



**INVESTMENT FUND**  
**CBL European Leaders Equity Fund**  
**(previously CBL Baltic Sea Equity Fund)**

**ANNUAL REPORT FOR 2019**  
**(7<sup>th</sup> 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, 2020**



**IF CBL European Leaders Equity Fund  
Annual Report for 2019**

2

**TABLE OF CONTENTS**

Information on the investment fund	3
Investment management company report	4
Statement of responsibility of the Board of the investment management company	5
Custodian report	6
Financial statements:	
Statement of assets and liabilities	7
Statement of income and expenses	8
Statement of changes in net assets	9
Statement of cash flows	10
Notes to the financial statements	11
Auditors' report	20



**IF CBL European Leaders Equity Fund  
Annual Report for 2019**

**INFORMATION ON THE INVESTMENT FUND**

Name of the Fund :	CBL European Leaders 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):	Andrejs Piļka – appointed on 29.08.2019 Igoris Lahtadirs – appointed on 21.11.2013 Andris Kotāns – appointed on 26.01.2011, resigned 29.08.2019
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

## IF CBL European Leaders Equity Fund Annual Report for 2019

### INVESTMENT MANAGEMENT COMPANY REPORT

The manager of the investment fund CBL European Leaders Equity Fund (hereinafter the Fund) is the investment management company CBL Asset Management, registered office Republikas laukums 2a, Riga, LV-1010, registration number 40003577500. 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.

2019 was a very positive year for global risk assets. The European stock market index STOXX Europe 600 and US index S&P 500 grew by 23.2% and 31.4% in euro terms, respectively. On the whole, 2019 was the best year for European markets during the last decade. The positive sentiment was supported by noticeable stabilization in the global economic growth rates, as well as by more friendly monetary policy from the US Federal Reserve, which cut interest rates three times during the year. Following lengthy negotiations, at the end of the year, the US and China announced an initial agreement cancelling the increased tariffs. Also, in the beginning of 2020, the so-called "first phase" trade deal was signed. Additionally, we also saw some improvements in the Brexit issue. Boris Johnson's victory in the early general elections in December led to the government finally approving an agreement with the EU, significantly reducing the protracted uncertainty.

In 2019, the Fund's net assets decreased by EUR 208,059 and totaled EUR 2,883,486 at the end of the year. Gross asset value as at 31 December 2019 amounted to EUR 2,890,353. At the same time, the value of the unit of the Fund in 2019 increased by EUR 5.40, reaching EUR 44.09. The Fund's overall return in 2019 was 13.96% in terms of the Fund's base currency (euro) according to the closing foreign exchange rates.

From geographical perspective, the largest positive contribution in 2019 came from the Fund's investments in German equities. The German market has substantial weight in cyclical sectors and export oriented companies; therefore the stabilization of the global economy and the reduction of the trade tariff risk component significantly increased the attractiveness of this market among investors. Germany was followed by Swedish, Danish, Norwegian and Baltic markets. On the other hand, a slightly negative impact came from Finnish and Polish markets.

From the sector perspective, the largest positive contribution came from manufacturing, followed by financial services, health care, IT services, commodities, consumption and utilities sectors. At the same time, the effect of the energy sector on the Fund's value was moderately negative.

Over the year, the Fund significantly reduced its exposure to Germany (-3.5 percentage points), Norway (-1.7 pp), Finland (-1.6 pp), Poland (-1.3 pp) and Estonia (-1.1 pp), while the weight of investments in Latvia (+5.0 pp), Denmark (+2.8 pp) and Sweden (+2.1 pp) was increased. From the sector perspective, the exposure to financial services (-7.0 pp), IT services (-4.1 pp) and commodities (-2.9 pp) sectors was reduced. On the other hand, the exposure to telecommunications (+4.2 pp), manufacturing (+2.7 pp.), pharmaceutical (+1.8 pp) and consumption services (+1.4 pp) sectors was increased. The changes in other sectors were insignificant.

During the reporting period, the total management costs amounted to EUR 79,864, which did not exceed the maximum amount of 4.00% outlined in the Fund's prospectus. The investment management company fee of EUR 63,485, custodian fee – EUR 5,714, other management expenses - EUR 10,665 were covered from the Fund's assets. In 2019, the Fund's ongoing charges reached 2.55% of the Fund's average net asset value.

Since the last day of the reporting year until the date of signing these financial statements, a significant event with a considerable impact on the Fund took place. As of 1 January 2020, the Fund has adopted a new investment policy and changed its name from CBL Baltic Sea Equity Fund to CBL European Leaders Equity Fund. The potential investment universe was expanded to include all European countries, and new stock selection process was introduced, based on quantitative approach developed by CBL AM. The model is designed to identify technically attractive stocks with attractive fundamentals, including robust earnings growth, sound financial position and return on equity capital.

No significant involvement measures were taken during the reporting period (in accordance with the provisions of the Sustainability and Involvement Policy).

From the last day of the reporting year until the date of signing these financial statements, a significant event occurred, which may have a material impact on the financial situation of the Fund and its performance, and which should be mentioned. The event is the outbreak of the coronavirus first in China, and afterwards in Europe and in the US. After the spread of the coronavirus outside of China in February, investors reacted very quickly by selling off almost all categories of assets. For example, from the beginning of the year to the second half of March, stock markets, depending on region, shrunk by approximately 25-30%. Total negative impact on various global economy sectors and countries is very difficult to estimate while the virus spread continues. The Fund Managers expect stock markets to remain highly volatile for a significant period of time.

The operations and functions of IPAS CBL Asset Management have been changed to a remote working mode and thus it continues ensuring the continuity of the processes related to the management of the Fund. The information at the disposal of IPAS CBL Asset Management reveals that the Custodian bank has reacted similarly – no interruptions in the services provided by the Custodian bank have been observed.

The management team of IPAS CBL Asset Management closely follows developments both on domestic and global scale of such factors as the economic growth, monetary and fiscal policies of leading economies as well as potential inflationary and political risks as they have a substantial impact on the economies of European countries and capital market dynamics. At the same time, careful stock selection, regardless of the sector and the country, will continue to be a decisive factor in the Fund's investment process.

For the Board of IPAS:

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Kārlis Purgailis  
Chairman of the Board

Riga, 2020

\* This document is signed electronically with a secure electronic signature and is time-stamped.

**IF CBL European Leaders Equity Fund  
Annual Report for 2019**

**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 European Leaders Equity Fund (previously CBL Baltic Sea Equity Fund) (hereinafter - the Fund).

The financial statements on pages 7 through 19 are prepared based on source documents and present fairly the financial position of the Fund as at 31 December 2019 and the results of its operations in 2019.

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 European Leaders 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.

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Kārlis Purgailis  
Chairman of the Board

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Andrejs Piļka  
Member of the Investment Committee

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Igors Lahtadirs  
Member of the Investment Committee

Riga, 2020

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**CUSTODIAN BANK REPORT**  
**For the period from 1 January 2019 to 31 December 2019**

To the Share Certificate holders of  
 IF CBL European Leaders Equity Fund (previously CBL Baltic Sea Equity Fund)

AS Citadele banka, registered with the Register of Enterprises of the Republic of Latvia on 30 June 2010 under No 40103303559, registered office at Republikas laukums 2a, Riga, hereby confirms the following:

- in accordance with the Custody Agreement concluded on 7 April 2017, AS Citadele banka (hereinafter - the Custodian) exercises custodian's functions for the investment fund "CBL European Leaders Equity Fund" (hereinafter - the Fund) established by IPAS CBL Asset Management (hereinafter - the Company);
- the Custodian exercises the functions of the Fund's custodian pursuant to the Law on Investment Management Companies (hereinafter – the Law), and other laws and regulations of the Republic of Latvia applicable to the Custodian (hereinafter – the laws and regulations).

The Custodian is responsible for compliance with the laws and regulations and the Custody Agreement. The main responsibilities of the Custodian include:

- holding of the Fund's assets in accordance with the laws and regulations and the Custody Agreement;
- ensuring the maintenance of the Fund's accounts, receiving and executing the Company's orders as well as settling payments in accordance with the requirements of the laws and regulations and the Custody Agreement;
- ensuring that the Fund's net asset value and the value of the unit of the Fund are calculated in accordance with the requirements of the laws and regulations, regulations of the Financial and Capital Market Commission, Prospectus of the Fund and Fund Rules;
- ensuring that the issue, sale and redemption of the Fund's Share Certificates are performed according to the laws and regulations, Prospectus of the Fund and Fund Rules;
- ensuring that the Fund's income is used according to the laws and regulations, Prospectus of the Fund and Fund Rules.

During the period from 1 January 2019 to 31 December 2019:

- the issue, sale and redemption of the Fund's Share Certificates were performed in accordance with the requirements of the laws and regulations, Prospectus of the Fund and Fund Rules;
- the Fund's assets were held in accordance with the requirements of the laws and regulations and the Custody Agreement;
- the Fund's net asset value was calculated in accordance with the requirements of the laws and regulations, regulations of the Financial and Capital Market Commission, Prospectus of the Fund and Fund Rules;
- the Company's orders were submitted as well as transactions with the Fund's assets were performed in accordance with the requirements of the laws and regulations, Prospectus of the Fund, Fund Rules and the Custody Agreement.

In the reporting period, no errors or non-compliance with the applicable laws and regulations were identified in the Company's operations with the Fund's assets.

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Valters Ābele  
 Board Member

Riga, 2020

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**IF CBL European Leaders Equity Fund  
Annual Report for 2019**

**STATEMENT OF ASSETS AND LIABILITIES**

	<b>Notes</b>	<u><b>31.12.2019</b></u>	<u><b>31.12.2018</b></u>
<b>Assets</b>			
Due on demand from credit institutions	3	200,306	72,943
Financial assets at fair value through profit or loss			
Equity instruments	4	<u>2,690,047</u>	<u>3,025,223</u>
<b>Total assets</b>		<u><b>2,890,353</b></u>	<u><b>3,098,166</b></u>
<b>Liabilities</b>			
Accrued expenses	5	<u>(6,867)</u>	<u>(6,621)</u>
<b>Total liabilities</b>		<u><b>(6,867)</b></u>	<u><b>(6,621)</b></u>
<b>Net assets</b>		<u><b>2,883,486</b></u>	<u><b>3,091,545</b></u>

The accompanying notes on pages 11 through 19 form an integral part of these financial statements.

For the Board of IPAS:

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Kārlis Purgailis  
Chairman of the Board

Rīga, 2020

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**IF CBL European Leaders Equity Fund  
Annual Report for 2019**

**STATEMENT OF INCOME AND EXPENSES**

	Notes	<u>2019</u>	<u>2018</u>
<b>Income for the reporting period</b>			
Dividend income		89,596	95,880
Other income		9,551	-
<b>Total income</b>		<b><u>99,147</u></b>	<b><u>95,880</u></b>
<b>Expenses for the reporting period</b>			
Remuneration to investment management company		(63,485)	(71,460)
Custodian Fee		(5,714)	(6,431)
Other Fund management expenses		(10,665)	(10,932)
<b>Total expenses</b>		<b><u>(79,864)</u></b>	<b><u>(88,823)</u></b>
<b>Increase/ decrease in investment value</b>			
Realized increase/(decrease) in investment value	6	175,534	(22,807)
Unrealized increase/(decrease) in investment value	7	225,954	(597,843)
<b>Total decrease/ increase in investments</b>		<b><u>401,488</u></b>	<b><u>(620,650)</u></b>
Foreign currency revaluation result		(11,426)	5,821
<b>Increase/(decrease) in net assets from investment</b>		<b><u>409,345</u></b>	<b><u>(607,772)</u></b>

The accompanying notes on pages 11 through 19 form an integral part of these financial statements.

For the Board of IPAS:

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Kārlis Purgailis  
Chairman of the Board

Riga, 2020

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**STATEMENT OF CHANGES IN NET ASSETS**

	<u>2019</u>	<u>2018</u>
Net assets at the beginning of the reporting period	3,091,545	3,965,284
Increase/(decrease) in net assets from investment	409,345	(607,772)
<b>Transactions with share certificates and units</b>		
Inflow from sale of share certificates and units	163,439	236,714
Outflow on redemption of share certificates and units	<u>(780,843)</u>	<u>(502,681)</u>
Decrease in net assets from transactions with share certificates	<u>(617,404)</u>	<u>(265,967)</u>
Net asset decrease in the reporting period	<u>(208,059)</u>	<u>(873,739)</u>
<b>Net assets at the end of the reporting period</b>	<b><u>2,883,486</u></b>	<b><u>3,091,545</u></b>
Number of share certificates issued as at the beginning of the reporting year	79,910	85,719
Number of share certificates issued at the end of the reporting year	<u>65,397</u>	<u>79,910</u>
<b>Net assets per share certificate as at the beginning of the reporting year</b>	38.69	46.26
<b>Net assets per share certificate as at the end of the reporting year</b>	<b><u>44.09</u></b>	<b><u>38.69</u></b>

The accompanying notes on pages 11 through 19 form an integral part of these financial statements.

For the Board of IPAS:

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Kārlis Purgailis  
Chairman of the Board

Rīga, 2020

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**STATEMENT OF CASH FLOWS**

	Notes	2019	2018
Dividend income		89,596	95,880
Other income		9,551	-
Investment management expenses		(79,618)	(90,363)
Acquisition of financial investments	8	(683,166)	(789,725)
Sale/ disposal of financial investments		1,409,033	1,025,924
Foreign currency revaluation result		(192)	(263)
<b>Increase in cash and cash equivalents from operating activities</b>		<b>745,204</b>	<b>241,453</b>
Inflow from sale of share certificates and units		163,439	236,714
Outflow on redemption of share certificates and units		(780,843)	(502,681)
<b>Decrease in cash and cash equivalents from financing activities</b>		<b>(617,404)</b>	<b>(265,967)</b>
<b>Increase/ (decrease) in cash and cash equivalents</b>		<b>127,800</b>	<b>(24,514)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>72,943</b>	<b>98,323</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>(437)</b>	<b>(866)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>200,306</b>	<b>72,943</b>

The accompanying notes on pages 11 through 19 form an integral part of these financial statements.

For the Board of IPAS:

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Kārlis Purgailis  
Chairman of the Board

Riga, 2020

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**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 GENERAL INFORMATION**

Name of the Fund: CBL European Leaders 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 European Leaders 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 2019 through 31 December 2019. Opening balances of Statement of assets and liabilities as at 1 January 2019 agree with the closing balances of the published financial statements for the year 2018.

**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:

<b>Currency</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
DKK	7.47150	7.46730
NOK	9.86380	9.94830
PLN	4.25680	4.30140
SEK	10.44680	10.25480

**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 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 Fund. 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 Fund.

**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. When a financial assets it cannot be recovered, it 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.

**Financial instruments at fair value through profit or loss**

A financial asset is measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income. Given the specifics of the Fund's activities, most of the financial assets are classified under this category as the Fund's business model is designed to increase the net asset value as a result of holding or trading of financial assets. For equity instruments that would otherwise be measured at fair value through profit or loss an irrevocable election at initial recognition on instrument-by-instrument basis is made to present subsequent changes in fair value in other comprehensive income. Also a financial asset or liability, at initial recognition, may be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces "accounting mismatch" that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, or when a group of financial liabilities or a group of financial assets and financial liabilities are managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the management.

Excluding interest on interest rate swaps, interest on financial assets measured at fair value through profit or loss is included in net interest income. Revaluation and trading gains or losses arising from changes in fair value of financial assets or financial liabilities that are measured at fair value through profit or loss, as well as interest on interest rate swaps, are recognized directly in the statement of income as net financial income. Such financial assets and liabilities are subsequently re-measured at fair value based on available market prices or broker quotes.

Included in this category are certain life insurance contract liabilities, which are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial assets and liabilities which are held for trading are measured at fair value through profit or loss. Financial assets and liabilities are held for trading if they are either acquired to generate profit from short-term fluctuations in price or dealer's margin or they are a part of the portfolio characterized by generating short-term profit. The Fund also has balances due on demand from credit institutions; however, considering the short-term structure and credit ratings, the allowances for expected credit losses are not material.

**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.

**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.

The Company recognizes changes in the fair value hierarchy level for instruments at the end of the reporting period in which the changes have occurred. Compared to the previous year, there have been no changes in the fair value hierarchy.

Financial asset and financial liability portfolios that are exposed to market risk and credit risk, which for the Fund are managed by the Company, 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 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**

The following new standards, amendments and interpretations with effective date of 1 January 2019 were adopted for these financial statements without a material impact thereon.

IFRS 16 SFPS 'Leases' (replaces IAS 17, IFRIC interpretation 4, IFRIC interpretation 15, IFRIC interpretation 27).

IFRIC interpretation 23 "Uncertainty over Income Tax Treatments"

IFRS 9: Prepayment features with negative compensation (Amendment)

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

Annual Improvements to IFRSs 2015 – 2017 Cycle – Amendments to IFRS 2, IFRS 11, IAS 12 and IAS 23.

Future guidance that does not have any impact on the 2019 year financial data:

The EU has issued a number of new standards, amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2020, but that have not yet been endorsed by the EU. They have not been applied in preparing these financial statements. The Fund is not inclined towards their early adoption. The Company is in the process of evaluating the potential effect, if any, of the changes arising from these new standards and interpretations

IFRS 17 'Insurance contracts' effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 and IFRS 9 have also been applied.

Amendments to References to Conceptual Framework in IFRS Standard

Amendments to IFRS 3 –Definition of a Business

Amendments to IAS 1 and IAS 8 –Definition of Material

Amendments to IFRS 10 and IAS 28 –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

**NOTE 3 DUE ON DEMAND FROM CREDIT INSTITUTIONS**

	% of the Fund's net assets		% of the Fund's net assets	
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Due on demand from credit institutions, AS Citadele Banka	200,306	6.95%	72,943	2.36%
<b>Total demand deposits with credit institutions</b>	<b>200,306</b>	<b>6.95%</b>	<b>72,943</b>	<b>2.36%</b>

**NOTE 4 EQUITY INSTRUMENTS**

	% of the Fund's net assets		% of the Fund's net assets	
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
<b>Corporate equity instruments</b>				
Equity instruments of companies in other OECD countries	2,610,187	90.53%	2,952,073	95.49%
Latvia	79,860	2.77%	73,150	2.37%
<b>Total equity instruments</b>	<b>2,690,047</b>	<b>93.30%</b>	<b>3,025,223</b>	<b>97.86%</b>

All equity instruments are classified as financial assets at fair value through profit or loss. As at 31 December 2019, 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 in 2019:

Financial instrument	ISIN code	Currency	Amount	Acquisition value (EUR)	Carrying amount 31.12.2019	% of the Fund's net assets 31.12.2019
<b>Financial instruments traded on regulated markets</b>				<b>2,681,284</b>	<b>2,690,047</b>	<b>93.30%</b>
<b>Equity instruments of German issuers</b>				<b>1,068,168</b>	<b>1,039,499</b>	<b>36.06%</b>
Allianz SE	DE0008404005	EUR	280	34,226	61,348	2.13%
SAP AG	DE0007164600	EUR	498	32,771	59,810	2.07%
Bechtle AG	DE0005158703	EUR	470	58,624	58,985	2.04%
DEUTSCHE BOERSE STK N	DE0005810055	EUR	420	59,391	59,031	2.05%
MTU Aero Engines AG	DE000A0D9PT0	EUR	230	58,939	58,788	2.04%
Siemens AG	DE0007236101	EUR	500	44,729	58,400	2.03%
Deutsche Post AG	DE0005552004	EUR	1,720	49,239	58,342	2.02%
Adidas AG	DE000A1EWWV0	EUR	200	58,146	58,120	2.02%
Carl-Zeiss Meditec AG	DE0005313704	EUR	500	57,675	56,950	1.98%
Infineon Technologies AG	DE0006231004	EUR	2,800	56,887	56,742	1.97%
CTS Eventim AG & Co. KGaA	DE0005470306	EUR	990	55,774	55,688	1.93%
Deutsche Telekom AG	DE0005557508	EUR	3,700	56,302	54,087	1.88%
Fresenius SE & Co KGaA	DE0005785604	EUR	1,050	65,955	52,458	1.82%
Bayer AG	DE000BAY0017	EUR	700	71,098	51,030	1.77%
BASF SE	DE000BASF111	EUR	720	62,048	48,413	1.68%
Continental AG	DE0005439004	EUR	415	90,475	47,924	1.66%
E.ON SE	DE000ENAG999	EUR	4,500	40,082	42,980	1.49%
Daimler AG	DE0007100000	EUR	709	42,165	34,961	1.21%
Henkel AG & Co KGaA	DE0006048432	EUR	376	39,023	34,660	1.20%
HeidelbergCement AG	DE0006047004	EUR	474	34,619	30,782	1.07%
<b>Equity instruments of Swedish issuers</b>				<b>481,489</b>	<b>499,351</b>	<b>17.32%</b>
Investor AB	SE0000107419	SEK	2,950	89,053	144,467	5.01%
Atlas Copco AB	SE0011166610	SEK	2,000	68,562	71,505	2.48%
Epiroc Aktiebolag A	SE0011166933	SEK	5,200	49,747	57,018	1.98%
Volvo AB	SE0000115446	SEK	3,800	54,909	57,108	1.98%
Hennes & Mauritz AB	SE0000106270	SEK	2,900	92,951	52,816	1.83%
Nordea Bank Abp	FI4000297767	SEK	5,800	53,588	42,056	1.46%
Telefonaktiebolaget LM Ericsson	SE0000108656	SEK	5,200	36,023	40,717	1.41%
Skandinaviska Enskilda Banken AB	SE0000148884	SEK	4,000	36,656	33,664	1.17%
<b>Equity instruments of Danish issuers</b>				<b>301,178</b>	<b>373,945</b>	<b>12.96%</b>
DSV A/S	DK0060079531	DKK	800	21,827	82,318	2.85%
Novozymes A/S	DK0060336014	DKK	1,350	56,030	59,012	2.05%
Coloplast A/S	DK0060448595	DKK	532	58,617	58,957	2.04%
SimCorp A/S	DK0060495240	DKK	578	58,825	58,717	2.04%
Novo Nordisk A/S	DK0060534915	DKK	1,130	41,875	58,629	2.03%
AP Moeller - Maersk A/S	DK0010244508	DKK	40	58,217	51,599	1.79%
Drilling Co of 1972 A/S/The	DK0061135753	DKK	80	5,787	4,713	0.16%



Financial instrument	ISIN code	Currency	Amount	Acquisition value (EUR)	Carrying amount 31.12.2019	% of the Fund's net assets 31.12.2019
<b>Equity instruments of Norwegian issuers</b>						
Equinor ASA	NO0010096985	NOK	7,500	134,899	133,442	4.63%
Orkla ASA	NO0003733800	NOK	6,500	56,480	58,622	2.03%
Norsk Hydro ASAColoplast A/S	NO0005052605	NOK	17,500	101,103	57,909	2.01%
Telenor ASA	NO0010063308	NOK	3,200	47,978	51,063	1.77%
				<b>199,189</b>	<b>168,922</b>	<b>5.86%</b>
<b>Equity instruments of Polish issuers</b>						
Powszechny Zaklad Ubezpieczen SA	PLPZU0000011	PLN	7,860	103,311	73,914	2.56%
CD Projekt SA	PLOPTTC00011	PLN	925	58,526	60,735	2.11%
Polski Koncern Naftowy ORLEN SA	PLPKN0000018	PLN	1,700	37,352	34,273	1.19%
				<b>134,941</b>	<b>115,960</b>	<b>4.02%</b>
<b>Equity instruments of Finnish issuers</b>						
Kone OYJ	FI0009013403	EUR	1,000	58,969	58,280	2.02%
Nokia OYJ	FI0009000681	EUR	17,500	75,972	57,680	2.00%
				<b>84,738</b>	<b>98,026</b>	<b>3.40%</b>
<b>Equity instruments of Estonian issuers</b>						
Tallink Grupp AS	EE3100004466	EUR	100,436	84,738	98,026	3.40%
<b>Equity instruments of Latvian issuers</b>						
Olainfarm	LV0000100501	EUR	11,000	55,442	79,860	2.77%
<b>Equity instruments of Lithuanian issuers</b>						
Linas Agro AB	LT0000128092	EUR	23,187	15,679	13,448	0.47%
<b>Total equity instruments:</b>				<b>2,681,284</b>	<b>2,690,047</b>	<b>93.30%</b>

**NOTE 5 ACCRUED EXPENSES**

	2019.	2018.
Accrued expenses for investment management company fees	(5,112)	(4,908)
Accrued expenses for custodian fees	(460)	(442)
Accrued expenses for professional services	(1,295)	(1,271)
<b>Total accrued expenses</b>	<b>(6,867)</b>	<b>(6,621)</b>

**NOTE 6 REALIZED INCREASE/DECREASE IN INVESTMENT VALUE**

	2019	2018
Proceeds from sale of investments in the reporting period*	1,425,217	1,042,754
Cost of investments sold during the reporting period (Depreciation)/ appreciation of sold investments recognized in prior reporting years	(1,250,357)	(855,674)
	674	(209,887)
<b>Total realized (decrease)/ increase in investment value</b>	<b>175,534</b>	<b>(22,807)</b>

\* 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/DECREASE IN INVESTMENT VALUE**

	2019	2018
From equity instruments	225,954	(597,843)
<b>Total unrealized (depreciation)/ appreciation of investments</b>	<b>225,954</b>	<b>(597,843)</b>

**NOTE 8 CHANGES IN INVESTMENTS**

The following table shows the changes in investments in 2019:

	31.12.2018	Increase during the reporting period	Decrease during the reporting period*	Fair value adjustment	31.12.2019
Financial assets at fair value through profit or loss					
Equity instruments	3,025,223	683,166	(1,409,033)	390,691	2,690,047
<b>Total investments</b>	<b>3,025,223</b>	<b>683,166</b>	<b>(1,409,033)</b>	<b>390,691</b>	<b>2,690,047</b>

\* 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.

**IF CBL European Leaders Equity Fund  
Annual Report for 2019**

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
<b>Financial assets at fair value through profit or loss</b>					
Equity instruments	3,875,122	789,725	(1,025,924)	(613,700)	3,025,223
<b>Total investments</b>	<b>3,875,122</b>	<b>789,725</b>	<b>(1,025,924)</b>	<b>(613,700)</b>	<b>3,025,223</b>

\* 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.

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 yield. The risk of market price fluctuations was calculated as at 31 December 2019 using the standard deviation in the reference index of the respective investment fund category.

At the end of the reporting period, the Beta factor (a measure of a stock's volatility in relation to the overall market) was 1.05. The Beta factor was calculated based on the data of the reporting year. The market index volatility is calculated as the standard deviation in the respective reporting period.

Market volatility	Fund value volatility
20.00%	21.08%

At the end of 2018, the Beta factor was 0.92 and it was calculated based on the 2018 data. The market index volatility is calculated as the standard deviation in the respective reporting period.

Market volatility	Fund value volatility
14.35%	13.14%



**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.

Effect of exchange rate fluctuations (2019)				Effect of exchange rate fluctuations (2018)			
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	47.85%	0.00%	0.00%	EUR	53.41%	0.00%	0.00%
SEK	18.65%	5.06%	0.94%	SEK	15.41%	6.29%	0.97%
DKK	13.90%	0.57%	0.08%	NOK	12.36%	5.59%	0.69%
NOK	12.60%	5.82%	0.73%	DKK	11.48%	0.53%	0.06%
PLN	7.00%	3.47%	0.24%	PLN	7.34%	4.89%	0.36%
<b>Total</b>	<b>100.00%</b>		<b>1.99%</b>	<b>Total</b>	<b>100.00%</b>		<b>2.08%</b>

The following table shows the breakdown of assets and liabilities of the Fund by currency profile as at 31 December 2019:

	EUR	SEK	DKK	NOK	PLN	Total
<b>Assets</b>						
Due on demand from credit institutions	39,853	38,462	26,920	62,244	32,827	200,306
Financial assets through profit or loss						
Equity instruments	1,346,793	499,351	373,945	301,036	168,922	2,690,047
<b>Total assets</b>	<b>1,386,646</b>	<b>537,813</b>	<b>400,865</b>	<b>363,280</b>	<b>201,749</b>	<b>2,890,353</b>
<b>Liabilities</b>						
Accrued expenses	(6,867)	-	-	-	-	(6,867)
<b>Total liabilities</b>	<b>(6,867)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,867)</b>
<b>Net assets</b>	<b>1,379,779</b>	<b>537,813</b>	<b>400,865</b>	<b>363,280</b>	<b>201,749</b>	<b>2,883,486</b>
<i>% of net assets</i>	<i>47.85%</i>	<i>18.65%</i>	<i>13.90%</i>	<i>12.60%</i>	<i>7.00%</i>	<i>100.00%</i>

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
<b>Assets</b>						
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
<b>Total assets</b>	<b>1,657,916</b>	<b>476,333</b>	<b>382,059</b>	<b>354,973</b>	<b>226,885</b>	<b>3,098,166</b>
<b>Liabilities</b>						
Accrued expenses	(6,621)	-	-	-	-	(6,621)
<b>Total liabilities</b>	<b>(6,621)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,621)</b>
<b>Net assets</b>	<b>1,651,295</b>	<b>476,333</b>	<b>382,059</b>	<b>354,973</b>	<b>226,885</b>	<b>3,091,545</b>
<i>% of net assets</i>	<i>53.41%</i>	<i>15.41%</i>	<i>12.36%</i>	<i>11.48%</i>	<i>7.34%</i>	<i>100.00%</i>

**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 2019:

	Latvia	OECD countries	Total
<b>Assets</b>			
Due on demand from credit institutions	200,306	-	200,306
Financial assets through profit or loss			
Equity instruments	79,860	2,610,187	2,690,047
<b>Total assets</b>	<b>280,166</b>	<b>2,610,187</b>	<b>2,890,353</b>
<b>Liabilities</b>			
Accrued expenses	(6,867)	-	(6,867)
<b>Total liabilities</b>	<b>(6,867)</b>	<b>-</b>	<b>(6,867)</b>
<b>Net assets</b>	<b>273,299</b>	<b>2,610,187</b>	<b>2,883,486</b>

**IF CBL European Leaders Equity Fund  
Annual Report for 2019**

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

	Latvia	OECD countries	Total
<b>Assets</b>			
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
<b>Total assets</b>	<b>146,093</b>	<b>2,952,073</b>	<b>3,098,166</b>
<b>Liabilities</b>			
Accrued expenses	(6,621)	-	(6,621)
<b>Total liabilities</b>	<b>(6,621)</b>	<b>-</b>	<b>(6,621)</b>
<b>Net assets</b>	<b>139,472</b>	<b>2,952,073</b>	<b>3,091,545</b>

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

Country	Carrying amount	% of the Fund's net assets	Carrying amount	% of the Fund's net assets
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Germany	1,039,499	36.06%	1,223,650	39.58%
Sweden	499,351	17.32%	471,972	15.27%
Denmark	373,945	12.96%	313,450	10.14%
Norway	301,036	10.44%	376,392	12.18%
Latvia	273,299	9.47%	139,472	4.51%
Poland	168,922	5.86%	221,825	7.17%
Finland	115,960	4.02%	174,984	5.65%
Estonia	98,026	3.40%	137,800	4.46%
Lithuania	13,448	0.47%	32,000	1.04%
<b>Total</b>	<b>2,883,486</b>	<b>100.00%</b>	<b>3,091,545</b>	<b>100.00%</b>

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

Sector	Carrying amount	% of the Fund's net assets	Carrying amount	% of the Fund's net assets
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Manufacturing	594,276	20.61%	554,351	17.93%
Pharmacy	357,884	12.41%	327,300	10.59%
Financial services	338,760	11.75%	580,531	18.78%
IT services	332,651	11.53%	482,588	15.61%
Consumption services	250,929	8.70%	227,263	7.35%
Telecommunications services	221,573	7.69%	108,717	3.52%
Commodities	196,116	6.81%	298,812	9.66%
Energy	172,428	5.98%	198,906	6.43%
Consumer staples	106,730	3.70%	109,394	3.54%
Commercial banks	75,720	2.63%	98,512	3.19%
Utilities	42,980	1.49%	38,849	1.26%
<b>Total</b>	<b>2,690,047</b>	<b>93.30%</b>	<b>3,025,223</b>	<b>97.86%</b>

### 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 2019:

	Up to	1-6	Indefinite	Total
	1 month	months		
<b>Assets</b>				
Due on demand from credit institutions	200,306	-	-	200,306
Financial assets through profit or loss				
Equity instruments	-	-	2,690,047	3,269,047
<b>Total assets</b>	<b>200,306</b>	<b>-</b>	<b>2,690,047</b>	<b>2,890,353</b>
<b>Liabilities</b>				
Accrued expenses	(5,572)	(1,295)	-	(6,867)
<b>Total liabilities</b>	<b>(5,572)</b>	<b>(1,295)</b>	<b>-</b>	<b>(6,867)</b>
<b>Net assets</b>	<b>194,734</b>	<b>(1,295)</b>	<b>2,690,047</b>	<b>2,883,486</b>
<i>Net position, %</i>	6.75%	(0.05%)	93.30%	100.00%

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

**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:

	31.12.2019	% of the total number 31.12.2019	31.12.2018	% of the total number 31.12.2018
Share certificates held by related parties	8,675	13.27%	9,354	11.71%
Share certificates held by third parties	56,722	86.73%	70,556	88.29%
<b>The number of share certificates issued at the end of the reporting period</b>	<b>65,397</b>	<b>100.00%</b>	<b>79,910</b>	<b>100.00%</b>

**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 as at 31 December 2019.

**NOTE 14 PERFORMANCE DYNAMICS OF THE INVESTMENT FUND**

	31.12.2019	31.12.2018	31.12.2017
<b>Net assets (EUR)*</b>	<b>2,883,486</b>	<b>3,091,545</b>	<b>3,965,284</b>
Number of share certificates	65,397	79,910	85,719
Value of the unit of the Fund	44.09	38.69	46.26
Fund return**	13.96%	(16.36%)	8.74%

\* Net asset value in EUR is established using exchange rates fixed by the financial markets at the end of the day.

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

**NOTE 15 EVENTS AFTER THE END OF THE REPORTING PERIOD**

**Recent Covid-19-related events**

Due to the recent developments because of the Covid-19 spread, the Company monitors the situation very carefully and takes all relevant measures to ensure support both to its customers and employees. As the effect of future developments is unclear, the management takes proactive measures to prepare for various scenarios and to strengthen the Company's sustainability. The operations and functions of IPAS CBL Asset Management have been changed to a remote working mode and thus it continues ensuring the continuity of the processes related to the management of the Fund. The information at the disposal of IPAS CBL Asset Management reveals that the Bank has reacted similarly – no interruptions in the services provided by the Company have been observed.

A significant event as of the last day of the reporting year until the date of signing these financial statements that may have a material impact on the financial situation of the Fund and its performance and which should be mentioned is the spread of coronavirus first in China and afterwards in the developed world. The total negative impact on various global economy sectors and countries is very difficult to estimate while the virus spread continues. The Fund Managers expect stock markets to remain highly volatile for a significant period of time.

From 1 March to mid-April 2020, the inflow of funds into CBL European Leaders Equity Fund reached EUR 1,048,925 or 29.01% of assets. We believe that should a considerable outflow from the fund takes place, which is unlikely, but if any, there will be no difficulties in realizing the portfolio positions to the necessary extent, given the high liquidity of the portfolio.



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## Independent Auditors' Report

### To the shareholders of investment fund 'CBL European Leaders Equity Fund' (former name 'CBL Baltic Sea Equity Fund')

#### Report on the audit of financial statements

##### *Our opinion on the financial statements*

We have audited the financial statements of investment fund 'CBL European Leaders Equity Fund' ("the Fund") managed by IPAS 'CBL Asset Management' ("the Asset Manager") as set out on pages 7 to 19 of the accompanying Annual Report. The accompanying financial statements include:

- Overview of assets and liabilities as at 31 December 2019,
- Report on income and expenses for the year then ended,
- Statement of changes to net assets for the year then ended,
- Statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of investment fund 'CBL European Leaders Equity Fund' as at 31 December 2019, and of its financial performance and changes in net assets and 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 (hereinafter – ISAs) adopted in the Republic of Latvia. 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 the Fund Manager in accordance with the Code of Ethics for Professional Accountants (IESBA Code) by the International Ethics Standards Board for Accountants and the 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.

##### *Emphasis of Matter*

We draw attention to Note 15 to the financial statements which describes significant subsequent events in relation to the pandemic caused by Covid-19 and contains commentary by the Asset Manager as to the potential impact of these developments on the daily



operations of the Asset Manager and the financial position and performance of the Fund. Our opinion is not qualified in respect of this matter.

*Reporting on Other Information*

The management of the Asset Manager is responsible for the other information. The other information comprises:

- Information about the investment plan, as set out on page 3 of the accompanying Annual Report,
- Asset Manager's Report, as set out on pages 4 and 5 of the accompanying Annual Report.
- Statement of responsibility of the board of the Asset Manager, as set out on page 5 of the accompanying Annual Report.
- Custodian Bank Report, 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 entity 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, our responsibility is to express an opinion on whether the Asset Manager's Report is prepared in accordance with the requirements of Regulation No. 99 'Regulation on the preparation of annual reports, consolidated annual reports and interim reports of an investment fund and open alternative investment fund' issued by the Financial and Capital Market Commission.

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

- the information presented in the Asset Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Asset Manager's Report has been prepared in accordance with the requirements of Regulation No. 99 of the Financial and Capital Market Commission of the Republic of Latvia.



*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 the International Financial Reporting Standards (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, the management of the Fund 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 skepticism 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 Asset Manager'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 the 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



*Translation from Latvian  
In case of discrepancies, the text in Latvian  
prevails.*

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 of the Fund and the Asset Manager 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 AS

Licence No. 55

Rainers Vilāns  
Certified Auditor of Latvia  
Certificate No.200  
Partner pp KPMG Baltics AS  
Riga, Latvia  
29 April 2020