ SE	DE0008404005	EUR	1,148	157,750	179,776	4.66%
SAP AG	DE0007164600	EUR	2,018	128,992	166,626	4.31%
DEUTSCHE TELEKOM AG	DE0005557508	EUR	9,200	139,042	149,868	3.88%
DAIMLER AG	DE0007100000	EUR	1,909	132,986	134,766	3.49%
INFINEON TECHNOLOGIES AG	DE0006231004	EUR	7,500	97,792	124 373	3.22%
BAYER AG	DE000BAY0017	EUR	1,200	129,464	118 584	3.08%
FRESENIUS SE & CO KGAA	DE0005785604	EUR	1,600	99,333	118 384	3.07%
LINDE AG	DE0006483001	EUR	740	107,474	115 921	3.00%
BASF SE	DE000BASF111	EUR	1,000	74,790	87 970	2.28%
HEIDELBERGCEMENT AG	DE0006047004	EUR	974	64,006	86 428	2.24%
CONTINENTAL AG	DE0005439004	EUR	415	90,475	76 402	1.98%
DEUTSCHE POST AG	DE0005552004	EUR	2,000	49,541	62 326	1.61%
FRESENIUS MEDICAL CARE AG & CO KGAA	DE0005785802	EUR	715	55,474	57 733	1.49%
PROSIEBENSAT.1 MEDIA SE	DE000PSM7770	EUR	1,400	53,304	51 181	1.33%
HUGO BOSS AG	DE000A1PHFF7	EUR	865	92,081	50 000	1.29%
E.ON SE	DE000ENAG999	EUR	6,800	60,568	45 655	1.18%
COMMERZBANK AG	DE000CBK1001	EUR	6,000	52,173	43 530	1.13%
HENKEL AG & CO KGAA	DE0006048432	EUR	376	39,023	42 695	1.11%
UNIPER SE	DE000UNSE018	EUR	680	7,368	8 922	0.23%
Shares of Swedish issuers:				**420,991**	**424,109**	**10.98%**
INVESTOR AB	SE0000107419	SEK	3,400	99,474	121,443	3.14%
SVENSKA CELLULOSA AB SCA	SE0000112724	SEK	3,500	100,550	93,944	2.43%
HENNES & MAURITZ AB	SE0000106270	SEK	2,900	92,952	76,898	2.00%
ASSA ABLOY AB	SE0007100581	SEK	3,950	69,487	70,378	1.82%
NORDEA BANK AB	SE0000427361	SEK	5,800	58,528	61,446	1.59%
Shares of Norwegian issuers:				**339 700**	**380 012**	**9.84%**
STATOIL ASA	NO0010096985	NOK	8,000	135,309	140,343	3.63%
TELENOR ASA	NO0010063308	NOK	6,400	95,160	91,003	2.36%
DNB ASA	NO0010031479	NOK	5,300	63,644	74,604	1.93%
MARINE HARVEST ASA	NO0003054108	NOK	4,300	45,587	74,062	1.92%
Shares of Danish issuers:				**339 188**	**349 306**	**9.05%**
NOVO NORDISK A/S	DK0060534915	DKK	4,800	181,196	164,188	4.25%
DANSKE BANK A/S	DK0010274414	DKK	2,400	65,239	69,343	1.80%
DSV A/S	DK0060079531	DKK	1,451	35,797	61,753	1.60%
NOVOZYMES A/S	DK0060336014	DKK	1,000	40,960	32,686	0.85%
AP MOELLER - MAERSK A/S	DK0010244508	DKK	14	15,996	21,336	0.55%
Shares of Finnish issuers:				**226,040**	**241,256**	**6.25%**
NOKIA OYJ	FI0009000681	EUR	23,000	99,849	105,892	2.74%
SAMPO OYJ	FI0009003305	EUR	1,750	66,938	74,620	1.94%
AMER SPORTS OYJ	FI0009000285	EUR	2,400	59,253	60,744	1.57%

Financial instrument	ISIN code	Currency	Amount	Acquisition value (EUR)	Carrying value as at 31.12.2016	% of the Fund's net assets as at 31.12.2016
Shares of Estonian issuers:				**224,463**	**224,217**	**5.81%**
TALLINK GROUP LTD	EE3100004466	EUR	136,436	119,011	124,566	3.23%
OLYMPIC ENTERTAINMENT GROUP	EE3100084021	EUR	56,300	105,452	99,651	2.58%
Shares of Polish issuers:				**150,433**	**129,137**	**3.34%**
ASSECO POLAND SA	PLSOFTB00016	PLN	5,600	76,236	69,202	1.79%
POWSZECHNY ZAKLAD UBEZPIECZEN	PLPZU0000011	PLN	7,860	74,197	59,935	1.55%
Shares of Latvian issuers:				**55,442**	**93,610**	**2.42%**
OLAINFARM	LV0000100501	EUR	11 000	55 442	93,610	2.42%
Shares of Lithuanian issuers:				**33,809**	**31,850**	**0.82%**
LINAS AGRO AB	LT0000128092	EUR	50,000	33,809	31,850	0.82%
Total shares:				**3,596,419**	**3,814,839**	**98.79%**

5. Accrued expenses

	31.12.2016	31.12.2015
Accrued expenses for investment management company fees	(6 195)	(6,243)
Accrued expenses for custodian fees	(558)	(562)
Accrued expenses for professional services	(1 271)	(1,005)
Total accrued expenses	**(8 024)**	**(7,810)**

6. Realized decrease in investment value

	2016	2015
Proceeds from sale of investments in the reporting period*	1,609,943	1,400,752
Cost of investments sold during the reporting period	(1,571,028)	(566,859)
Impairment of disposed investments recognized in prior reporting periods	(202,441)	(1,036,276)
Total realized decrease in investment value	**(163,526)**	**(202,383)**

* Proceeds from sales (disposal) of investments in the reporting period are recognized based on the exchange rate effective at the security acquisition date.

7. Unrealized increase/(decrease) in investment value

	2016	2015
From shares	182,397	(52,192)
Total unrealized increase/(decrease) in investment value	**182,397**	**(52,192)**

8. Changes in investment value

The following table reflects changes in investments in 2016:

	31.12.2015	Increase during the reporting period	Decrease during the reporting period*	Fair value revaluation result	31.12.2016
Financial investments held for trading					
Shares	3,810,820	1,589,892	(1,596,612)	10,739	3,814,839
Total investments	**3,810,820**	**1,589,892**	**(1,596,612)**	**10,739**	**3,814,839**

* Decrease during the reporting period is carried at the exchange rate at the date of sale of investments. This position includes proceeds from sales and disposal of investments.

The following table reflects changes in investments in 2015:

	31.12.2014	Increase during the reporting period	Decrease during the reporting period*	Fair value revaluation result	31.12.2015
Financial investments held for trading					
Shares	2,761,806	2,476,097	(1,414,551)	(12,532)	3,810,820
Total investments	**2,761,806**	**2,476,097**	**(1,414,551)**	**(12,532)**	**3,810,820**

* Decrease during the reporting period is carried at the exchange rate at the date of sale of investments. This position includes proceeds from sales and disposal of investments.

9. Pledged assets

In the reporting period, the Fund has neither issued any assurances or guarantees, nor has it pledged or encumbered any assets.

10. Fair value of financial assets and liabilities

The Management believes that the carrying values of financial assets and liabilities correspond to their fair values. The fair value is determined using market quotes, based on the information published by stock exchanges and brokerage companies. All shares owned by the Fund are traded on regulated markets and are classified in the fair valuation hierarchy at level 1.

11. Risk management

Investment process risk can be defined as a probability of undesirable outcome that may materialize in a given market economy in a given period. Risk management is described as risk identification, measurement and its possible prevention. The investment process can be affected by the exchange rate risk, interest rate risk, risk of price changes, as well as credit risk, liquidity risk and other risks, including operational risk. The investment strategy of the Fund is aimed at minimizing the aforementioned risks, however, the Company cannot guarantee that these risks can be completely avoided in future.

Risk management structure

Risk identification and measurement is a responsibility of an independent unit - the Risk management department, which develops and presents the information on risk profile to the Fund manager. The Fund manager, however, can make certain decisions on the necessity to reduce existing or potential risks.

Risk measurement process employs models that are developed by the company, are based on historical data and are adjusted according to the economic situation. Certain models are also used to predict the financial risk factor changes under both normal and exceptional financial market circumstances.

Investment Fund Manager shall comply with diversification and hedging principles aiming to reduce investment risks to the minimum, as determined according to the management policy. When making investments on the Fund's account, the Company obtains sufficient information on potential or acquired investment objects, as well as supervises financial and economic position of issuers of the securities in which the Fund's property has been or shall be invested.

When developing the Fund's investment strategy and setting risk limits, the Company performs an analysis of the Fund's distribution of maturity, geographic location and types of currency investments by assessing the risk level for each of these factors. The Company acts in strict compliance with the Prospectus of the Fund, Fund Management Regulations, as well as regulations and restrictions prescribed in laws and regulations of the Republic of Latvia.

Market risk

Market risk is the probability that the Fund's value may decrease when any of the market factors changes, for example, in case of changes in interest rates (interest rate risk), prices of securities (price change risk), foreign currency exchange rates (exchange rate risk) or other market risk factors. The assessment of each of these market risk sources is provided below, however, they cannot be fully diversified.

Price risk

Changes in prices of equity securities (shares) depend on two variables - changes in the respective national stock index (for the Central Asia region these are changes in the stock market index - RENCASIA), and the financial position of the particular issuer (in terms of capacity to generate profit), which in turn affects the fluctuations of the balance of supply and demand. The first variable is also often referred to as the systematic risk; whereas the second - as specific risk.

The systematic risk is managed based on forecasts regarding the overall economic development in the specific geographical region and the potential economic development of the industry. The specific risk is managed on the basis of detailed analysis of the issuer's financial situation and capacity to generate profit, as well as other factors affecting the price of the security mainly based on the reports published by the issuer, information in the mass media etc. Here the focus is on both price volatility (deviations) and their correlations. As a result, it is possible to calculate the overall price risk of the portfolio securities, taking into account their historical profitability.

Exchange rate risk

Exchange rate risk arises when the nominal currency of securities and other financial instruments in the Fund differs from the Fund's currency (EUR). Exchange rate fluctuations may cause profit or loss depending on the direction of exchange rate fluctuations and the currency's position in the Fund. Exchange rate risk can be hedged by the effect of diversification, which occurs when the Fund has several currencies and the exchange rate fluctuations of these currencies are not closely interrelated.

The effects of exchange rate fluctuations on the value of Fund's net assets are shown in the table below. Exchange rate changes represent one year standard deviation of the particular rate.

Effects of changes in exchange rate (2016)

Currency	Proportion of the Fund (% of net assets)	Change in the exchange rate against EUR	Impact on the Fund's value
EUR	65.73%	0.00%	0.00%
DKK	9.71%	0.60%	0.06%
SEK	10.99%	5.59%	0.61%
NOK	10.23%	7.79%	0.80%
PLN	3.34%	7.39%	0.25%
Total	**100.00%**		**1.72%**

Effects of changes in exchange rate (2015)

Currency	Proportion of the Fund (% of net assets)	Change in the exchange rate against EUR	Impact on the Fund's value
EUR	58.06%	0.00%	0.00%
DKK	14.24%	0.71%	0.10%
SEK	16.25%	7.85%	1.28%
NOK	8.02%	11.35%	0.91%
PLN	3.43%	7.19%	0.25%
Total	**100.00%**		**2.54%**

The following table reflects the distribution of assets and liabilities of the Fund across currencies as at 31 December 2016:

	EUR	USD	SEK	NOK	Other currencies	Total
Assets						
Due on demand from credit institutions	14,059	25,513	150	15,212	3	54,937
Financial assets held for trading Shares	2,532,275	349,306	424,109	380,012	129,137	3,814,839
Total assets	**2,546,334**	**374,819**	**424,259**	**395,224**	**129,140**	**3,869,776**
Liabilities						
Accrued expenses	(8,024)	-	-		-	(8,024)
Total liabilities	**(8,024)**	**-**	**-**		**-**	**(8,024)**
Net assets	**2,538,310**	**374,819**	**424,259**	**395,224**	**129,140**	**3,861,752**
% of net assets	*65.73%*	*9.71%*	*10.99%*	*10.23%*	*3.34%*	*100.00%*

As at 31 December 2016, the remaining currencies are distributed as follows: PLN - EUR 19,137 and RUB - EUR 3.

The following table reflects the distribution of assets and liabilities of the Fund across currencies as at 31 December 2015:

	EUR	DKK	SEK	NOK	Other currencies	Total
Assets						
Due on demand from credit institutions	198,085	1,857	188	104	312	200,546
Financial assets held for trading Shares	2,134,205	568,193	650,587	320,905	136,930	3,810,820
Total assets	**2,332,290**	**570,050**	**650,775**	**321,009**	**137,242**	**4,011,366**
Liabilities						
Accrued expenses	(7,810)	-	-	-	-	(7,810)
Total liabilities	**(7,810)**	**-**	**-**	**-**	**-**	**(7,810)**
Net assets	**2,324,480**	**570,050**	**650,775**	**321,009**	**137,242**	**4,003,556**
% of net assets	*58.06%*	*14.24%*	*16.25%*	*8.02%*	*3.43%*	*100%*

As at 31 December 2015, the remaining currencies are distributed as follows: PLN - EUR 309, RUB - EUR 3.

Concentration risk

Issuer's line of business and geographical position represent additional risk factors that may affect the price of the issuer's securities or solvency, therefore it is important to identify concentration risk - i.e., the extent to which the Fund's value depends on changes in certain regions and/or sectors. Geographical distribution of risk concentration (based on the country whose position affects the issuer's solvency the most) and distribution across sectors are presented in tables below.

IF CBL Baltic Sea Equity Fund
Annual Report for 2016
Notes
(EUR)

The following table reflects the geographical distribution of assets and liabilities of the Fund as at 31 December 2016:

	Latvia	OECD countries	Non - OECD countries	Total
Assets				
Due on demand from credit institutions	54,937	-	-	54,937
Financial assets held for trading Shares	93,610	3,689,379	31,850	3,814,839
Total assets	**148,547**	**3,689,379**	**31,850**	**3,869,776**
Liabilities				
Accrued expenses	(8,024)	-	-	(8,024)
Total liabilities	**(8,024)**	**-**	**-**	**(8,024)**
Net assets	**140,523**	**3,689,379**	**31,850**	**3,861,752**

The following table reflects the geographical distribution of assets and liabilities of the Fund as at 31 December 2015:

	Latvia	OECD countries	Non - OECD countries	Total
Assets				
Due on demand from credit institutions	200,546	-	-	200,546
Financial assets held for trading Shares	78,100	3,663,364	69,356	3,810,820
Total assets	**278,646**	**3,663,364**	**69,356**	**4,011,366**
Liabilities				
Accrued expenses	(7,810)	-	-	(7,810)
Total liabilities	**(7,810)**	**-**	**-**	**(7,810)**
Net assets	**270,836**	**3,663,364**	**69,356**	**4,003,556**

The following table reflects the distribution of net assets of the Fund by individual countries (based on the issuer's country of registration):

Country	Carrying value as at 31.12.2016	Carrying value as at 31.12.2015	% of the Fund's net assets 31.12.2016
Germany	1,941,342	1,740,016	50.27%
Sweden	424,109	650,587	10.98%
Norway	380,012	568,193	9.84%
Denmark	349,306	320,905	9.05%
Latvia	140,523	270,836	3.64%
Finland	241,256	190,853	6.25%
Estonia	224,217	136,930	5.81%
Poland	129,137	69,356	3.34%
Lithuania	31,850	55,880	0.82%
Total	**3,861,752**	**4,003,556**	**100.00%**

IF CBL Baltic Sea Equity Fund
Annual Report for 2016
Notes
(EUR)

The following table reflects the distribution of the Fund's securities portfolio across sectors.

Sector	Carrying value as at 31.12.2016	Carrying value as at 31.12.2015	% of the Fund's net assets 31.12.2016
Industry	560,561	-	14.52%
Pharmaceuticals	552,499	403,152	14.31%
Consumer services	549,642	561,627	14.24%
IT services	466,093	341,994	12.07%
Financial services	435,774	326,803	11.28%
Raw materials	323,005	322,690	8.36%
Commercial banks	248,923	683,561	6.45%
Consumer goods	242,551	232,678	6.28%
Telecommunications	240,871	78,396	6.24%
Energy	140,343	69,560	3.63%
Utilities	54,577	116,570	1.41%
Logistics	-	673,789	0.00%
Total	**3,814,839**	**3,810,820**	**98.79%**

Liquidity Risk

Liquidity risk can occur if the Fund is having difficulty in meeting its financial obligations. Fund Manager strives to maintain such asset structure which ensures a possibility of selling securities in due time and with no significant losses.

The following table reflects the maturity distribution of the Fund's assets and liabilities as at 31 December 2016:

	Up to 1 month	1 - 6 months	Indefinite	Total
Assets				
Due on demand from credit institutions	54,937	-	-	54,937
Financial assets held for trading Shares	-	-	3,814,839	3,814,839
Total assets	**54,937**	**-**	**3,814,839**	**3,869,776**
Liabilities				
Accrued expenses	(6,753)	(1,271)	-	(8,024)
Total liabilities	**(6,753)**	**(1,271)**	**-**	**(8,024)**
Net assets	**48,184**	**(1,271)**	**3,814,839**	**3,861,752**
Net position, %	*1.25%*	*(0.04%)*	*98.79%*	*100.00%*

The following table reflects the maturity distribution of the Fund's assets and liabilities as at 31 December 2015:

	Up to 1 month	1 - 6 months	Indefinite	Total
Assets				
Due on demand from credit institutions	200,546	-	-	200,546
Financial assets held for trading Shares	-	-	3,810,820	3,810,820
Total assets	**200,546**	**-**	**3,810,820**	**4,011,366**
Liabilities				
Accrued expenses	(6,805)	(1,005)	-	(7,810)
Total liabilities	**(6,805)**	**(1,005)**	**-**	**(7,810)**
Net assets	**193,741**	**(1,005)**	**3,810,820**	**4,003,556**
Net position, %	*4.84%*	*(0.03%)*	*95.19%*	*100.00%*

12. Information on the holders of the Fund's Share Certificates

The following table reflects the proportion of the Share Certificates held by related parties and other investors to the total number of the Share Certificates issued:

	31.12.2016	31.12.2015	% of the total number as at 31.12.2016
Share Certificates held by related parties	105	105	0.12%
Share Certificates held by third parties	90,675	95,349	99.88%
The number of share certificates issued at the end of the reporting period	**90,780**	**95,454**	**100.00%**

13. Related party transactions

The majority of Fund's investments are acquired through the custodian bank. The custodian bank receives remuneration, which is charged to the profit or loss (also see Note 5); and cash of the Fund is also placed with AS Citadele Banka (see Note 3).

Remuneration paid to the Investment Management Company in the reporting year is disclosed in the profit or loss statement (see also Note 5).

In the reporting period, related parties have not acquired share certificates of the Fund.

14. Investment Fund's performance dynamics

	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Net assets of the Fund (EUR)	**3,861,752**	**4,003,556**	**2,865,001**	**3,343,169**
Number of units of the Fund	90,780	95,454	69,767	78,925
Value of the units of the Fund	42.54	41.94	41.07	42.36
Profitability of the Fund**	1.43%	2.12%	(3.05%)	8.12%
Net assets of the Fund (EUR)	**3,860,862**	**4,004,806**	**2,863,837**	**3,339,965**
Number of units of the Fund	90,780	95,454	69,767	78,925
Value of the units of the Fund	42.53	41.96	41.05	42.32
Profitability of the Fund**	1.35%	2.22%	(3.00%)	7.22%

* Net asset value is translated to EUR using exchange rates determined by the financial markets at the end of the day.

** Profitability is calculated, assuming there are 365 days in a year.

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Independent Auditors' Report

To the shareholders of Investment fund "CBL Baltic Sea Equity Fund"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of Investment fund "CBL Baltic Sea Equity Fund" ("the Fund"), which is managed by the investment management company "CBL Asset Management" ("the Company") set out on pages 8 to 25 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2016,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholders' equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Investment fund "CBL Baltic Sea Equity Fund" as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

We are independent of the Fund and of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

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

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Management report, as set out on pages 4 to 5 of the accompanying Annual Report,
- the Statement of responsibility of the Company's management, as set out on page 6 of the accompanying Annual Report,

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Fund and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Report of the Company's council and management board, our responsibility is to consider whether the Report of the Company's council and management board is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Ondrej Fikrle

Valda Užāne

Ondrej Fikrle
Partner pp
KPMG Baltics SIA
Riga, Latvia
27 April 2017

Valda Užāne
Sworn auditor
Certificate No 4