INVESTMENT FUND
CBL Baltic Sea Equity Fund

ANNUAL REPORT FOR 2017
(5^{th} financial year)

PREPARED IN ACCORDANCE WITH
FCMC 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, 2018

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INFORMATION ON THE INVESTMENT FUND

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 11.10.2010 Deputy Chairperson of the Council - Vladimirs Ivanovs - appointed on 06.11.2012 Member of the Council - Peter Meier - appointed on 30.09.2015 *Board of the investment management company:* Chairperson of the Board – Uldis Upenieks – appointed on 01.11.2012 dismissed on 03.08.2017 Chairperson of the Board – Kārlis Purgailis – appointed on 08.09.2017 Board Member - Zigurds Vaikulis - appointed on 19.04.2007 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:	The Council and the Board members shall perform all duties prescribed in laws and regulations of the Republic 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
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
Auditor:	KPMG Baltics SIA Vesetas iela 7 Riga, LV-1013 License No 55 Latvia

INVESTMENT MANAGEMENT COMPANY REPORT

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

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 the euro.

The reporting year was favourable for global risk assets. The European stock market index STOXX Europe 600 and USA stock market index S&P 500 grew by 7.7% in EUR terms and 19.4% USD terms respectively. The main reason for the positive stock market sentiment was the extremely strong regional and global economic growth. Commodity markets also were sound as Brent crude oil price increased approximately by 18% while industrial metals, according to the London Metal Exchange index, increased by 29% over the year. The growing economy in Europe also led to the appreciation of the exchange rate of the European common currency which reached 14% in comparison with the U.S. dollar.

In 2017, the Fund's net assets increased by EUR 103,532 and represented EUR 3,965,284 at the end of the year. Gross asset value as at 31.12.2017 amounted to EUR 3,973,445. At the same time, the value of the unit of the Fund in 2017 increased by EUR 3.72, reaching EUR 42.26. The Fund's overall return in 2017 was 8.74% in euro-terms and 8.79% in the Fund's base currency (euro) according to the foreign exchange rates set at the end of the day in financial markets.

From geographical perspective, in 2017 the largest positive contribution came from the Fund's investments in German, Danish and Baltic equities. German market has substantial weight of cyclical companies, thus the strong growth in the global economy made this market more attractive for investors. At the same time, both Danish and Baltic markets benefited from the strong economic growth in Europe. On the other hand, a slightly negative impact came from Finland where the share price of the largest company – Nokia – fell by approximately 15%. Nokia, which mainly produces telecommunications equipment, faced severe competition, mostly from China.

From the sector perspective, the largest contributors to the Fund's value were financial services, manufacturing, pharmacy, IT services and commodities. At the same time such sectors as consumer staples and energy had a negative impact on the Fund's value.

Over the year, the Fund increased its exposure to Denmark (+3.9 percentage points), Latvia (+0.9 pp, including cash positions), Norway (+0.7 pp), Finland (+0.6 pp) and Sweden (+0.2 pp), while the exposure to Poland (-1.4 pp), Estonia (-1.5 pp) and Germany (-3.3 pp) decreased. From the sector perspective, the exposure to manufacturing (+5.0 pp), commodities (+2.3 pp), financial services (+1.5 pp) and commercial banks (+1.0 pp.) increased, while weights of energy (-0.7 pp), IT services (-0.7 pp.), telecommunications services (-1.4 pp), pharmacy (-1.5 pp), consumer staples (-3.1 pp) and consumption services decreased (-3.6 pp).

In the reporting period, the management costs amounted to EUR 91,710, which does not exceed the ceiling of 4.00% prescribed in the Fund prospectus. The investment management company fee amounted to EUR 79,881, custodian fee - EUR 7,189, other management expenses - EUR 4,640.

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.

In next reporting year, investors will closely monitor the ECB monetary policy as the USA Federal Reserve System might gradually increase interest rates. A great deal will depend on the further developments of the global economy and inflation. The U.S. tax reforms might also have a positive impact on the earnings of European companies, especially of those with a large share of products in the USA. In policy terms, the trade barriers used in the USA foreign economic policy can have an adverse impact on European manufacturers. The recent changes in the Italian Parliament and potential Brexit complications are vivid risk factors. In economic terms, the growth is very strong; however, its slowdown may temporarily suspend the stock market growth. There are concerns about overheating of Scandinavian real estate market although the regulators in these countries are closely monitoring the respective developments. The potential fall in the value of the euro could have a positive effect on European exporters by increasing their profits.

Kārlis Purgailis
Chairman of the Board

Andris Kotāns
Investment Committee Member

Igors Lahtadirs
Investment Committee Member

Elchin Jafarov
Investment Committee Member

Riga, 27 April 2018

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 through 24 are prepared based on source documents and present fairly the financial position of the Fund as at 31 December 2017 and the results of its operations in 2017.

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.

Kārlis Purgailis
Chairman of the Board

Riga,
27 April 2018

Citadele

Riga, March 5th, 2018

CUSTODIAN BANK REPORT

To the Share Certificates holders of IF "CBL Global Emerging Markets Bond fund"
For the period form 1st January 2017 to 31st December 2017

JSC "Citadele banka", registered in the Register of Enterprises of the Republic of Latvia on June 30, 2010 with No. 40103303559, registered office: Republikas laukums 2a, Riga, hereby confirms the following:

- in accordance with the Custody Agreement concluded on 7th April 2017, JSC "Citadele banka" (hereinafter the Custodian) performs custodian's duties for the investment fund "CBL Global Emerging Markets Bond fund" (hereinafter the Fund) established by IPAS "CBL Asset Management" (hereinafter the Company);
- the Custodian has performed the functions of the Fund's custodian pursuant to the law "On Investment Management Companies" (hereinafter the Law), Regulations of Financial and Capital Market Commission and other applicable laws and regulations of the Republic of Latvia.

The Custodian is responsible for performance of obligations set forth in laws and regulations of the Republic of Latvia and in the Custodian Agreement. The main responsibilities of the Custodian include:

- holding of the Fund's assets as well as documents confirming ownership of the Fund's assets in accordance with the laws and regulations of the Republic of Latvia and Custody Agreement;
- ensuring the maintenance of the Fund's accounts, receiving and executing the Company's orders, as well as settlement of the orders according with requirements of laws and regulations of the Republic of Latvia, Custody Agreement and current market practice;
- ensuring the Company with regular reports on Fund's assets and its value (prices of the securities);
- ensuring that the value of the Fund and Fund's Share Certificates is estimated in accordance with requirements of the Law, Regulations of Financial and Capital Market Commission, Fund's prospectus and Fund Management Regulations.;
- ensuring that the issue, sale and repurchase of the Fund's Share Certificates is performed in accordance with the Law, Fund's prospectus and Fund Management Regulations.

During the period from January 1st, 2017 to December 31st, 2017:

- Issue, sale and repurchase of the Fund's Share Certificates were effected in compliance with requirements of the Law, Fund's prospectus and Fund Management Regulations;
- Fund assets were held in accordance with requirements of the Law and Custody Agreement;
- The value of the Fund's net assets was assessed in accordance with requirements of the Law, Regulations of Financial and Capital Market Commission, Fund's prospectus and Fund Management Regulations;
- the Company's orders, as well as transactions executed with the Fund's assets were performed in accordance with the Law, Fund's prospectus, Fund Management Regulations and the Custody Agreement.

During the reporting period, no errors or non-compliance with the applicable laws and regulations of the Republic of Latvia were detected in the Company's operations with the Fund's assets.

Guntis Belavskis
Chairman of the Management Board, p.p.

STATEMENT OF ASSETS AND LIABILITIES

Notes		31.12.2017	31.12.2016
	Assets		
3	Due on demand from credit institutions	98,323	54,937
	Financial assets held for trading		
4	Shares	3,875,122	3,814,839
	Total assets	**3,973,445**	**3,869,776**
	Liabilities		
5	Accrued expenses	(8,161)	(8,024)
	Total liabilities	**(8,161)**	**(8,024)**
	Net assets	**3,965,284**	**3,861,752**

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

Kārlis Purgailis
Chairman of the Board

Riga,
27 April 2018

STATEMENT OF INCOME AND EXPENSES

Notes		2017	2016
	Income for the reporting period		
	Dividend income	106,060	115,312
	Total income	**106,060**	**115,312**
	Expenses for the reporting period		
	Remuneration to investment management company	(79,881)	(76,509)
	Custodian Fee	(7,189)	(6,886)
	Other Fund management expenses	(4,640)	(3,038)
	Total expenses	**(91,710)**	**(86,433)**
	Increase in investment value		
6	Realized increase/ (decrease) in investment value	15,351	(163,526)
7	Unrealized increase in investment value	240,700	182,397
	Total increase in investments	**256,051**	**18,871**
	Foreign currency revaluation result	66,581	(6,152)
	Increase in net assets from investment	**336,982**	**41,598**

The accompanying notes on pages 12 through 24 form an integral part of these financial statements.

Kārlis Purgailis
Chairman of the Board

Riga,
27 April 2018

STATEMENT OF CHANGES IN NET ASSETS

	2017	2016
Net assets at the beginning of the reporting period	3,861,752	4,003,556
Increase in net assets from investment	336,982	41,598
Transactions with share certificates		
Inflow from sale of share certificates	*166,132*	*704,089*
Outflow on redemption of share certificates	*(399,582)*	*(887,491)*
Decrease in net assets from transactions with share certificates	(233,450)	(183,402)
Net asset increase/ (decrease) in the reporting period	**103,532**	**(141,804)**
Net assets at the end of the reporting period	**3,965,284**	**3,861,752**
Number of share certificates issued as at the beginning of the reporting period	90,780	95,454
Number of share certificates issued at the end of the reporting period	85,719	90,780
Net assets per share certificate as at the beginning of the reporting period	42.54	41.94
Net assets per share certificate as at the end of the reporting period	**46.26**	**42.54**

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

Kārlis Purgailis
Chairman of the Board

Riga,
27 April 2018

CASH FLOW STATEMENT

	2017	2016
Dividend income	106,060	115,312
Investment management expenses	(91,572)	(86,213)
Acquisition of financial investments	(762,913)	(1,589,892)
Sale/ disposal of financial investments	1,026,572	1,596,612
Foreign currency revaluation result	(998)	(868)
Increase in cash and cash equivalents from operating activities	**277,149**	**34,951**
Inflow from sale of share certificates	166,132	704,089
Outflow on redemption of share certificates	(399,582)	(887,491)
Decrease in cash and cash equivalents from financing activities	**(233,450)**	**(183,402)**
Increase/ (decrease) in cash and cash equivalents	**43,699**	**(148,451)**
Cash and cash equivalents at the beginning of the reporting period	**54,937**	**200,546**
Foreign currency revaluation result	**(313)**	**2,842**
Cash and cash equivalents at the end of the reporting period	**98,323**	**54,937**

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

Kārlis Purgailis
Chairman of the Board

Riga,
27 April 2018

NOTES TO THE FINANCIAL STATEMENTS

NOTE 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 companies 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of IF CBL Baltic Sea Equity Fund (hereinafter - the Fund) are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and 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 monetary unit used in the financial statements is the euro (EUR), the official currency of the Republic of Latvia. The financial statements cover the period 1 January 2017 through 31 December 2017.

Opening balances of Statement of assets and liabilities as at 1 January 2017 agree with the closing balances of the published financial statements for the year 2016.

Functional and financial reporting currency

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

Significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires making of substantial assumptions. Moreover, when preparing the financial statements, the management of the Company has to make assumptions and judgments to apply the Fund's accounting policy. Preparation of financial statements in compliance with IFRS 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.

The most significant estimates and assumptions relate to determination of 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 on 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 the 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 revaluated 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 revaluated 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 revaluated into functional currency at the exchange rate at the date when 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 the 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	31.12.2017	31.12.2016
DKK	7.44490	7.43440
NOK	9.84030	9.08630
PLN	4.17700	4.41030
SEK	9.84380	9.55250
RUB	69.39200	64.30000
USD	1.19930	1.05410

Cash and cash equivalents

Cash and cash equivalents comprise the 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. The classification depends on the purpose of acquisition of the financial instrument. The 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. 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 are 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. The Fund's balances due from credit institutions are carried at their amortized cost using the effective interest rate method less impairment, if any.

Provisions for impairment of receivables are established when there is objective evidence that the Fund will not be able to collect the full amount due to it according to the original repayment terms. The 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 Fund 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 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

The 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.

New standards and interpretations

The Company has adopted the following new standards and amendments to standards, including the resulting amendments to other standards, whose initial effective date was 1 January 2017. The following guidelines, which came into effect on 1 January 2017, had no effect on these financial statements:

- Amendments to IAS 7 *Statement of Cash Flows*
- Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses*
- Annual Improvements to IFRS

Several new standards and interpretations have been published, which are effective for reporting periods beginning on or after 1 January 2018 or have not been endorsed for use in the European Union:

IFRS 9 *Financial Instruments* (effective for reporting periods beginning on or after 1 January 2018). The main features of the new standard are the following:

- Financial assets are classified into three measurement categories: assets to be subsequently measured at amortised cost, assets to be subsequently measured at fair value through other comprehensive income (FVOCI) and assets to be subsequently measured at fair value through profit or loss (FVTPL).
- The classification of debt instruments depends on the company's business model in which the financial asset is managed and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If the debt instrument is held to collect cash flows, it can be measured at amortized cost if it meets the SPPI requirements. Debt instruments, which meet the SPPI requirements but which are held in the portfolio for both reasons - to collect cash flows generated by these assets and to be sold, can be measured at FVOCI. Financial assets whose cash flows do not meet the SPPI requirements must be measured

at FVTPL (e.g. derivative financial instruments). Embedded derivatives are not separated from financial assets, but are included in the classification assessment as to whether they meet the SPPI criterion.

- Equity instruments are always measured at fair value. However, the Management has an option to make an irrevocable election to present in other comprehensive income subsequent changes in the fair value if the instrument is not held for trading. If an equity instrument is held for trading, changes in the fair value must be presented in profit or loss.
- Most of the requirements set forth in IAS 39 with regard to the classification and measurement of financial liabilities remained unchanged in IFRS 9. The main change relates to the requirement to present fair value changes due to own credit on liabilities designated as at fair value through profit or loss to be presented in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment, namely, the expected credit loss (ECL) model. The model contains a 'three stage' approach which is based on the change in the credit quality of financial assets since initial recognition. In practice, the new requirements mean that the company will have to record a day one loss equal to the 12-month ECL on initial recognition of financial assets even though they are not credit impaired (or lifetime ECL for trade receivables). In case of significant increase in credit risk, the impairment must be measured based on the lifetime ECL of the asset rather than the 12-month ECL. The model includes some operational simplifications for leases and trade receivables.
- Hedge accounting requirements were supplemented to align accounting more closely with risk management. The Standard offers companies the accounting policy choice: to introduce hedge accounting according to IFRS 9 or continue applying IAS 39 with regard to all hedging instruments, since IFRS 9 does not yet regulate macro hedge accounting.

The Company does not expect IFRS 9 to 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. The Company believes that the Fund's impairment losses are unlikely to increase. For the assets within the expected credit loss model application scope, these losses will become less permanent, however, the overall share and maturity composition of these assets are not intended to be significant. The Company has not yet finalized drafting its IFRS 9 accounting policy.

IFRS 15 Revenue from Contracts with Customers (effective for reporting periods beginning on or after 1 January 2018). The new standard introduces recognition of revenue upon transferring goods or services to the buyer at the transaction price. If individual goods and services are combined to offer packages, individual sales of goods or services is to be recognized as a separate transaction and any contractual discounts must usually be allocated to each element of the transaction. Where a transaction contains elements of variable consideration, the minimum amount not subject to a significant cancellation risk must be recognized. Costs related to concluding contracts with customers must be capitalized and amortized over the term of the contract.

The Company does not expect IFRS 15 to significantly affect the financial statements of the Fund. Taking into account the activities of the Fund and the types of revenue generated by the Fund, it is not expected that the introduction of the requirements specified in IFRS 15 will change the timing of revenue recognition and its measurement.

Amendments to IFRS 15 *Revenue from Contracts with Customers* (effective for reporting periods beginning on or after 1 January 2018).

IFRS 16: 'Leases' (effective for accounting periods beginning on or after 1 January 2019). The new Standard sets out principles for the recognition, measurement, presentation and disclosure of leases. All lease agreements entitle the lessee to use the asset and, shall the lease payments be made within specified time period, comprise a financing component. Accordingly, IFRS 16 eliminates classification of leases as finance or operating leases, which was required under IAS 17. Instead, IFRS 16 provides a single lessee accounting model. In its accounts, a lessee recognizes: (a) assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value, and (b) depreciation charges of the leased assets separately from the interest expense on the lease liability. The requirements of IFRS 16 with regard to lessor accounting are, to a great extent, similar to those of IAS 17. Accordingly, lessors continue to classify leases as finance and operating leases and maintain separate accounts depending on the classification.

The Company does not expect IFRS 16 to significantly affect the financial statements of the Fund, given the Fund has not entered into any agreements within the scope of IFRS 16.

Amendments to IFRS 2 *Share-based Payment* (effective for reporting periods beginning on or after 1 January 2018, not yet endorsed by the EU).

IFRS 17 *Insurance Contracts* (effective for reporting periods beginning on or after 1 January 2021, not yet endorsed by the EU).

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (effective for reporting periods beginning on or after 1 January 2018, not yet endorsed by the EU).

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* (effective for reporting periods beginning on or after 1 January 2019, not yet endorsed by the EU).

Amendments to IAS 40 *Transfer of Investment Property - reclassification of investment properties* (effective for reporting periods beginning on or after 1 January 2018, not yet endorsed by the EU).

Amendments to IFRS 9 *Financial instruments – pre-payment features with negative compensation* (effective for reporting periods beginning on or after 1 January 2019, not yet endorsed by the EU).

Amendments to IAS 28 *Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures* (effective for reporting periods beginning on or *after* 1 January 2019, not yet endorsed by the EU).

Annual Improvements to IFRS Standards These amendments include changes to seven standards:

- IFRS 12 *Disclosure of Interests in Other Entities* (effective for reporting periods beginning on or after 1 January 2017, not yet endorsed by the EU).
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (effective for reporting periods beginning on or after 1 January 2018, not yet endorsed by the EU).
- IAS 28 *Investments in Associates and Joint Ventures* (effective for reporting periods beginning on or after 1 January 2018, not yet endorsed by the EU).
- IFRS 3 *Business Combinations* (effective for reporting periods beginning on or after 1 January 2019, not yet endorsed by the EU).
- IFRS 11 *Joint Arrangements* (effective for reporting periods beginning on or after 1 January 2019, not yet endorsed by the EU).
- IAS 12 *Income Taxes* (effective for reporting periods beginning on or after 1 January 2019, not yet endorsed by the EU).
- IAS 23 *Borrowing Costs* (effective for reporting periods beginning on or after 1 January 2019, not yet endorsed by the EU).

The Company has decided not to implement any new standards or interpretations before their effective date. The Management of the asset management company believes that implementation of the new standards, amendments and interpretations will have no material effect on the Fund's financial statements in the year of implementation.

NOTE 3 DUE ON DEMAND FROM CREDIT INSTITUTIONS

	31.12.2017	31.12.2016	% of the Fund's net assets as at 31.12.2017
Due on demand from credit institutions, AS Citadele Banka	98,323	54,937	2.48%
Total demand deposits with credit institutions	**98,323**	**54,937**	**2.48%**

NOTE 4 SHARES

	31.12.2017	31.12.2016	% of the Fund's net assets as at 31.12.2017
Corporate shares			
Shares of companies in other OECD countries	3,754,772	3,689,379	94.70%
Shares of companies in non-OECD countries	31,800	31,850	0.80%
Latvia	88,550	93,610	2.23%
Total shares	**3,875,122**	**3,814,839**	**97.73%**

All commercial company shares are classified securities as held for trading. As at 31 December 2017, all shares owned by the Fund were traded on regulated markets.

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

Financial instrument	ISIN code	Currency	Amount	Acquisition value (EUR)	Carrying value as at 31.12.2017	% of the Fund's net assets as at 31.12.2017
Financial instruments traded on regulated markets				**3,605,036**	**3,875,122**	**97.73%**
Shares of German issuers				**1,489,971**	**1,861,285**	**46.95%**
ALLIANZ SE	DE0008404005	EUR	1,148	157,750	220,129	5.55%
SIEMENS AG	DE0007236101	EUR	1,893	174,717	219,730	5.54%
SAP AG	DE0007164600	EUR	2,018	128,992	188,289	4.75%
INFINEON TECHNOLOGIES AG	DE0006231004	EUR	7,500	97,792	171,510	4.33%
BASF SE	DE000BASF111	EUR	1,500	117,246	137,648	3.47%
BAYER AG	DE000BAY0017	EUR	1,150	116,047	119,341	3.01%
CONTINENTAL AG	DE0005439004	EUR	415	90,475	93,562	2.36%
LINDE AG	DE0006483001	EUR	500	72,349	90,405	2.28%
HEIDELBERGCEMENT AG	DE0006047004	EUR	974	64,006	87,991	2.22%
VOLKSWAGEN AG	DE0007664039	EUR	480	81,641	80,052	2.02%
DEUTSCHE POST AG	DE0005552004	EUR	2,000	49,541	79,600	2.01%
DEUTSCHE TELEKOM AG	DE0005557508	EUR	5,200	79,531	76,804	1.94%
COMMERZBANK AG	DE000CBK1001	EUR	6,000	52,173	74,850	1.89%
FRESENIUS SE & CO KGAA	DE0005785604	EUR	1,050	65,955	67,967	1.71%
E.ON SE	DE000ENAG999	EUR	6,800	60,568	61,730	1.56%
DAIMLER AG	DE0007100000	EUR	709	42,165	50,148	1.26%
HENKEL AG & CO KGAA	DE0006048432	EUR	376	39,023	41,529	1.05%
Shares of Swedish issuers				**476,519**	**442,596**	**11.17%**
INVESTOR AB	SE0000107419	SEK	3,400	99,474	129,592	3.27%
ASSA ABLOY AB	SE0007100581	SEK	6,150	108,322	106,521	2.69%
ATLAS COPCO AB	SE0006886750	SEK	2,400	79,642	86,576	2.18%
NORDEA BANK AB	SE0000427361	SEK	5,800	58,529	58,537	1.48%
HENNES & MAURITZ AB	SE0000106270	SEK	2,900	92,951	50,171	1.27%
SVENSKA CELLULOSA AB SCA	SE0000112724	SEK	1,300	37,601	11,199	0.28%
Shares of Norwegian issuers				**367,746**	**416,245**	**10.50%**
STATOIL ASA	NO0010096985	NOK	6,500	106,311	115,992	2.92%
TELENOR ASA	NO0010063308	NOK	6,400	95,160	115,249	2.91%
DNB ASA	NO0010031479	NOK	5,300	63,644	82,083	2.07%
NORSK HYDRO ASA	NO0005052605	NOK	9,500	61,647	60,483	1.53%
ORKLA ASA	NO0003733800	NOK	4,800	40,984	42,438	1.07%

Financial instrument	ISIN code	Currency	Amount	Acquisition value (EUR)	Carrying value as at 31.12.2017	% of the Fund's net assets as at 31.12.2017
Shares of Danish issuers				**428,449**	**514,325**	**12.97%**
NOVO NORDISK A/S	DK0060534915	DKK	5,200	183,311	232,798	5.87%
DANSKE BANK A/S	DK0060534915	DKK	2,400	65,239	77,916	1.96%
AP MOELLER - MAERSK A/S	DK0010244508	DKK	40	58,217	58,134	1.47%
DSV A/S	DK0060079531	DKK	800	21,827	52,406	1.32%
NOVOZYMES A/S	DK0060336014	DKK	1,000	40,960	47,805	1.21%
PANDORA A/S	DK0060252690	DKK	500	58,895	45,266	1.14%
Shares of Finnish issuers				**271,524**	**270,687**	**6.83%**
AMER SPORTS OYJ	FI0009000285	EUR	4,400	104,738	101,112	2.55%
NOKIA OYJ	FI0009000681	EUR	23,000	99,849	89,792	2.27%
SAMPO OYJ	FI0009003305	EUR	1,750	66,937	79,783	2.01%
Shares of Estonian issuers				**119,011**	**170,545**	**4.30%**
TALLINK GROUP LTD	EE3100004466	EUR	136,436	119,011	170,545	4.30%
Shares of Polish issuers				**362,565**	**79,089**	**1.99%**
POWSZECHNY ZAKLAD UBEZPIECZEN	PLPZU0000011	PLN	7,860	362,565	79,089	1.99%
Shares of Latvian issuers				**55,442**	**88,550**	**2.23%**
OLAINFARM	LV0000100501	EUR	11 000	55,442	88,550	2.23%
Shares of Lithuanian issuers				**33,809**	**31,800**	**0.80%**
LINAS AGRO AB	LT0000128092	EUR	50,000	33,809	31,800	0.80%
Total shares:				**3,605,036**	**3,875,122**	**97.73%**

NOTE 5 ACCRUED EXPENSES

	31.12.2017	31.12.2016
Accrued expenses for investment management company fees	(6,321)	(6,195)
Accrued expenses for custodian fees	(569)	(558)
Accrued expenses for professional services	(1,271)	(1,271)
Total accrued expenses	**(8,161)**	**(8,024)**

NOTE 6 REALIZED INCREASE/DECREASE IN INVESTMENT VALUE

	2017	2016
Proceeds from sale of investments in the reporting period*	1,041,979	1,609,943
Cost of investments sold during the reporting period	(1,043,568)	(1,571,028)
Appreciation of disposed investments recognized in prior reporting years	16,940	(202,441)
Total realized increase/(decrease) in investment value	**15,351**	**(163,526)**

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

NOTE 7 UNREALIZED INCREASE IN INVESTMENT VALUE

	2017	2016
From shares	240,700	182,397
Total unrealized appreciation of investments	**240,700**	**182,397**

NOTE 8 CHANGES IN INVESTMENTS

The following table reflects the changes in investments in 2017:

	31.12.2016	Increase during the reporting period	Decrease during the reporting period*	Fair value adjustment	31.12.2017
Financial investments held for trading					
Shares	3,814,839	762,913	(1,026,572)	323,942	3,875,122
Total investments	**3,814,839**	**762,913**	**(1,026,572)**	**323,942**	**3,875,122**

* 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 the changes in investments in 2016:

	31.12.2015	Increase during the reporting period	Decrease during the reporting period*	Fair value adjustment	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.

NOTE 9 PLEDGED ASSETS

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

NOTE 10 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Management of the investment management company 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.

NOTE 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 the 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.

The Manager of Investment Fund follows risk diversification and hedging principles whose objective is to reduce the investment risk that are developed in accordance with 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 is to 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 systematic risk; whereas the second - as specific risk.

The systemic 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 (euro). 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 the Fund's net assets are shown in the table below. Exchange rate changes represent one year standard deviation of the particular rate.

Effects of exchange rate fluctuations (2017)

Currency	Share of the Fund (% of net assets)	Change in the exchange rate against USD	Impact on the Fund's value
EUR	62.28%	0.00%	0.00%
DKK	13.11%	0.56%	0.07%
SEK	11.97%	5.37%	0.64%
NOK	10.55%	6.45%	0.68%
PLN	2.09%	4.66%	0.10%
RUB	0.00%	12.29%	0.00%
Total	**100.00%**		**1.49%**

Effects of exchange rate fluctuations (2016)

Currency	Share of the Fund (% of net assets)	Change in the exchange rate against USD	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%**

The following table shows the distribution of assets and liabilities of the Fund by currency profile as at 31 December 2017:

	EUR	DKK	SEK	NOK	Other	Total
Assets						
Due on demand from credit institutions	55,012	5,352	32,165	1,916	3,878	98,323
Financial assets held for trading						
Shares	2,422,867	514,325	442,596	416,245	79,089	3,875,122
Total assets	**2,477,879**	**519,677**	**474,761**	**418,161**	**82,967**	**3,973,445**
Liabilities						
Accrued expenses	(8,161)	-	-		-	(8,161)
Total liabilities	**(8,161)**	**-**	**-**		**-**	**(8,161)**
Net assets	**2,469,718**	**519,677**	**474,761**	**418,161**	**82,967**	**3,965,284**
% of net assets	*62.28%*	*13.11%*	*11.97%*	*10.55%*	*2.09%*	*100.00%*

As at 31 December 2017, the remaining currencies are distributed as follows: PLN - EUR 82,964 and RUB - EUR 3.

The following table shows the distribution of assets and liabilities of the Fund by currency profile as at 31 December 2016:

	EUR	USD	SEK	NOK	Other	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 129,137 and RUB - EUR 3.

Concentration risk

The 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.

The following table reflects the geographical profile of assets and liabilities of the Fund as at 31 December 2017:

	Latvia	Other OECD countries	Non-OECD countries	Total
Assets				
Due on demand from credit institutions	98,323	-	-	98,323
Financial assets held for trading				
Shares	88,550	3,754,772	31,800	3,875,122
Total assets	**186,873**	**3,754,772**	**31,800**	**3,973,445**
Liabilities				
Accrued expenses	(8,161)	-	-	(8,161)
Total liabilities	**(8,161)**	**-**	**-**	**(8,161)**
Net assets	**178,712**	**3,754,772**	**31,800**	**3,965,284**

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

	Latvia	Other 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 distribution of assets and liabilities of the Fund by individual countries (based on the issuer's country of registration):

Country	Carrying value as at 31.12.2017	Carrying value as at 31.12.2016	% of the Fund's net assets 31.12.2017
Germany	1,861,285	1,941,342	46.94%
Denmark	514,325	349,306	12.97%
Sweden	442,596	424,109	11.16%
Norway	416,245	380,012	10.50%
Finland	270,687	241,256	6.83%
Latvia	178,712	140,523	4.51%
Estonia	170,545	224,217	4.30%
Poland	79,089	129,137	1.99%
Lithuania	31,800	31,850	0.80%
Total	**3,965,284**	**3,861,752**	**100.00%**

The following table reflects the distribution of the Fund's securities portfolio by sectors:

Sector	31.12.2017	31.12.2016	% of the Fund's net assets as at 31.12.2017
Manufacturing	773,512	560,561	19.51%
Pharmacy	508,656	552,499	12.83%
Financial services	508,593	435,774	12.82%
IT services	449,591	466,093	11.34%
Commodities	424,332	323,005	10.70%
Consumption services	420,311	549,642	10.60%
Commercial banks	293,386	248,923	7.40%
Telecommunication services	192,053	240,871	4.84%
Consumer staples	126,966	242,551	3.20%
Energy	115,992	140,343	2.93%
Utilities	61,730	54,577	1.56%
Total	**3,875,122**	**3,814,839**	**97.73%**

Liquidity risk

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

The table below summarizes the maturity profile of the Fund's assets and liabilities as at 31 December 2017:

	Up to 1 month	1-6 months	Indefinite	Total
Assets				
Due on demand from credit institutions	98,323	-	-	98,323
Financial assets held for trading				
Shares	-	-	3,875,122	3,875,122
Total assets	**98,323**	**-**	**3,875,122**	**3,973,445**
Liabilities				
Accrued expenses	(6,890)	(1,271)	-	(8,161)
Total liabilities	**(6,890)**	**(1,271)**	**-**	**(8,161)**
Net assets	**91,433**	**(1,271)**	**3,875,122**	**3,965,284**
Net position, %	*2.30%*	*(0.03%)*	*97.73%*	*100.00%*

The table below summarizes the maturity profile 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%*

NOTE 12 INFORMATION ON THE FUND'S INVESTMENT CERTIFICATE HOLDERS

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:

	31.12.2017	31.12.2016	% of the total number as at 31.12.2017
Share certificates held by related parties	86	105	0.10%
Share certificates held by third parties	85,633	90,675	99.90%
The number of share certificates issued at the end of the reporting period	**85,719**	**90,780**	**100.00%**

NOTE 13 RELATED PARTY TRANSACTIONS

The majority of the Fund's investments are acquired through the custodian bank. AS Citadele banka receives custodian fee, which is charged to the statement of income and expenses (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 statement of income and expenses (see also Note 5)

In the reporting period, the related parties sold 19 share certificates. Transactions with the Fund's share certificates are calculated taking into account only the share certificates held by those related parties, which have been classified as related parties of the Fund as at 31 December of 2016.

NOTE 14 PERFORMANCE DYNAMICS OF THE INVESTMENT FUND

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Net assets (EUR)	**3,965,284**	**3,861,752**	**4,003,556**	**2,865,001**	**3,343,169**
Number of share certificates	85,719	90,780	95,454	69,767	78,925
Value of the unit of the Investment Fund	46.26	42.54	41.94	41.07	42.36
Profitability of the Investment Fund**	8.74%	1.43%	2.12%	(3.05%)	8.12%
Net assets (base currency)*	**3,966,504**	**3,860,862**	**4,004,806**	**2,863,837**	**3,339,965**
Number of share certificates	85,719	90,780	95,454	69,767	78,925
Value of the unit of the Investment Fund	46.27	42.53	41.96	41.05	42.32
Profitability of the Investment Fund**	8.79%	1.35%	2.22%	(3.00%)	7.22%

* Net asset value is revaluated to the EUR using exchange rates determined in 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"

Report on the Audit of the Financial Statements

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" ("AIFM") set out on pages 8 to 24 of the accompanying Annual Report, which comprise:

- the statement of assets and liabilities as at 31 December 2017,
- the statement of income and expenses for the year then ended,
- the statement of changes in net assets for the year then ended,
- the cash flow statement 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 2017, 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 AIFM 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

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

- the Information on the Investment Fund, as set out on page 3 of the accompanying Annual Report,

- the Investment Management Company's Report, as set out on page 4 of the accompanying Annual Report,
- the Statement of Responsibility of the Board of the Investment Management Company, 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 Related to Other Information* 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 Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Investment Management Company's Report, our responsibility is to consider whether the Investment Management Company's Report 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 Investment Management Company's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Investment Management Company's Report has been prepared in accordance with the requirements 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.

KPMG Baltics SIA
Licence Nr.55

/Ondrej Fikrle/

/Marina Iļjina/

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Rīga, Latvia
30 April 2018

Marina Iļjina
Sworn auditor
Certificate No. 193

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails