



**INVESTMENT FUND
CBL Baltic Sea Equity Fund**

ANNUAL REPORT FOR 2018
(6th 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, 2019



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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::	<i>Council of the investment management company:</i> 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 <i>Board of the investment management company:</i> 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 Igoris Lahtadirs - appointed on 21.11.2013 Elchin Jafarov - appointed on 07.03.2007, dismissed on 21.12.2018
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

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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.

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 year 2018 was strongly negative for global risk assets. The European stock market index STOXX Europe 600 and USA stock market index S&P 500 fell by 13.2% and 1.6% in EUR terms respectively. The negative sentiment was caused by a marked slowdown of the global economy growth. The key macroeconomic indicators in Europe significantly deteriorated. Although the European Purchasing Managers' Index (PMI) sentiment indicator reflecting the business sentiment is still showing growth, at the end of the year it dropped to its lowest level in the last four years. The investor sentiment was also adversely affected by the tension regarding tariffs and political developments in Europe. The intensified aggressive policy of the USA Federal Reserve System and correction in the stock-market of global technology companies further facilitated greater risk aversion of investors.

In 2018, the Fund's net assets decreased by EUR 873,739 and represented EUR 3,091,545 at the end of the year. Gross asset value as at 31 December 2018 amounted to EUR 3,098,166. At the same time, the value of the unit of the Fund in 2018 decreased by EUR 7.57, falling to EUR 38.69. The Fund's overall return in 2018 was -16.36% in euro-terms, while in the Fund's base currency (euro) it was -16.38%, according to the foreign exchange rates set at the end of the day in financial markets.

From geographical perspective, in 2018 the largest negative impact came from the Fund's investments in German equities. German market has substantial weight in cyclical sectors and export oriented companies, thus weaker growth in the global economy and threats to trade tariffs made this market less attractive for investors. The next were Danish, Swedish, Norwegian and Baltic markets. On the other hand, a slightly positive contribution came from Finnish and Polish markets.

From the sector perspective, almost all sectors had an adverse impact on the Fund's result. The largest negative impact came from manufacturing, followed by the sectors of consumer staples, financial services, health care and commodities. At the same time such sectors as consumption services and energy had a positive (moderate) effect on the Fund's value.

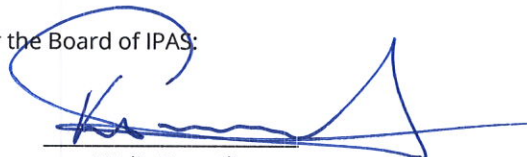
Over the year, the Fund significantly reduced its exposure to Germany (-7.4 percentage points) and Denmark (-2.8 pp.), while the share of Poland (+5.2 pp.), Sweden (+4.1 pp.), Baltic region (+0.4 pp.) and Finland decreased (-1.2 pp.). From the sector perspective, the exposure to consumption services (-3.3 pp.), health care (-2.2 pp.), manufacturing (-1.6 pp.), telecommunications (-1.3 pp.) and commodities (-1.0 pp.) decreased, while the share of IT services (+4.3 pp.), energy (+3.5 pp.) and financial services (+1.8 pp.) increased.

In the reporting period, the management costs amounted to EUR 88,823, which did not exceed the maximum amount of 4.00% provided in the Fund's prospectus. In the reporting period, the investment management company fee of EUR 71,460, custodian fee - EUR 6,431 and other Fund management expenses - EUR 10,932 were covered from the Fund's assets. In 2018, the Fund's ongoing charge figure was 2.87% of the Fund's average net asset value.

As of the last day of the reporting year until the date of signing these financial statements there have been no significant events of material effect on the Fund's financial position.

In 2019, investors will continue to follow closely the dynamics of the global growth, monetary policies of the world's leading central banks, political developments in the regions as well as ongoing US-China trade talks. Despite the continuous downward revision of the profit forecasts for European companies, the growth perspective together with economic indicators is still convincing.

For the Board of IPAS:



Kārlis Purgailis
Chairperson of the Board

Riga, 29 April 2019

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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 7 through 21 are prepared based on source documents and present fairly the financial position of the Fund as at 31 December 2018 and the results of its operations in 2018.

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



Andris Kotāns
Member of the Investment
Committee



Igors Lahtadirs
Member of the Investment
Committee

Rīga, 29 April 2019

Rīga,
25 February 2019

CUSTODIAN BANK REPORT

To the Share Certificates holders of IF 'CBL Baltic Sea Equity fund'
For the period from 1 January 2018 to 31 December 2018

AS Citadele bank, registered in the Register of Enterprises of the Republic of Latvia on 30 June 2010 with No 40103303559, registered office: Republikas laukums 2a, Rīga, hereby confirms the following:

- in accordance with the Custody Agreement concluded on 7 April 2017 AS Citadele banka (hereinafter the Custodian) performs custodian's duties for the investment fund 'CBL Baltic Sea Equity 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.

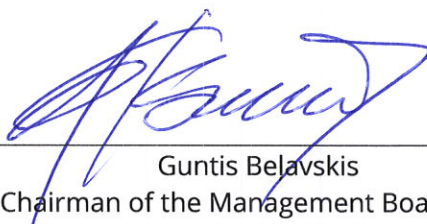
The Custodian is responsible for performance of obligations set forth in laws and regulations of the Republic of Latvia and in the Custodian Agreement. The main responsibilities of the Custodian include:

- 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 1 January 2018 to 31 December 2018:

- 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.



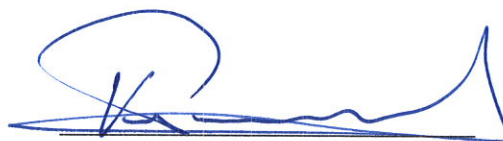
Guntis Belavskis
Chairman of the Management Board, p.p.

STATEMENT OF ASSETS AND LIABILITIES

	Notes	31.12.2018	31.12.2017
Assets			
Due on demand from credit institutions	3	72,943	98,323
Financial assets at fair value through profit or loss			
Equity instruments	4	<u>3,025,223</u>	<u>3,875,122</u>
Total assets		<u>3,098,166</u>	<u>3,973,445</u>
Liabilities			
Accrued expenses	5	<u>(6,621)</u>	<u>(8,161)</u>
Total liabilities		<u>(6,621)</u>	<u>(8,161)</u>
Net assets		<u>3,091,545</u>	<u>3,965,284</u>

The accompanying notes on pages 11 to 21 form an integral part of these financial statements.

For the Board of IPAS:



Kārlis Purgailis
Chairman of the Board

Riga, 29 April 2019

STATEMENT OF INCOME AND EXPENSES

	Notes	2018	2017
Income for the reporting period			
Dividend income		95,880	106,060
Total income		95,880	106,060
Expenses for the reporting period			
Remuneration to investment management company		(71,460)	(79,881)
Custodian Fee		(6,431)	(7,189)
Other Fund management expenses		(10,932)	(4,640)
Total expenses		(88,823)	(91,710)
Increase/ decrease in investment value			
Realized (decrease)/ increase in investment value	6	(22,807)	15,351
Unrealized (decrease)/ increase in investment value	7	(597,843)	240,700
Total decrease/ increase in investments		(620,650)	256,051
Foreign currency revaluation result		5,821	66,581
Decrease/ increase in net assets from investment		(607,772)	336,982

The accompanying notes on pages 11 to 21 form an integral part of these financial statements.

For the Board of IPAS:



Kārlis Purgailis
Chairman of the Board

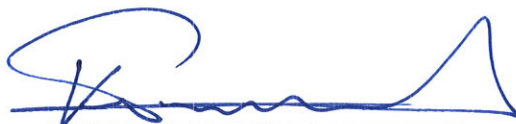
Riga, 29 April 2019

STATEMENT OF CHANGES IN NET ASSETS

	<u>2018</u>	<u>2017</u>
Net assets at the beginning of the reporting period	3,965,284	3,861,752
(Decrease)/ increase in net assets from investment	(607,772)	336,982
Transactions with share certificates and units		
Inflow from sale of share certificates and units	236,714	166,132
Outflow on redemption of share certificates and units	(502,681)	(399,582)
Decrease in net assets from transactions with share certificates	(265,967)	(233,450)
Net asset decrease in the reporting period	(873,739)	(103,532)
Net assets at the end of the reporting period	<u>3,091,545</u>	<u>3,965,284</u>
Number of share certificates issued as at the beginning of the reporting period	85,719	90,780
Number of share certificates issued at the end of the reporting period	79,910	85,719
Net assets per share certificate as at the beginning of the reporting period	46.26	42.54
Net assets per share certificate as at the end of the reporting period	<u>38.69</u>	<u>46.26</u>

The accompanying notes on pages 11 to 21 form an integral part of these financial statements.

For the Board of IPAS:



Kārlis Purgailis
Chairman of the Board

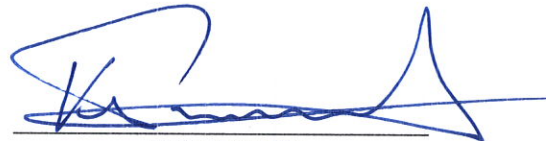
Riga, 29 April 2019

CASH FLOW STATEMENT

	<u>2018</u>	<u>2017</u>
Dividend income	95,880	106,060
Investment management expenses	(90,363)	(91,572)
Acquisition of financial investments	(789,725)	(762,913)
Sale/ disposal of financial investments	1,025,924	1,026,572
Foreign currency revaluation result	(263)	(998)
Increase in cash and cash equivalents from operating activities	<u>241,453</u>	<u>277,149</u>
Inflow from sale of share certificates and units	236,714	166,132
Outflow on redemption of share certificates and units	(502,681)	(399,582)
Decrease in cash and cash equivalents from financing activities	<u>(265,967)</u>	<u>(233,450)</u>
Increase/ (decrease) in cash and cash equivalents	<u>(24,514)</u>	<u>43,699</u>
Cash and cash equivalents at the beginning of the reporting period	<u>98,323</u>	<u>54,937</u>
Foreign currency revaluation result	<u>(866)</u>	<u>(313)</u>
Cash and cash equivalents at the end of the reporting period	<u><u>72,943</u></u>	<u><u>98,323</u></u>

The accompanying notes on pages 11 to 21 form an integral part of these financial statements.

For the Board of IPAS:



Kārlis Purgailis
Chairman of the Board

Riga, 29 April 2019

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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 2018 through 31 December 2018.

Opening balances of Statement of assets and liabilities as at 1 January 2018 agree with the closing balances of the published financial statements for the year 2017.

Functional and reporting currency

Financial accounting of the Fund is carried out in the euros, which is the Fund's reporting 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 statement of income and expenses, using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

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 (except for the variable fee to the asset manager for the Fund's performance, which is paid annually).

Foreign currency revaluation

Transactions in foreign currencies are revaluated into euro at the foreign exchange rate stated 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 stated 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. The exchange rates (foreign currency units against the EUR) stated by the European Central Bank that were mainly applied when preparing the statement of assets and liabilities of the fund were as follows:

Currency	31.12.2018	31.12.2017
DKK	7.46730	7.44490
NOK	9.94830	9.84030
PLN	4.30140	4.17700
SEK	10.25480	9.84380
RUB	79.71530	69.39200
USD	1.14500	1.19930

Cash and cash equivalents

The Fund's cash and cash equivalents represent all balances due on demand from credit institutions.

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Financial instruments

The Company recognizes a financial asset when, and only when, the Company becomes a party to the contract. Financial assets are classified as either measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss. The basis for classification is both business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. At acquisition the applicable classification is evaluated based on the guidelines established by the Company. To classify a financial asset to a particular category, the Company at inception determines whether the asset meets the relevant business model and contractual cash flow criteria. The business model is revealed through the activities of the Company. It stems from the Company's typical way of managing its financial assets in order to generate cash flows; thus, the assessment is not performed on the basis of scenarios that the Company does not reasonably expect to occur. In a stress case, if cash flows are realized in a way that is different from the Company's expectations embedded in the business model, it does not give rise to a prior period error nor does it change the classification of the remaining financial assets held in that business model. However, for future acquisitions historical cash flows are considered and may give rise to changes in the business model.

All financial assets are recognized initially at fair value plus directly attributable transaction costs, except in the case of financial assets stated at fair value through profit or loss. All "regular way" purchases and sales of investments are recognized using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Company. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Company and to the de-recognition of an asset, on the day that it is transferred by the Company.

Financial assets and liabilities at amortized cost

For a financial asset to be measured at amortized cost it should be both held within a business model whose objective is to hold financial assets to collect contractual cash flows and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are carried at amortized cost using the effective interest rate method, less any allowance for impairment. The impairment allowance for financial assets that are not-credit impaired (Stage 1 and Stage 2) is measured as the present value of all cash shortfalls which is the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive is counted at the effective interest rate of a financial asset. The impairment allowance for financial assets that are credit impaired at the reporting date (Stage 3) is measured as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the effective interest rate of the financial asset. For the purchased or originated credit-impaired financial assets the credit-adjusted effective interest rate is applied from initial recognition.

A gain or loss on a financial asset that is measured at amortized cost is recognized in profit or loss when the financial asset is derecognized, reclassified, through the amortization process or in order to recognize impairment gains or losses. Financial assets at amortized cost are recognized on drawdown. From the date of signing a contractual agreement till drawdown, they are accounted for as off-balance sheet commitments. Modification or renegotiation of contractual cash flows of a financial asset that does not result in de-recognition of that financial asset, requires the Company to recalculate the gross carrying amount of the financial asset and recognize a modification gain or loss in profit or loss. The gross carrying amount is recalculated as the present value of the renegotiated or modified contractual cash flows through the expected life of the asset that are discounted at the financial asset's original effective interest rate or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets. When estimating the expected cash flows, all contractual terms and payments are considered, except for the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset. Costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

When the financial asset or part of it cannot be recovered, it or the respective part is written-off and charged against impairment for credit losses. The Company makes the decision regarding any write-off of financial assets. Recoveries of previously written-off assets or parts of assets are credited to the statement of profit or loss.

The Company classifies all financial liabilities as subsequently measured at amortized cost using the effective interest rate method, except for derivatives and certain deposit components of the insurance plan liabilities which are measured at fair value through profit or loss. A gain or loss on a financial liability that is measured at amortized cost is recognized in profit or loss when the financial liability is derecognized and through the amortization process.

Recognition and derecognition

All purchases and sales of financial assets are recognized on the settlement date. Financial assets are derecognized when the contractual rights to receive cash flows from the financial asset expire or when the Company has transferred substantially all the risks and benefits incidental to ownership of an asset. Financial assets at fair value through profit or loss are initially recognized at fair value and all transaction costs are carried to the statement of income and expenses. Other financial assets are initially recognized at fair value plus transaction costs.

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Allowances for impairment of financial assets

The Company estimates expected credit losses to reflect the changes in credit risk since initial recognition of debt securities, balances due from credit institutions and central banks and financial commitments. Requirements for impairment allowances apply to financial assets at amortized cost, but do not apply to financial assets at fair value through profit or loss. For financial assets measured at fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income and does not reduce their carrying amount in the balance sheet.

Impairment allowances are recognized based on forward-looking information, even if no credit loss event has occurred. The assessment considers a broad range of information, but as most of these types of exposures are assigned credit ratings, it relies heavily on external credit ratings and reported by rating agencies default rates derived by calculating multi-period rating transition matrices. If unavailable for evaluation purposes, external credit ratings may be substituted by internally calculated credit quality levels. Credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer are also considered. The Group deems investment grade rated exposures as low credit risk, thus these are assumed no to have experienced a significant increase in credit risk. For non-investment grade exposures decrease in external credit rating by more than 3 notches since acquisition is deemed significant increase in credit risk. Expected credit losses are recognized based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognized for Stage 1 exposures, where credit risk since initial recognition has not increased significantly. Lifetime expected credit losses are recognized for Stage 2 exposures, whose credit risk has increased significantly since initial recognition, and Stage 3 exposures which are credit impaired. Stage 3 exposures, if any identified, would additionally be subjected to comprehensive evaluation, including comparison to market valuations for similar exposures, analysis of market depth of the respective security, past trading performance and all other available information.

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 Company 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 active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Securities are revaluated based on the bid prices available from Bloomberg and NASDAQ OMX Riga financial information. Securities purchase and sales transactions are recognized at the settlement date. The acquisition cost is measured using the FIFO (*first in, first out*) method.

If there is no quoted price in an active market, then the Company 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 Company 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 which 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.

The description of the methods used in determining the fair value by 3 levels based on the level of the observable inputs used in the valuation techniques is provided below.

Level 1 represents financial instruments whose fair value is determined based on stock exchange prices quoted in an active market. This category generally includes shares, debt securities, short-term bonds and standardized derivatives whose value is assessed using stock exchange price quotes. Securities that are traded in active OTC markets are also included in this category.

Level 2 represents financial instruments whose fair value is determined by using available market data such as prices for similar financial instruments that have been traded in market transactions. This category generally includes less liquid debt securities and derivatives that are measured based on available market data. The price of less liquid debt securities is adjusted by the difference between the available yield rates.

Level 3 represents financial instruments whose fair value is determined using available market data and the Company's internal estimates.

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The Fund recognizes changes in the fair value hierarchy level for instruments at the end of the reporting period in which the changes have occurred.

Taxes

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

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

In 2018, a number of new IFRS came into effect which are applicable to the Fund.

The following guidelines with effective date of 1 January 2018 were adopted for these financial statements. The relevant impact, if any, is disclosed throughout these financial statements.

IFRS 9 'Financial Instruments' (replaces IAS 39). When implementing IFRS 9, the Company elected to do a full restatement for the prior periods. During the implementation process, the Company focused on upgrading the necessary processes, systems, models and capabilities. The new standard provides for different criteria for the classification of assets. To classify assets at amortized cost in accordance with the requirements of the new standard, the respective assets must be assessed under the 'solely payment of principal and interest (SPPI)' principle. Re-assessment of business models in the context of the new standard forms the basis for classification and measurement. As all the Fund's assets are held for trading, there were no changes in classification at initial recognition.

As the Fund's securities are measured at fair value through profit or loss, the adoption of the expected credit loss concept provided in the new standard did not change the allowance level. For assets at fair value through profit or loss no expected credit losses have to be estimated as they have already been included in the fair value of the assets. Such assets also need not be classified in stages depending on changes in their credit quality since initial acquisition or recognition. The Fund also has balances due on demand from credit institutions balances; however, given the current structure and credit ratings, the expected credit loss allowances are not significant.

IFRS 15 'Revenue from Contracts with Customers'. The new standard establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. The Company initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without using any practical expedients. The timing or amount of the Fund's fee and commission income from contracts with customers was not affected by the adoption of IFRS 15.

New standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2018 or which have not yet been endorsed by the EU and which are not expected to have a significant impact on the Fund are as follows:

IFRS 16 'Leases' (replaces IAS 17, IFRIC interpretation 4, IFRIC interpretation 15, IFRIC interpretation 27). The standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted if the entity also applies IFRS 15.

IFRS 17 'Insurance Contracts'. The standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted if the entity also applies IFRS 9 and IFRS 15.

Amendments to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'. The amendments are effective for annual periods beginning on or after 1 January 2021; must be applied retrospectively.

Annual improvements to IFRS:

- Investments in Associates and Joint Ventures (amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (amendments to IAS 19);
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatments;
- Revised Conceptual Framework for Financial Reporting.

The Company is in the process of evaluating the potential effect, if any, of these new standards and interpretations as well as of other changes on the financial statements.

NOTE 3 DUE ON DEMAND FROM CREDIT INSTITUTIONS

	31.12.2018	31.12.2017	% of the Fund's net assets 31.12.2018
Due on demand from credit institutions, AS Citadele Banka	72,943	98,323	2.36%
Total demand deposits with credit institutions	72,943	98,323	2.36%

NOTE 4 EQUITY INSTRUMENTS

			% of the Fund's net assets
	31.12.2018	31.12.2017	31.12.2018
Corporate equity instruments			
Equity instruments of companies in other OECD countries	2,952,073	3,754,772	95.49%
Equity instruments of companies in non-OECD countries	-	31,800	0.0%
Latvia	73,150	88,550	2.37%
Total equity instruments	3,025,223	3,875,122	97.86%

All equity instruments are classified as financial assets at fair value through profit or loss. As at 31 December 2018, all equity instruments owned by the Fund were traded on regulated markets.

The following table presents the equity instruments broken down by the issuer's country of origin:

Financial instrument	ISIN code	Currency	Amount	Acquisition value (EUR)	Carrying amount 31.12.2018	% of the Fund's net assets 31.12.2018
Financial instruments traded on regulated markets				3,381,960	3,025,223	97.86%
Equity instruments of German issuers				1,255,019	1,223,650	39.58%
SAP AG	DE0007164600	EUR	2 018	128,992	176,029	5.69%
Allianz SE	DE0008404005	EUR	948	132,010	166,602	5.39%
Siemens AG	DE0007236101	EUR	1 523	139,089	148,980	4.82%
Infineon Technologies AG	DE0006231004	EUR	7 100	112,119	123,860	4.01%
Linde AG	DE0006483001	EUR	500	72,349	96,925	3.14%
Deutsche Post AG	DE0005552004	EUR	2 520	69,056	60,278	1.95%
Deutsche Telekom AG	DE0005557508	EUR	3 700	56,302	54,871	1.77%
Continental AG	DE0005439004	EUR	415	90,475	49,966	1.62%
Adidas AG	DE000A1EWWW0	EUR	265	47,464	48,376	1.56%
Fresenius SE & Co Kraal	DE0005785604	EUR	1 050	65,955	44,436	1.44%
BASF SE	DE000BASF111	EUR	720	62,048	43,553	1.41%
Bayer AG	DE000BAY0017	EUR	700	71,098	42,469	1.37%
E.ON SE	DE000ENAG999	EUR	4 500	40,082	38,849	1.26%
Henkel AG & Co Kraal	DE0006048432	EUR	376	39,023	35,863	1.16%
Commerzbank AG	DE000CBK1001	EUR	6 000	52,173	34,656	1.12%
Daimler AG	DE0007100000	EUR	709	42,165	32,550	1.05%
HeidelbergCement AG	DE0006047004	EUR	474	34,619	25,387	0.82%
Equity instruments of Swedish issuers				498,449	471,972	15.27%
Investor AB	SE0000107419	SEK	3 400	99,474	124,133	4.01%
Atlas Copco AB	SE0011166610	SEK	3 500	0	71,640	2.32%
Volvo AB	SE0000115446	SEK	3 800	54,909	42,892	1.39%
Nordea Bank Abp	FI4000297767	SEK	5 800	53,588	42,204	1.37%
Telefonaktiebolaget LM Ericsson	SE0000108656	SEK	5 200	36,023	39,410	1.27%
Hennes & Mauritz AB	SE0000106270	SEK	2 900	92,951	35,728	1.16%
Skandinbriska Enskilda Banken AB	SE0000148884	SEK	4 000	36,656	33,334	1.08%
Epiroc Aktiebolag A	SE0011166933	SEK	3 500	30,699	28,410	0.92%
Hexagon AB	SE0000103699	SEK	700	36,248	27,830	0.90%
Assa Abloy AB	SE0007100581	SEK	1 150	20,300	17,679	0.57%
Svenska Cellulosa AB SCA	SE0000112724	SEK	1 300	37,601	8,712	0.28%
Equity instruments of Norwegian issuers				406,656	376,392	12.18%
Equinor ASA	NO0010096985	NOK	8 500	151,765	156,914	5.08%
Norsk Hydro ASA	NO0005052605	NOK	17 500	101,103	68,957	2.23%
DNB ASA	NO0010031479	NOK	4 600	64,826	63,856	2.07%
Telenor ASA	NO0010063308	NOK	3 200	47,978	53,846	1.74%
Orkla ASA	NO0003733800	NOK	4 800	40,984	32,819	1.06%
Equity instruments of Danish issuers				330,064	313,450	10.14%
Novo Nordisk A/S	DK0060534915	DKK	4 200	150,165	167,245	5.41%

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Financial instrument	ISIN code	Currency	Amount	Acquisition value (EUR)	Carrying amount 31.12.2018	% of the Fund's net assets 31.12.2018
DSV A/S	DK0060079531	DKK	800	21,827	45,789	1.48%
AP Moeller - Maersk A/S	DK0010244508	DKK	40	58,217	43,775	1.42%
Novozymes A/S	DK0060336014	DKK	1 000	40,960	38,890	1.26%
Pandora	DK0060252690	DKK	500	58,895	17,751	0.57%
Equity instruments of Polish issuers				508,731	221,825	7.17%
Powszechny Zakład						
Ubezpieczen SA	PLPZU0000011	PLN	7 860	362,565	78,666	2.54%
PKO Bank Polski SA	PLPKO0000016	PLN	7 200	72,333	65,934	2.13%
Polski Koncern Naftowy ORLEN SA	PLPKN0000018	PLN	1 700	37,352	41,992	1.36%
Bank Polska Kasa Opieki SA	PLPEKAO00016	PLN	1 400	36,481	35,233	1.14%
Equity instruments of Finnish issuers				174,779	174,984	5.66%
Nokia OYJ	FI0009000681	EUR	23 000	99,849	115,459	3.74%
Sampo Oyj	FI0009003305	EUR	900	38,682	34,425	1.11%
Stora Enso OYJ	FI0009005961	EUR	2 500	36,248	25,100	0.81%
Equity instruments of Estonian issuers				119,011	137,800	4.46%
Tallink Grupp AS	EE3100004466	EUR	136 436	119,011	137,800	4.46%
Equity instruments of Latvian issuers				55,442	73,150	2.37%
Olainfarm	LV0000100501	EUR	11 000	55,442	73,150	2.37%
Equity instruments of Lithuanian issuers				33,809	32,000	1.03%
Linas Agro AB	LT0000128092	EUR	50 000	33,809	32,000	1.03%
Total equity instruments:				3,381,960	3,025,223	97.86%

NOTE 5 ACCRUED EXPENSES

	31.12.2018	31.12.2017
Accrued expenses for investment management company fees	(4,908)	(6,321)
Accrued expenses for custodian fees	(442)	(569)
Accrued expenses for professional services	(1,271)	(1,271)
Total accrued expenses	(6,621)	(8,161)

NOTE 6 REALIZED DECREASE/INCREASE IN INVESTMENT VALUE

	2018	2017
Proceeds from sale of investments in the reporting period*	1,042,754	1,041,979
Cost of investments sold during the reporting period (Depreciation)/ appreciation of sold investments recognized in prior reporting years	(855,674)	(1,043,568)
	(209,887)	16,940
Total realized (decrease)/ increase in investment value	(22,807)	15,351

* 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 DECREASE/ INCREASE IN INVESTMENT VALUE

	2018	2017
From equity instruments	(597,843)	240,700
Total unrealized (depreciation)/ appreciation of investments	(597,843)	240,700

NOTE 8 CHANGES IN INVESTMENTS

The following table shows the changes in investments in 2018:

	31.12.2017	Increase during the reporting period	Decrease during the reporting period*	Fair value adjustment	31.12.2018
Financial assets at fair value through profit or loss					
Equity instruments	3,875,122	789,725	(1,025,924)	(613,700)	3,025,223
Total investments	3,875,122	789,725	(1,025,924)	(613,700)	3,025,223

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* 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 shows 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 assets at fair value through profit or loss					
Equity instruments	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.

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 amounts 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. The fair value of balances due on demand from credit institutions corresponds to their carrying amount.

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 framework

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 risk), foreign currency exchange rates (foreign currency 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.

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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.

Foreign currency risk

Foreign currency 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. Foreign currency 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.

Effect of exchange rate fluctuations (2018)				Effect of exchange rate fluctuations (2017)			
Currency	Share in the Fund (% of net assets)	Change in the exchange rate against USD	Impact on the Fund's value	Currency	Share in the Fund (% of net assets)	Change in the exchange rate against USD	Impact on the Fund's value
EUR	53.41%	0.00%	0.00%	EUR	62.28%	0.00%	0.00%
SEK	15.41%	6.29%	0.97%	DKK	13.11%	0.56%	0.07%
NOK	12.36%	5.59%	0.69%	SEK	11.97%	5.37%	0.64%
DKK	11.48%	0.53%	0.06%	NOK	10.55%	6.45%	0.68%
PLN	7.34%	4.89%	0.36%	PLN	2.09%	4.66%	0.10%
Total	100.00%		2.08%	Total	100.00%		1.49%

The following table shows the breakdown of assets and liabilities of the Fund by currency profile as at 31 December 2018:

	EUR	SEK	NOK	DKK	PLN	Total
Assets						
Due on demand from credit institutions	16,332	4,361	5,667	41,523	5,060	72,943
Financial assets through profit or loss						
Equity instruments	1,641,584	471,972	376,392	313,450	221,825	3,025,223
Total assets	1,657,916	476,333	382,059	354,973	226,885	3,098,166
Liabilities						
Accrued expenses	(6,621)	-	-	-	-	(6,621)
Total liabilities	(6,621)	-	-	-	-	(6,621)
Net assets	1,651,295	476,333	382,059	354,973	226,885	3,091,545
<i>% of net assets</i>	53.41%	15.41%	12.36%	11.48%	7.34%	100.00%

The following table shows the breakdown 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 through profit or loss						
Equity instruments	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
<i>% of net assets</i>	62.28%	13.11%	11.97%	10.55%	2.09%	100.00%

As at 31 December 2017, the other currency distribution was as follows: PLN – EUR 82,964 and RUB – EUR 3.

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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 shows the geographical profile of assets and liabilities of the Fund as at 31 December 2018:

	Latvia	Other OECD countries	Non-OECD countries	Total
Assets				
Due on demand from credit institutions	72,943	-	-	72,943
Financial assets through profit or loss				
Equity instruments	73,150	2,952,073	-	3,025,223
Total assets	146,093	2,952,073	-	3,098,166
Liabilities				
Accrued expenses	(6,621)	-	-	(6,621)
Total liabilities	(6,621)	-	-	(6,621)
Net assets	139,472	2,952,073	-	3,091,545

The following table shows 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 through profit or loss				
Equity instruments	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 shows the breakdown of the Fund's net assets by individual countries (based on the issuer's country of registration):

Country	Carrying amount 31.12.2018	Carrying amount 31.12.2017	% of the Fund's net assets 31.12.2018
Germany	1,223,650	1,861,285	39.58%
Sweden	471,972	442,596	15.27%
Norway	376,392	416,245	12.18%
Denmark	313,450	514,325	10.14%
Poland	221,825	79,089	7.17%
Finland	174,984	270,687	5.66%
Latvia	139,472	178,712	4.51%
Estonia	137,800	170,545	4.46%
Lithuania	32,000	31,800	1.03%
Total	3,091,545	3,965,284	100.00%

The following table shows the breakdown of the Fund's securities portfolio by sectors:

Sector	Carrying amount 31.12.2018	Carrying amount 31.12.2017	% of the Fund's net assets 31.12.2018
Financial services	580,531	508,593	18.78%
Manufacturing	554,351	773,512	17.93%
IT services	482,588	449,591	15.61%
Pharmacy	327,300	508,656	10.59%
Commodities	298,812	424,332	9.66%
Consumption services	227,263	420,311	7.35%
Energy	198,906	115,992	6.43%
Consumer staples	109,394	126,966	3.54%
Telecommunications services	108,717	192,053	3.52%

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Sector	Carrying amount	Carrying amount	% of the Fund's net assets
	31.12.2018	31.12.2017	31.12.2018
Commercial banks	98,512	293,386	3.19%
Utilities	38,849	61,730	1.26%
Total	3,025,223	3,875,122	97.86%

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 following table shows the maturity profile of the Fund's assets and liabilities as at 31 December 2018:

	Up to 1 month	1-6 months	Indefinite	Total
Assets				
Due on demand from credit institutions	72,943	-	-	72,943
Financial assets through profit or loss				
Equity instruments	-	-	3,025,223	3,025,223
Total assets	72,943	-	3,025,223	3,098,166
Liabilities				
Accrued expenses	(5,350)	(1,271)	-	(6,621)
Total liabilities	(5,350)	(1,271)	-	(6,621)
Net assets	67,593	(1,271)	3,025,223	3,091,545
<i>Net position, %</i>	<i>2.19%</i>	<i>(0.05%)</i>	<i>97.86%</i>	<i>100.00%</i>

The following table shows the maturity profile of the Fund's assets and liabilities as at 31 December 2018:

	Up to 1 month	1-6 months	Indefinite	Total
Assets				
Due on demand from credit institutions	98,323	-	-	98,323
Financial assets through profit or loss				
Equity instruments	-	-	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
<i>Net position, %</i>	<i>2.30%</i>	<i>(0.03%)</i>	<i>97.73%</i>	<i>100.00%</i>

NOTE 12 INFORMATION ON THE FUND'S INVESTMENT CERTIFICATE HOLDERS

The following table shows the proportion of the share certificates held by related parties and other investors to the total number of the share certificates issued:

	31.12.2018	31.12.2017	% of the total number 31.12.2018
Share certificates held by related parties	105	86	0.13%
Share certificates held by third parties	79,805	85,633	99.87%
The number of share certificates issued at the end of the reporting period	79,910	85,719	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 did not conduct any transactions with the Fund's 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 in 2018 and 2017.

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NOTE 14 PERFORMANCE DYNAMICS OF THE INVESTMENT FUND

	31.12.2018	31.12.2017	31.12.2016
Net assets (EUR)	3,091,545	3,965,284	3,861,752
Number of share certificates	79,910	85,719	90,780
Value of the unit of the Fund	38.69	46.26	42.54
Profitability of the Fund**	(16.36%)	8.74%	1.43%
Net assets (EUR)*	3,091,545	3,966,504	3,860,862
Number of share certificates	79,910	85,719	90,780
Value of the unit of the Fund	38.69	46.27	42.53
Profitability of the Fund**	(16.38%)	8.79%	1.35%

* Net asset value in EUR is established using exchange rates fixed 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 "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") set out on pages 7 to 20 of the accompanying Annual Report, which comprise:

- the statement of assets and liabilities as at 31 December 2018,
- 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 2018, 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 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 Fund's management is responsible for the other information. The other information comprises:

- 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 5 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 Report, our responsibility is to consider whether the Investment Management Report is prepared in accordance with the requirements No 99 "Regulations on Preparation of the Annual Report, Consolidated Annual Report and Half-Year Report of the Investment Fund and the Open-end Alternative Investment Fund".

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 99 "Regulations on Preparation of the Annual Report, Consolidated Annual Report and Half-Year Report of the Investment Fund and the Open-end Alternative Investment Fund".

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/

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Rīga, Latvia
29 April 2019

/Marina Iļjina/

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