

**OPEN-END INVESTMENT FUND  
“Citadele Eastern European Fixed Income Funds”**

**Sub-fund  
“Citadele Eastern European Balanced Fund”**

**ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2010**  
(8<sup>th</sup> financial year)

**PREPARED IN ACCORDANCE WITH  
FCMC REGULATIONS ON “ANNUAL ACCOUNTS OF  
INVESTMENT FUNDS” AND  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION**

**AIF “Citadele Eastern European Balanced Fund”  
Annual report for the year ended 31 December 2010**

Table of contents

Information on the investment fund	3
Investment management company report	5
Statement of responsibility of the Board of the investment management company	7
Custodian bank report	8
Financial statements:	
Statement of financial position	10
Statement of comprehensive income	11
Statement of changes in net assets	12
Statement of cash flows	13
Notes	14
Auditors' report	33

**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Information on the investment fund**

Name of fund:	Citadele Eastern European Fixed Income Funds Until August 1, 2010 – Parex Eastern European Fixed Income Funds
Type of fund:	Open-end investment fund with sub-funds
Registration date of the fund:	20 July 2009
Number of the fund:	06.03.05.098/50
Name of the sub-fund:	Citadele Eastern European Balanced Fund Until August 1, 2010 - Parex Eastern European Balanced Fund
Name of the investment management company:	"Citadele Asset Management" IPAS Until August 1, 2010 – "Parex Asset Management" IPAS
Registered office of the investment management company:	Republikas laukums 2a, Riga, LV-1010, Latvia
Registration number of the investment management company:	40003577500
Licence number of the investment management company:	06.03.07.098/285
Name of the custodian bank:	"Citadele banka" JSC Until August 1, 2010 – "Parex banka" JSC
Registered office of the custodian bank:	Republikas laukums 2a, Riga, LV-1010, Latvia
Registration number of the custodian bank:	40103303559
Names and positions of Council Members and Board Members of the investment management company:	<p><i>Council of the investment management company:</i></p> <p>Chairman of the Council – Juris Jākobsons – appointed on 30.09.2010.</p> <p>Deputy Chairman of the Council – Philip Nigel Allard – appointed on 03.11.2010.</p> <p>Member of the Council – Anatolijs Fridmans – appointed on 01.04.2009.</p> <p>Member of the Council - James R.Breiding – appointed on 01.04.2009.</p> <p>Chairman of the Council – Nils Melngailis – appointed on 26.03.2010.</p> <p>Chairman of the Council – Nils Melngailis – resigned on 30.09.2010.</p> <p>Deputy Chairman of the Council – Roberts Stūģis – resigned on 26.03.2010.</p> <p>Member of the Council – Solvita Deglava - appointed on 26.03.2010.</p> <p>Member of the Council – Solvita Deglava - resigned on 30.09.2010.</p> <p>Member of the Council – Aldis Paegle – resigned on 03.11.2010.</p> <p><i>Board of the investment management company:</i></p> <p>Chairman of the Board – Vladimirs Ivanovs – appointed on 20.10.2010.</p> <p>Member of the Board – Zigurds Vaikulis – appointed on 30.03.2007.</p> <p>Member of the Board – Raimonds Vesers – appointed on 01.01.2011.</p> <p>Chairman of the Board – Roberts Idelsons – resigned on 19.10.2010.</p>

**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Information on the investment fund**

	<p>Member of the Board – Elena Coleman – resigned on 03.11.2010.</p> <p>Member of the Board – Edgars Makarovs – resigned on 31.12.2010.</p> <p>Member of the Board – Igors Petrovs - resigned on 31.12.2010.</p>
<p>The related rights and obligations of the management of the investment fund</p>	<p>All the duties of the Council and Board members stated in the legislation of the Republic of Latvia and the Statutes of the investment management company are performed by the Council and Board members.</p>
<p>Names of Fund Managers:</p>	<p>Andris Kotāns – appointed on 27.10.2008.</p> <p>Kristiana Ķiete - appointed on 27.10.2008.</p> <p>Edgars Makarovs – resigned on 26.01.2011.</p>
<p>The related rights and obligations of the management of the fund</p>	<p>All the duties of the Fund managers stated in the legislation of the Republic of Latvia, Statutes of the investment management company and Fund prospectus are performed by the Fund managers.</p>
<p>Auditor:</p>	<p>PricewaterhouseCoopers SIA Certified audit company licence No. 5 Kr. Valdemāra street 19 LV-1010, Riga</p> <p>Ilandra Lejiņa Certified auditor in charge Certificate No. 168</p>

**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Investment management company report**

"Citadele Eastern European Balanced Fund" (hereinafter - the Fund), the sub-fund of the open-end investment fund "Citadele Eastern European Fixed Income Funds", is a balanced investment fund with the functional currency euro (EUR).

The Fund is managed by the asset management company "Citadele Asset Management", registered office at Republikas laukums 2a, Riga, LV-1010, registration number 40003577500. License No. 06.03.07.098/285 to operate as an asset management company was last re-registered on 5 August 2010.

The investment objective of the Fund is to achieve long-term capital growth through investments in debt securities issued or guaranteed by governments, municipalities, central banks and credit institutions of the Eastern European countries as well as corporate debt securities. The Fund's investment portfolio is diversified across investments in different countries, thus ensuring the highest investment security and protection against movements in the value of the Fund's assets associated with investments in securities of a single country. During the reporting period the Fund's policy has not changed.


In 2010 dynamic development of the Fund was positively affected by global economic recovery and increasing investors' appetite for risk/reward assets. Firstly, as a result of a global economic growth, there was an increase in demand for main goods exported from Eastern European region (for example oil and steel), that influenced price growth for these products and stimulated faster recovery of local economies. Secondly, relatively higher risk premiums for Eastern European capital markets insured investors' interest and investment inflow into this region. In 2010 Eastern European Capital market (MSCI Emerging Markets Eastern Europe) rose by 13.7% and return on debt securities (J.P. Morgan Corporate Emerging Markets Bond Index Europe sub-index) was 16.5%. Against this background an increase in the value of "Citadele Eastern European Balanced Fund" investment certificate over the year 2010 by 19.9% in lats equivalent (18.9% in euro equivalent) is assessed as highly positive. Value of one investment certificate reached 11.25 LVL (15.90 EUR). During the year 2010 the Fund's total net assets rose by 17.8% in lats equivalent (16.9% in euro equivalent) and at the end of the period total net assets were 10,415,509 LVL (14,720,661 EUR).

In accordance with IPAS "Citadele Asset Management" market forecasts, during the reporting period the Fund gradually continued to increase the proportion of shares in investment portfolio and at the end of 2010 it amounted to 23% of the Fund's total net assets. Regarding investments in countries there were mainly increased positions on Kazakhstan and Russian markets. Assessing industry proportion there were increased investments in shares of metallurgy companies, whereas the shares of CEZ, the Czech electricity producer, were completely sold because the sector became unattractive. In 2010 the share of debt securities in the Fund's investment portfolio was reduced approximately by one fifth, however at the end of the period it still constituted 66% of the Fund's total net assets. Exposure to debt securities was reduced mainly on account of the Russian corporate Eurobonds, whereas the share of Eurobonds in Poland and Ukraine corporations slightly increased. At the end of the period the average return on debt securities portfolio prior to maturity was 8.54%. Share of cash at the end of the reporting period was 11% of the Fund's total net assets.

In the reporting year, the management fee was paid from the Fund's assets in the amount of EUR 233,411 or 1.70% of the average asset value for the period, which does not exceed the maximum expense limit fixed in the Prospectus, i.e. 3.00%.

In the year 2011 debt securities markets outlooks are not so promising as in previous two years, because interest rates for main asset classes have already reached historically low levels, furthermore, its increase could have negative impact on valuation of debt securities. Therefore, in 2011 the manager plans to gradually reduce Fund's investments in fixed income securities and increase the proportion of shares that under usual market conditions provide better investment returns. Investments in debt securities and equities markets will be made mainly by evaluating the attractiveness of specific instruments. The team of professionals of IPAS "Citadele Asset management" closely follows trends in the global development: economic growth stability, monetary and fiscal policies in developed countries as well as possible political and inflation risks, because their impact on Eastern Europe region economy and capital market dynamics will be decisive also in 2011.

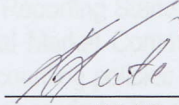
AIF "Citadele Eastern European Balanced Fund"  
Annual report for the year ended 31 December 2010  
Investment management company report



Vladimirs Ivanovs  
Chairman of the Board



Andris Kotāns  
Member of the investment committee



Kristiāna Ķiete  
Member of the investment committee

Riga, 28 April 2011

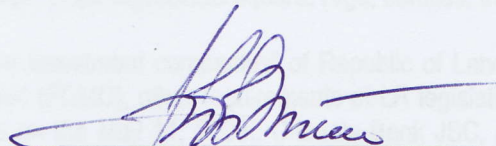
**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Statement of responsibility of the Board of the investment management company**

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

The financial statements set out on pages 10 to 32 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2010 and 31 December 2009 and the results of its operations for the respective periods then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Accounts of Investment Funds, on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. 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 the assets of Citadele Eastern European Balanced Fund and the prevention and detection of fraud and other irregularities in the Fund. The Board is also responsible for operating the Fund in compliance with the Law of the Republic of Latvia on Investment Management Companies, regulations of the Financial and Capital Market Commission (FCMC), and other laws and regulations of the Republic of Latvia.

  
Vladimirs Ivanovs  
Chairman of the Board

Riga, 28 April 2011

## CUSTODIAN BANK REPORT

For holders of  
OIF "Citadele Eastern European Fixed Income Funds"  
"Citadele Eastern European Balanced fund"  
Investment fund applications

Nr. 2.2.4.-09 \_\_\_\_\_

With this Citadele Bank JSC, which is registered in LR Enterprise register on June 30, 2010 with No. 40103303559 and located at 2a Republikas square, Riga, certifies, that:

According to the law "On investment companies" of Republic of Latvia, regulations of Financial and Capital Market Commission (FCMC), other requirements of LR legislation and contract with Custodian bank, which is concluded on the May 11, 2009., Citadele Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the OIF "Citadele Eastern European Fixed Income Funds" (further in the text – Fund) founded by IPAS "Citadele Asset Management";

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

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

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

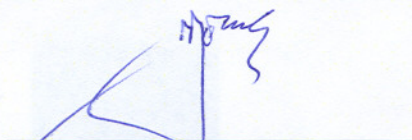
Storage of the Fund assets is performed according to the requirements of the law "On investment companies" and Custodian bank contract;

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



Orders of the Company, as well as transactions with the assets of OIF "Citadele Eastern European Fixed Income Funds" are performed according to the requirements of the law "On investment companies", Fund prospect and Fund management regulations and Custodian bank contract .

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

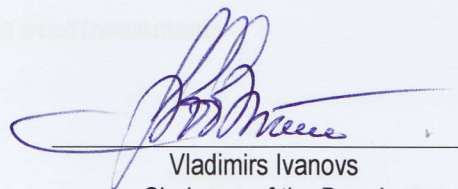


Juris Jākobsons  
Chairman of the Board, p.p.

Riga, February 11, 2011

**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Statement of financial position**  
**(LVL)**


Notes	31.12.2010.	31.12.2009.
<b>Assets</b>		
3	Demand deposits with credit institutions	1,150,109      606,002
	Financial assets held for trading	
4	Debt securities and other fixed income securities	6,897,657      7,586,766
5	Shares and other non-fixed income securities	2,441,833      884,091
6	Derivatives	24,912      -
	<b>Total assets</b>	<b>10,514,511      9,076,859</b>
<b>Liabilities</b>		
	Financial liabilities held for trading	
6	Derivatives	(83,842)      (222,754)
7	Accrued liabilities	(15,160)      (13,370)
	<b>Total liabilities</b>	<b>(99,002)      (236,124)</b>
	<b>Net assets</b>	<b>10,415,509      8,840,735</b>

  
 Vladimirs Ivanovs  
 Chairman of the Board

Riga, 28 April 2011

**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Statement of comprehensive income**  
**(LVL)**

Notes	2010	2009
<b>Income</b>		
8	893,589	960,570
	72,193	7,807
	<b>965,782</b>	<b>968,377</b>
<b>Expenses</b>		
	(145,138)	(127,981)
	(16,933)	(15,384)
	(3,219)	(1,788)
	<b>(165,290)</b>	<b>(145,153)</b>
<b>Increase in investment value</b>		
9	153,183	1,668,907
10	627,974	1,130,076
	<b>781,157</b>	<b>2,798,983</b>
	137,876	19,823
	<b>1,719,525</b>	<b>3,642,030</b>

  
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 Vladimirs Ivanovs  
 Chairman of the Board

Riga, 28 April 2011

**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Statement of changes in net assets**  
**(LVL)**

	<b>2010</b>	<b>2009</b>
Net assets as at the beginning of the period	8,840,735	7,867,912
Increase in net assets from investment activities	1,719,527	3,642,030
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	2,177,063	4,054,986
<i>Outflow on redemption of investment certificates</i>	(2,321,816)	(6,724,193)
Decrease in net assets from transactions with investment certificates	(144,753)	(2,669,207)
Increase in net assets for the reporting period	1,574,774	972,823
<b>Net assets as at the end of the reporting period</b>	<b>10,415,509</b>	<b>8,840,735</b>
Issued investment certificates as at the beginning of the reporting period	942,109	1,308,422
Issued investment certificates as at the end of the reporting period	925,855	942,109
Net asset value per investment certificate as at the beginning of the reporting period	9.38	6.01
<b>Net asset value per investment certificate as at the end of the reporting period</b>	<b>11.25</b>	<b>9.38</b>

The accompanying notes form an integral part of these financial statements.

**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Statement of cash flows**  
**(LVL)**

	<b>2010</b>	<b>2009</b>
Interest income	665,526	869,335
Dividend income	72,193	7,807
Investment management expenses	(163,499)	(144,771)
Acquisition of financial assets	(7,555,637)	(8,129,458)
Disposal of financial assets	8,259,199	9,825,151
Foreign currency conversion result	(658,463)	(183,742)
<b>Increase in cash from operating activities</b>	<b>619,319</b>	<b>2,244,322</b>
Inflow from sale of investment certificates	2,177,063	4,054,986
Outflow of redemption of investment certificates	(2,321,816)	(6,753,477)
<b>Decrease in cash from financing activities</b>	<b>(144,753)</b>	<b>(2,698,491)</b>
<b>Increase/(decrease) in cash during the reporting period</b>	<b>474,566</b>	<b>(454,169)</b>
<b>Cash as at the beginning of the reporting period</b>	<b>606,002</b>	<b>1,065,207</b>
Result of revaluation of cash denominated in foreign currencies	69,541	(5,036)
<b>Cash as at the end of the reporting period</b>	<b>1,150,109</b>	<b>606,002</b>

The accompanying notes form an integral part of these financial statements.

**AIF “Citadele Eastern European Balanced Fund”  
Annual report for the year ended 31 December 2010  
Notes**

## 1. General information

Name of the fund:	Citadele Eastern European Fixed Income Funds
Type of the fund:	Open-end investment fund with sub-funds
Fund's business activity:	Investments in securities, generally, issued or guaranteed by governments, municipalities, central banks and credit institutions of Eastern European countries, as well as investments in debt securities and equity shares of corporate entities. Fund's sub-fund's investment portfolios are diversified between investments in equity and debt securities, as well as in different currencies and countries, thus providing higher security and protection against fluctuations in the value of fund's assets, which are inherent for investments in one class, currency or country securities only.
Name of the sub-fund:	Citadele Eastern European Balanced Fund
Sub-fund's business activity:	The functional currency of the Fund is euro (EUR). The maximum amount of investments in equity shares constitutes 50% of the sub-fund's assets.
Name of the investment management company:	IPAS “Citadele Asset Management”, Republikas laukums 2a, Riga, LV-1010, Latvia

## 2. Summary of significant accounting policies

### ***Basis of preparation***

The financial statements of AIF Citadele Eastern European Balanced Fund have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (hereinafter - FCMC) on Annual Accounts of Investment Funds.

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

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2010 through 31 December 2010.

### ***Critical accounting estimates and judgements***

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

### ***Income and expense recognition***

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

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

Dividend income is recognised when these are received.

**AIF “Citadele Eastern European Balanced Fund”  
Annual report for the year ended 31 December 2010  
Notes**

## 2. Summary of significant accounting policies (continued)

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

### ***Foreign currency translation***

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

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

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

<u>Currency</u>	<u>31.12.2010.</u>	<u>31.12.2009.</u>
BGN	0.359	0.359
CAD	0.535	0.469
EEK	0.0449	0.0449
GBP	0.824	0.783
LTL	0.203	0.204
UAH	0.0672	0.061
USD	0.535	0.489

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

### ***Cash***

Cash comprises Fund's demand deposits with credit institutions.

### ***Financial instruments***

Financial instruments are classified in the following categories: financial instruments at fair value through profit or loss. The classification depends on the purpose of financial instrument acquisition. The management determines classification of financial instruments at the moment of their initial recognition.

#### *Financial assets and liabilities at fair value through profit or loss*

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

#### *Investments in securities*

All investments in securities are classified as held-for-trading securities, i.e. securities are acquired for generating a profit from short-term fluctuations in price or dealer's margin.

**AIF “Citadele Eastern European Balanced Fund”  
Annual report for the year ended 31 December 2010  
Notes**

## 2. Summary of significant accounting policies (continued)

Held-for-trading securities are initially recognised at fair value and subsequently re-measured at fair value based on available market prices. The result of re-measuring held-for-trading securities at fair value is included in the statement of comprehensive income as increase/ (decrease) in investment value.

Securities are revaluated on the basis of Bloomberg’s available financial information on the bid prices of securities. Unlisted securities are evaluated on the basis of the custodian bank’s information on transactions, but in case such information is not available, respective securities are evaluated at their amortised cost. Securities purchase and sale transactions are recognised on the date of settlements. The cost of securities sold is defined using FIFO (first in, first out) method.

### **Derivatives**

For currency risk management purposes, the Fund is involved in forward foreign exchange transactions – forwards and swaps. For the accounting purposes, all derivatives are classified as held-for-trading and accounted as follows.

Subsequent to initial recognition and measurement, outstanding forward foreign exchange contracts are carried in the statement of financial position at their fair value. The fair value of these instruments is recognised in the statement of financial position under “Derivatives”. The notional amounts of these instruments are reported in the notes of the financial statements.

Gains or losses from changes in assets and liabilities arising on forward foreign exchange contracts are recognised in the statement of comprehensive income as foreign currency revaluation result.

### **Fair values of financial assets and liabilities**

The fair value of financial assets and liabilities represents the amount at which an asset could be exchanged or a liability settled on an arm’s length basis. Where, in the opinion of the Fund management, the fair values of financial assets and liabilities differ materially from their carrying amounts, such fair values are separately disclosed in the notes of the financial statements

### **Taxes**

The Fund’s income is subject to income tax in the country of its origin. Basically, the Fund’s income is exempt from income taxes. The Fund is not a Latvian corporate income tax payer.

On 1 December 2009 Saeima has approved changes to the law “On personal income tax”, stating that starting with 1 January 2010 capital gains are subject to 15% income tax charge. For investment funds capital gain is a difference between selling and purchase value of investment certificates. In accordance with transition norms of the law “On personal income tax”, in order to calculate income from sale of investment certificates purchased before endorsement of the law (before 01.01.2010) one has to apportion difference between selling and purchase value to the number of months investment held and multiply this by number of months investment held from 01.01.2010 until the settlement date. Changes in the law are applicable only to private persons being residents of the Republic of Latvia.

### **Adoption of new or revised standards and interpretations**

*Certain new IFRS became effective for the Fund from 1 January 2010. Listed below are those new standards or interpretations, that do not have direct or substantial impact on the Fund’s everyday operations and accounting policies:*

- |   |  |   |
|---|--|---|
| – | <i>revised in January 2008;</i>                                | <i>IAS 27, Consolidated and Separate Financial Statements,</i>          |
| – | <i>issued in March 2009;</i>                                   | <i>Embedded Derivatives - Amendments to IFRIC 9 and IAS 39,</i>         |
| – | <i>Standards, revised in December 2008;</i>                    | <i>Eligible Hedged Items—Amendment to IAS 39;</i>                       |
| – | <i>IFRS 1;</i>   | <i>IFRS 1, First-time Adoption of International Financial Reporting</i> |
| – | <i>Amendments to IFRS 2;</i>                                   | <i>Additional Exemptions for First-time Adopters - Amendments to</i>    |
| – | <i>IFRS 3, Business Combinations, revised in January 2008;</i> | <i>Group Cash-settled Share-based Payment Transactions -</i>            |



**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

- *Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1);*
- *IFRIC 12, Service Concession Arrangements;*
- *IFRIC 15, Agreements for the Construction of Real Estate;*

**AIF “Citadele Eastern European Balanced Fund”  
Annual report for the year ended 31 December 2010  
Notes**

**2. Summary of significant accounting policies (continued)**

- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*;
- IFRIC 17, *Distributions of Non-Cash Assets to Owners*;
- IFRIC 18, *Transfers of Assets from Customers*;
- *Improvements to International Financial Reporting Standards*, issued in April 2009.

*Certain new standards and interpretations have been published that are effective for the annual periods beginning on or after 1 February 2010 or later periods and which the Fund has not early adopted:*

- *Amendment to IAS 24, Related Party Disclosures*, issued in November 2009. Amendment not relevant to the Fund's operations and policies. Efficient for annual periods beginning on or after 1 January 2011;
- *Classification of Rights Issues - Amendment to IAS 32*, issued in October 2009. Amendment not relevant to the Fund's operations and policies. Efficient for annual periods beginning on or after 1 February 2010;
- *Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1*. Amendment not relevant to the Fund's operations and policies. Efficient for annual periods beginning on or after 1 July 2010;
- *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14*. Amendment not relevant to the Fund's operations and policies. Efficient for annual periods beginning on or after 1 January 2011;
- *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*. Amendment not relevant to the Fund's operations and policies. Efficient for annual periods beginning on or after 1 July 2010;

*Certain new standards and interpretations have been published that are effective for the annual periods beginning on or after 1 January 2011 or later periods and which the Fund has not early adopted and that have not been endorsed by the EU:*

- *Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12*. Amendment not relevant to the Fund's operations and policies. Efficient for annual periods beginning on or after 1 January 2012;
- *Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1*. Amendment not relevant to the Fund's operations and policies. Efficient for annual periods beginning on or after 1 July 2011;
- *Disclosures—Transfers of Financial Assets – Amendments to IFRS 7*. Amendment not relevant to the Fund's operations and policies. Efficient for annual periods beginning on or after 1 July 2011;
- *IFRS 9, Financial Instruments Part 1: Classification and Measurement*. The Fund is currently evaluating the impact of the standards on its financial statements. Efficient for annual periods beginning on or after 1 January 2013;
- *Improvements to International Financial Reporting Standards*, issued in May 2010. Effective dates vary standard by standard; most improvements are effective for annual periods beginning on or after 1 January 2011. The Fund does not consider that the amendments will have a significant impact on the financial statements.

**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Notes**

### 3. Demand deposits with credit institutions

	31.12.2010.	31.12.2009.	% of Fund's net assets as at 31.12.2010.
Demand deposits with credit institutions, JSC Citadele banka	1,150,109	606,002	11.04%
<b>Total demand deposits with credit institutions</b>	<b>1,150,109</b>	<b>606,002</b>	<b>11.04%</b>

The Fund receives interest on demand deposits at fixed rates.

### 4. Bonds and other fixed income securities

	31.12.2010.	31.12.2009.	Annual yield to maturity 31.12.2010.	% of Fund's net assets as at 31.12.2010.
<b>Credit institution bonds:</b>	<b>2,810,710</b>	<b>4,120,331</b>	<b>8.52%</b>	<b>26.99%</b>
<i>Non-OECD region credit institution bonds</i>	2,297,186	3,345,999	9.26%	22.06%
<i>Latvian credit institution bonds</i>	513,524	774,332	5.23%	4.93%
<b>Corporate bonds:</b>	<b>3,694,959</b>	<b>3,102,874</b>	<b>7.78%</b>	<b>35.48%</b>
<i>Non-OECD region corporate bonds</i>	2,913,180	2,436,693	6.72%	27.97%
<i>OECD region corporate bonds</i>	736,223	409,178	12.47%	7.07%
<i>Latvian corporate bonds</i>	45,556	257,003	0.00%	0.44%
<b>Government bonds:</b>	<b>391,988</b>	<b>363,561</b>	<b>15.84%</b>	<b>3.76%</b>
<i>Non-OECD region government bonds</i>	391,988	363,561	15.84%	3.76%
<b>Total debt securities and other fixed income securities</b>	<b>6,897,657</b>	<b>7,586,766</b>	<b>8.54%</b>	<b>66.22%</b>

All debt securities (bonds) and other fixed income securities are classified as held-for-trading securities.

All fixed income securities are listed, except for securities with the book value of LVL 867,394 (2009: LVL 430,935).

The table below presents debt securities by the issuer's country of residence as at 31 December 2010:

Financial instrument	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2010.	% of Fund's net assets as at 31.12.2010.
<b>Financial instruments traded on regulated markets</b>			<b>6,350,702</b>	<b>6,030,263</b>	<b>57.90%</b>
<b>Latvian issuers:</b>			<b>1,141,297</b>	<b>559,080</b>	<b>5.37%</b>
CITADELE BANKA (XS0253533318)	EUR	250	158,159	180,443	1.73%
PAREX BANKA (LV0000800696)	EUR	8,000	562,244	163,550	1.57%
PRIVATBANK (LV0000800381)	EUR	1,500	76,970	100,104	0.96%
GE MONEY BANK (LV0000800373)	EUR	1,000	70,713	69,427	0.67%
ACME CORPORATION (LV0000800787)	EUR	328	34,476	36,509	0.35%
CAPITAL DEPARTMENT STORE (LV0000800761)	EUR	429,100	238,735	9,047	0.09%
<b>Ukrainian issuers:</b>			<b>1,379,487</b>	<b>1,539,077</b>	<b>14.78%</b>
AZOVSTAL IRON & STEEL WORKS (XS0244470570)	USD	700	289,344	385,769	3.70%
FIRST UKRAINIAN INTERNATIONAL BANK (XS0287015787)	USD	500	246,694	275,070	2.64%
UKREXIMBANK (XS0243733127)	USD	500	266,753	269,446	2.59%
ALFA BANK UKRAINE (XS0441089926)	USD	500	213,982	246,156	2.36%
AVANGARD AGROHOLDING (XS0553088708)	USD	400	199,822	203,194	1.95%
MEGABANK (UA4000026280)	UAH	2,290	162,892	159,442	1.53%

**AIF “Citadele Eastern European Balanced Fund”  
Annual report for the year ended 31 December 2010**

**Notes**

Financial instrument	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2010.	% of Fund's net assets as at 31.12.2010.
<b>Kazakhstan issuers:</b>			<b>893,708</b>	<b>952,022</b>	<b>9.14%</b>
BANK CENTERCREDIT (XS0243010443)	USD	750	366,574	414,530	3.98%
ZHAIKMUNAI (USN97708AA49)	USD	500	253,483	274,254	2.63%
KAZAKHGOLD GROUP (XS0273371632)	USD	500	273,651	263,237	2.53%
<b>Russian issuers:</b>			<b>821,810</b>	<b>875,740</b>	<b>8.41%</b>
NOMURA (XS0263303512)	EUR	6	398,372	391,988	3.76%
ALLIANCE OIL (XS0493579238)	USD	500	265,469	289,319	2.78%
NOVOROSSIYSK COMMERCIAL SEA PORT (XS0300986337)	USD	350	157,966	194,433	1.87%
INCOM-LADA (RU000A0JPAS5)	RUB	2,212	3	0	0%
<b>Georgian issuers:</b>			<b>526,752</b>	<b>577,378</b>	<b>5.54%</b>
GEORGIAN RAILWAY (XS0523947751)	USD	500	271,888	297,678	2.86%
BANK OF GEORGIA (XS0283756624)	USD	500	254,864	279,700	2.69%
<b>Polish issuers:</b>			<b>641,574</b>	<b>546,100</b>	<b>5.24%</b>
TVN (XS0466451548)	EUR	350	286,780	275,422	2.64%
ZLOMREX (XS0283393998)	EUR	500	354,794	270,678	2.60%
<b>Croatia issuers:</b>			<b>316,241</b>	<b>296,520</b>	<b>2.85%</b>
ZAGREBACKI HOLDING (XS0309688918)	EUR	10	316,241	296,520	2.85%
<b>Estonian issuers:</b>			<b>252,526</b>	<b>276,734</b>	<b>2.66%</b>
EESTI ENERGIA (XS0235372140)	EUR	400	252,526	276,734	2.66%
<b>Belarusian issuers:</b>			<b>200,903</b>	<b>217,490</b>	<b>2.09%</b>
BELAGROPROMBANK (XS0553296210)	USD	400	200,903	217,490	2.09%
<b>Hungarian issuers:</b>			<b>176,407</b>	<b>190,123</b>	<b>1.83%</b>
MOL HUNGARIAN OIL&GAS (XS0231264275)	EUR	300	176,407	190,123	1.83%
<b>Other financial instruments</b>			<b>681,680</b>	<b>867,394</b>	<b>8.32%</b>
<b>Ukrainian issuers:</b>			<b>196,221</b>	<b>370,339</b>	<b>3.56%</b>
GALNAFTOGAZ (XS0324996783)	USD	500	196,221	370,339	3.56%
<b>Kazakhstan issuers:</b>			<b>397,608</b>	<b>435,352</b>	<b>4.17%</b>
BTA BANK (XS0532988770)	USD	640,440	375,777	388,932	3.73%
BTA BANK (XS0532990677)	USD	60,144	21,831	24,134	0.23%
BTA BANK (XS0532995049)	USD	548,457	0	22,286	0.21%
<b>Bulgarian issuers:</b>			<b>87,851</b>	<b>61,703</b>	<b>0.59%</b>
STROYRENT (EE4300093820)	EUR	125	87,851	61,703	0.59%
<b>Total debt securities and other fixed income securities</b>			<b>7,032,385</b>	<b>6,897,657</b>	<b>66.22%</b>

## 5. Shares and other non-fixed income securities

	31.12.2010.	31.12.2009.	% of Fund's net assets as at 31.12.2010
<b>Equity shares</b>	<b>2,441,833</b>	<b>884,091</b>	<b>23.44%</b>
Non-OECD region equity shares	2,099,632	667,906	20.16%
OECD region equity shares	148,238	165,323	1.42%
Latvian equity shares	193,963	50,862	1.86%
<b>Total shares and other non-fixed income securities</b>	<b>2,441,833</b>	<b>884,091</b>	<b>23.44%</b>

**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

### 5. Shares and other non-fixed income securities (continued)

All shares and other non-fixed income securities are classified as held-for-trading securities. All shares are listed, except for shares with the book value of LVL 122 (2009: – LVL 122)

The table below presents shares by the issuer’s country of residence:

Financial instrument	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2010.	% of Fund’s net assets as at 31.12.2010.
<b>Financial instruments traded on regulated markets</b>			<b><u>2,171,663</u></b>	<b><u>2,441,711</u></b>	<b><u>23.44%</u></b>
<b>Latvian issuers:</b>			<b><u>171,860</u></b>	<b><u>193,963</u></b>	<b><u>1.86%</u></b>
OLAINES ĶĪMISKI - FARMACEITISKĀ RŪPNĪCA	LVL	90,000	171,853	193,950	1.86%
GRINDEKS	LVL	2	7	13	0.00%
<b>Kazakhstan issuers:</b>			<b><u>868,273</u></b>	<b><u>982,517</u></b>	<b><u>9.43%</u></b>
URANIUM ONE	CAD	100,000	140,980	254,125	2.44%
HALYK SAVINGS BANK OF KAZAKHSTAN	USD	45,000	213,477	233,648	2.24%
EURASIAN NATURAL RESOURCES	GBP	24,000	212,166	208,241	2.00%
KAZMUNAIGAS EXPLORATION PRODUCTION	USD	16,000	191,728	168,803	1.62%
TETHYS PETROLEUM	CAD	137,500	109,922	117,700	1.13%
<b>Russian issuers:</b>			<b><u>701,513</u></b>	<b><u>834,824</u></b>	<b><u>8.02%</u></b>
HOLDING MRSK	USD	3,000,000	190,033	272,850	2.62%
MECHEL	USD	15,000	194,149	232,966	2.24%
MOBILE TELESYSTEMS	USD	16,500	168,745	178,051	1.71%
PETROPAVLOVSK	GBP	16,000	148,586	150,957	1.45%
<b>Ukrainian issuers:</b>			<b><u>221,461</u></b>	<b><u>185,544</u></b>	<b><u>1.78%</u></b>
MHP	USD	15,000	90,333	136,425	1.31%
CENTERENERGO	USD	50,000	131,128	49,119	0.47%
<b>Polish issuers:</b>			<b><u>166,523</u></b>	<b><u>148,238</u></b>	<b><u>1.42%</u></b>
CENTRAL EUROPEAN DISTRIBUTION	USD	12,000	166,523	148,238	1.42%
<b>Estonian issuers:</b>			<b><u>41,658</u></b>	<b><u>95,046</u></b>	<b><u>0.92%</u></b>
TALLINK GROUP	EEK	91,066	41,658	50,542	0.49%
TALLINNA KAUBAMAJA	EEK	10,201	-	44,504	0.43%
<b>Bulgarian issuers:</b>			<b><u>375</u></b>	<b><u>1,579</u></b>	<b><u>0.01%</u></b>
CHIMIMPORT	BGN	1,666	-	1,405	0.01%
TRACE GROUP HOLD	BGN	9	375	174	0.00%
<b>Other financial instruments</b>			<b><u>116</u></b>	<b><u>122</u></b>	<b><u>0.00%</u></b>
<b>Lithuanian issuers:</b>			<b><u>116</u></b>	<b><u>122</u></b>	<b><u>0.00%</u></b>
ZEMAITIJOS PIENAS	LTL	600	116	122	0.00%
<b>Total shares and other non-fixed income securities</b>			<b><u>2,171,779</u></b>	<b><u>2,441,833</u></b>	<b><u>23.44%</u></b>

At the end of the reporting year, the Fund had no investment certificates of investment funds or similar securities

**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

## 6. Derivatives

The table below presents the notional amounts and fair values of forward foreign exchange and currency swap instruments. The notional amount of foreign exchange transactions is determined on the basis of requirement arising from contracts.

	31.12.2010.			31.12.2009.			% of Fund's net assets as at 31.12.2010.
	Notional amount	Fair value		Notional amount	Fair value		
		Assets	Liabilities		Assets	Liabilities	
Foreign exchange transactions							
Currency swap instruments	5,638,107	21,795	(83,842)	4,935,630	-	(212,186)	(0.60)%
Forward foreign exchange instruments	400,930	3,117	-	2,355,241	-	(10,568)	0.03%
<b>Total derivatives</b>	<b>6,039,037</b>	<b>24,912</b>	<b>(83,842)</b>	<b>7,290,871</b>	<b>-</b>	<b>(222,754)</b>	<b>(0.57)%</b>

All contracts are concluded with “Citadele banka” JSC.

## 7. Accrued liabilities

	31.12.2010.	31.12.2009.
Accrued commission fees payable to investment management company	12,639	11,109
Accrued commission fees payable to custodian bank	1,475	1,296
Accrued fees payable for professional services	1,046	965
<b>Total accrued liabilities</b>	<b>15,160</b>	<b>13,370</b>

## 8. Interest income

	2010	2009
Interest income from debt securities and other fixed income securities	864,469	913,049
Interest income from demand deposits with credit institutions	29,120	47,521
<b>Total interest income</b>	<b>893,589</b>	<b>960,570</b>

## 9. Realized increase in investment value

	2010	2009
Income from sale of investments	7,857,609	9,680,551
Amortised acquisition value of investments sold	(8,455,660)	(10,945,673)
Decrease in value of investments sold, recognised in the prior reporting periods	751,234	2,934,029
<b>Total realised increase in investment value</b>	<b>153,183</b>	<b>1,668,907</b>

## 10. Unrealised increase in investment value

	2010	2009
From shares and other non-fixed income securities	245,066	68,495
From debt securities and other fixed income securities	382,908	1,061,581
<b>Total unrealised increase in investment value</b>	<b>627,974</b>	<b>1,130,076</b>

**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

### 11. Change in investments during the reporting period

	31.12.2009.	Increase during the reporting period	Decrease during the reporting period	Foreign currency revaluation result	Fair value revaluation result	31.12.2010.
Financial assets held for trading						
Debt securities and other fixed income securities	7,586,766	5,733,184	(8,105,824)	453,473	1,230,058	6,897,657
Shares and other non-fixed income securities	884,091	1,822,453	(789,781)	109,502	415,568	2,441,833
Derivatives, net	(222,754)	-	-	163,824	-	(58,930)
<b>Total investments</b>	<b>8,248,103</b>	<b>7,555,637</b>	<b>(8,895,605)</b>	<b>726,799</b>	<b>1,645,626</b>	<b>9,280,560</b>

### 12. Pledged assets

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

### 13. Fair values of financial assets and liabilities

According to the Company's estimates, the carrying amounts of demand deposits with credit institutions, held-for-trading fixed income securities, equity shares and derivatives approximate to their fair values. The fair value is determined according to the market quotation method, based on available quotes of stock exchanges and brokers.

The table below shows the fair value of the Fund's assets and liabilities as at 31 December 2010:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
<b>Assets</b>			
Demand deposits with credit institutions	1,150,109	-	1,150,109
Financial assets held for trading			
Debt securities and other fixed income securities	6,897,657	5,705,079	1,192,578
Shares and other non-fixed income securities	2,441,833	2,441,833	
Derivatives	24,912	-	24,912
<b>Total assets</b>	<b>10,514,511</b>	<b>8,146,912</b>	<b>2,367,599</b>
<b>Liabilities</b>			
Financial liabilities held for trading			
Derivatives	(83,842)	-	(83,842)
Accrued liabilities	(15,160)	-	(15,160)
<b>Total liabilities</b>	<b>(99,002)</b>	<b>-</b>	<b>(99,002)</b>
<b>Net assets</b>	<b>10,415,509</b>	<b>8,146,912</b>	<b>2,268,597</b>

**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

### 13. Fair values of financial assets and liabilities (continued)

The table below shows the fair value of the Fund’s assets and liabilities as at 31 December 2009:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
<b>Assets</b>			
Demand deposits with credit institutions	606,002	-	606,002
Financial assets held for trading			
Debt securities and other fixed income securities	7,586,766	6,647,732	939,034
Shares and other non-fixed income securities	884,091	884,091	-
<b>Total assets</b>	<b>9,076,859</b>	<b>7,531,823</b>	<b>1,545,036</b>
<b>Liabilities</b>			
Financial liabilities held for trading			
Derivatives	(222,754)	-	(222,754)
Accrued liabilities	(13,370)	-	(13,370)
<b>Total liabilities</b>	<b>(236,124)</b>	<b>-</b>	<b>(236,124)</b>
<b>Net assets</b>	<b>8,840,735</b>	<b>7,531,823</b>	<b>1,308,912</b>

### 14. Risk management

Risks are inherent in the investment process. The risk management process includes risk identification, risk measurement and directly risk management. The Fund is exposed to market risk (i.e. currency risk, interest rate risk and price risk), credit risk, liquidity risk and other risks (including operational risk). The investment strategy of the Fund is aimed at minimising the above mentioned risks, however, the Company cannot guarantee that these risks can be completely avoided in the future.

#### *Risk management structure*

Risk identification and measurement are the responsibility of an independent unit – the Risk Management Division which prepares and presents information about risks to the Fund Manager who decides specifically whether it would be necessary to minimise risks. The risk measurement process employs several models based on historical data and adjusted to consider for the current economic situation. Specific models are used to forecast changes in risk factors in ordinary and extraordinary market situations.

To mitigate the investment risks, the Fund Manager follows the risk diversification and hedging principles. The Fund Manager acquires sufficient information on potential or current investment objects, as well as supervises the financial and economic position of issuers of the securities in which the Fund’s property has been or is to be invested.

The Company, when developing the Fund’s investment strategy and stating limits, performs an analysis of the Fund’s investments by maturity, geographic and currency profile, as well as assesses the risks inherent to each of the above factors. The Fund Manager acts in strict compliance with the Fund Prospectus, Fund Management Regulations, as well as regulations and restrictions imposed by legislation of the Republic of Latvia.

#### *Market risk*

Market risk is a risk that the Fund’s value will reduce as a result of changes in any of the following market factors: securities prices, exchange rates, interest rates, etc.

#### *Interest rate risk*

The price risk related to fixed income securities (bonds) is to a great extent dependent on fluctuations of market interest rates and changes in the issuer’s credit quality. Market interest rate fluctuations affect the attractiveness of securities, as, in fact, it is an alternative source of interest income.



**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Notes**

#### 14. Risk management (continued)

With market interest rates growing, the prices of fixed income securities are dropping, and vice versa. Meanwhile, the increase (decrease) in market interest rates produces a positive (negative) effect on coupon rates of fixed income securities bearing interest at floating rates (when the coupon is fixed as a base rate, like Euribor or Libor, plus a margin). After the revaluation (i.e. when a new interest rate is adopted), the coupon rate of such securities increases (decreases), which results in a respective increase (decrease) in interest income.

The tables below show a potential effect of changes in market interest rates in certain currencies on the Fund's value. Interest income changes are calculated on an annual basis. The actual changes of the Fund's value may differ from the below calculations and the difference might be significant.

Changes in fixed income securities' prices and interest income  
(year 2010, LVL)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
RUB	300	-	-	-
USD	50	-	(61,970)	(61,970)
EUR	50	4,298	(47,196)	(42,898)
UAH	300	-	(437)	(437)
<b>Total</b>		<b>4,298</b>	<b>(109,603)</b>	<b>(105,305)</b>

Changes in fixed income securities' prices and interest income  
(year 2009, LVL)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
RUB	300	-	-	-
USD	50	-	(41,836)	(41,836)
EUR	50	2,264	(36,503)	(34,239)
UAH	300	-	-	-
<b>Total</b>		<b>2,264</b>	<b>(78,339)</b>	<b>(76,075)</b>

Changes in fixed income securities' prices and interest income  
(year 2010, % of assets)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
RUB	300	0.00%	0.00%	0.00%
USD	50	0.00%	-0.59%	-0.59%
EUR	50	0.04%	-0.45%	-0.41%
UAH	300	0.00%	0.00%	0.00%
<b>Total</b>		<b>0.04%</b>	<b>-1.04%</b>	<b>-1.00%</b>

Changes in fixed income securities' prices and interest income  
(year 2009, % of assets)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
RUB	300	0.00%	0.00%	0.00%
USD	50	0.00%	-0.47%	-0.47%
EUR	50	0.03%	-0.41%	-0.38%
UAH	300	0.00%	0.00%	0.00%
<b>Total</b>		<b>0.03%</b>	<b>-0.88%</b>	<b>-0.85%</b>

Changes in fixed income securities' prices and interest income (year 2010, % of assets)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
RUB	-300	-	-	-
USD	-50	-	61,970	61,970
EUR	-50	(4,298)	47,196	42,898
UAH	-300	-	437	437
<b>Total</b>		<b>(4,298)</b>	<b>109,603</b>	<b>105,305</b>

Changes in fixed income securities' prices and interest income (year 2009, LVL)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
RUB	-	300	-	-
USD	-	50	41,836	41,836
EUR	-	50	(2,264)	34,239
UAH	-	300	-	-
<b>Total</b>		<b>(2,264)</b>	<b>78,339</b>	<b>76,075</b>

Changes in fixed income securities' prices and interest income (year 2010, % of assets)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
RUB	-300	0.00%	0.00%	0.00%
USD	-50	0.00%	0.59%	0.59%
EUR	-50	-0.04%	0.45%	0.41%
UAH	-300	0.00%	0.00%	0.00%

Changes in fixed income securities' prices and interest income (year 2009, % of assets)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
RUB	-	300	0.00%	0.00%
USD	-	50	0.47%	0.47%
EUR	-	50	-0.03%	0.38%
UAH	-	300	0.00%	0.00%

**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

<b>Total</b>	-0.04%	1.04%	1.00%	<b>Total</b>	-0.03%	0.88%	0.85%
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#### 14. Risk management (continued)

##### *Equity price risk*

Changes in equity prices depend on the following two groups of factors: changes in stock indexes of a respective country (for instance, DAX German companies stock index) and the financial position of issuer (prospects of earnings profit), where the first factor is usually referred to as systematic risk and the second – as specific risk. Systematic risk is managed on the basis of forecasts of the overall economic development in specific geographic regions and industries. Specific risk management is performed by conducting a detailed analysis of the issuer's financial position and profitability, as well as other factors affecting the equity price, based on the published issuer's reports and mass media information. Equity price deviations and correlations are also a matter of particular focus, making it possible to calculate the total price risk exposure for all shares in the portfolio only based equity price history.

##### *Currency risk*

Currency risk arises when the nominal value of Fund's securities or other instruments differs from the Fund's currency (euros). Exchange rate fluctuations may result in a gain or loss, depending on the trend of the fluctuations and the Fund's currency position. The Fund's exposure to currency risk is managed effectively by entering into currency forward and swap transactions, which results in closing of the existing positions and minimisation of potential risk losses.

Effect of the currency exchange rate changes on the Fund's value is represented in the table below. Changes in exchange rates are annualised standard deviation of a respective rate.

Currency	Density in Fund (% of net assets)	Exchange rate against EUR	Effect on Fund value	Currency	Density in Fund (% of net assets)	Exchange rate against EUR	Effect on Fund value
EUR	88.2%	0.00%	0.00%	EUR	93.88%	0.00%	0.00%
LVL	1.9%	0.69%	0.01%	LVL	0.58%	2.31%	0.01%
USD	0.0%	11.98%	0.00%	USD	1.64%	12.24%	0.20%
EEK	0.9%	1.12%	0.01%	EEK	0.64%	1.11%	0.01%
LTL	0.0%	0.33%	0.00%	LTL	0.22%	0.88%	0.00%
GBP	3.4%	9.28%	0.32%	CAD	1.17%	12.24%	0.14%
CAD	3.9%	11.49%	0.45%	CZK	1.87%	11.61%	0.22%
UAH	1.6%	12.45%	0.20%	RUB	0.00%	0.00%	0.00%
BGN	0.00%	2.11%	0.00%	DKK	0.00%	0.00%	0.00%
<b>Total</b>	<b>100.00%</b>		<b>0.99%</b>	<b>Total</b>	<b>100.00%</b>		<b>0.58%</b>

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2010:

	LVL	USD	EUR	Other	Total
<b>Assets</b>					
Demand deposits with credit institutions	-	261,721	845,262	43,126	1,150,109
Financial assets held for trading					
Debt securities and other fixed income securities	-	4,415,967	2,322,248	159,442	6,897,657
Shares and other non-fixed income securities	193,963	1,420,100	-	827,770	2,441,833
Derivatives	-	(3,049,904)	3,074,816	-	24,912
<b>Total assets</b>	<b>193,963</b>	<b>3,047,884</b>	<b>6,242,326</b>	<b>1,030,338</b>	<b>10,514,511</b>
<b>Liabilities</b>					
Financial liabilities held for trading					
Derivatives	-	(3,048,064)	2,964,222	-	(83,842)
Accrued liabilities	-	-	(15,160)	-	(15,160)
<b>Total liabilities</b>	<b>-</b>	<b>(3,048,064)</b>	<b>2,949,062</b>	<b>-</b>	<b>(99,002)</b>
<b>Net assets</b>	<b>193,963</b>	<b>(180)</b>	<b>9,191,388</b>	<b>1,030,338</b>	<b>10,415,509</b>

**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

*Net long position* 1.86% 0.00% 88.25% 9.89% 100.00%

**14. Risk management (continued)**

As at 31 December 2010, other currencies are distributed as follows CAD – 407,978 lats, EEK – 95,046 lats, LTL – 122 lats, BGN – 1,580 lats, GBP – 359,198 lats and UAH – 166,414 lats.

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2009:

	LVL	USD	EUR	Other	Total
<b>Assets</b>					
Demand deposits with credit institutions	-	34,147	571,855	-	606,002
Financial assets held for trading					
Debt securities and other fixed income securities	-	4,985,739	2,571,268	29,759	7,586,766
Shares and other non-fixed income securities	50,862	517,889	-	315,340	884,091
<b>Total assets</b>	<b>50,862</b>	<b>5,537,775</b>	<b>3,143,123</b>	<b>345,099</b>	<b>9,076,859</b>
<b>Liabilities</b>					
Financial liabilities held for trading					
Derivatives	-	(5,392,917)	5,170,163	-	(222,754)
Accrued liabilities	-	-	(13,370)	-	(13,370)
<b>Total liabilities</b>	<b>-</b>	<b>(5,392,917)</b>	<b>5,156,793</b>	<b>-</b>	<b>(236,124)</b>
<b>Net assets</b>	<b>50,862</b>	<b>144,858</b>	<b>8,299,916</b>	<b>345,099</b>	<b>8,840,735</b>
<i>Net long position</i>	0.58%	1.64%	93.88%	3.90%	100.00%

As at 31 December 2009, other currencies are distributed as follows CZK – 164,917 lats, CAD – 103,415 lats, EEK – 55,624 lats, LTL – 18,914 lats, BGN – 1,819 lats, DKK – 406 lats and RUB – 4 lats.

**Credit risk**

Credit risk is a risk that the Fund's value will decrease from counterparty's or issuer's non-performance or default. Only safe and reliable counterparties are selected for transactions involving the Fund's assets. The Fund Manager monitors the solvency position of the counterparties on a regular basis, analyses their credit rating and financial position, as well as mass media information. Credit quality of the Fund's assets is managed on the basis of the credit ratings granted by the international rating agencies Standard & Poor's, Moody's, and Fitch. In addition, a detailed analysis is performed on the issuer's financial statements, financial position and future prospects. The table below shows the issuers of securities and credit institutions in which the Fund has deposits by credit ratings.

In 2010 the Company has reviewed classification of assets and liabilities by their credit rating. The new classification is as follows:

- -High quality investment financial instruments: AAA –AA (Standard & Poor's); Aaa-Aa2 (Moody's Investors Service); AAA-AA (Fitch);
- -Investment category financial instruments: AA- -BBB- (Standard & Poor's); Aa3 -Baa3 (Moody's Investors Service); AA- - BBB- (Fitch);
- High return financial instruments: BB+ - BB- (Standard & Poor's); Ba1 - Ba3 (Moody's Investors Service); BB+ - BB-(Fitch);
- Speculative financial instruments: B+ - C (Standard & Poor's); B1 - C (Moody's Investors Service); B+ - C (Fitch).

**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

#### 14. Risk management (continued)

The table below shows the Fund's assets by credit ratings as at 31 December 2010:

	High quality financial instruments	Investments category financial instruments	High return financial instruments	Speculative financial instruments	Not rated	Total
<b>Assets</b>						
Demand deposits with credit institutions	-	-	1,150,109	-	-	1,150,109
Financial assets held for trading						
Debt securities and other fixed income securities	-	276,734	750,503	4,414,605	1,455,815	6,897,657
Shares and other non-fixed income securities	-	-	-	-	2,441,833	2,441,833
Derivatives	-	-	(58,930)	-	-	(58,930)
<b>Total assets</b>	<b>-</b>	<b>276,734</b>	<b>1,841,682</b>	<b>4,414,605</b>	<b>3,897,648</b>	<b>10,430,669</b>

The table below shows the Fund's assets by credit ratings as at 31 December 2009:

	High quality financial instruments	Investments category financial instruments	High return financial instruments	Speculative financial instruments	Not rated	Total
<b>Assets</b>						
Demand deposits with credit institutions	-	-	-	606,002	-	606,002
Financial assets held for trading						
Debt securities and other fixed income securities	-	911,088	464,047	4,546,177	1,665,454	7,586,766
Shares and other non-fixed income securities	-	-	-	-	884,091	884,091
<b>Total assets</b>	<b>-</b>	<b>911,088</b>	<b>464,047</b>	<b>5,152,179</b>	<b>2,549,545</b>	<b>9,076,859</b>

**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

**14. Risk management (continued)**

The issuer's industry and geographic position are additional credit risk factors, which can affect the price of issued security or the issuer's solvency. Therefore, it is vital to identify concentration risk, i.e. to which extent the Fund's value depends on changes in the specific regions or industries. Credit risk concentration by geographic profile (based on the country most affecting the issuer's solvency) and industry profile is presented in the table below.

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2010:

	Latvia	OECD region countries	Other non- OECD region countries	Total
<b>Assets</b>				
Demand deposits with credit institutions	1,150,109	-	-	1,150,109
Financial assets held for trading				
Debt securities and other fixed income securities	559,080	736,223	5,602,354	6,897,657
Shares and other non-fixed income securities	193,963	148,238	2,099,632	2,441,833
Derivatives	24,912	-	-	24,912
<b>Total assets</b>	<b>1,928,064</b>	<b>884,461</b>	<b>7,701,986</b>	<b>10,514,511</b>
<b>Liabilities</b>				
Financial liabilities held for trading				
Derivatives	(83,842)	-	-	(83,842)
Accrued liabilities	(15,160)	-	-	(15,160)
<b>Total liabilities</b>	<b>(99,002)</b>	<b>-</b>	<b>-</b>	<b>(99,002)</b>
<b>Net assets</b>	<b>1,829,062</b>	<b>884,461</b>	<b>7,701,986</b>	<b>10,415,509</b>

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2009:

	Latvia	OECD region countries	Other non- OECD region countries	Total
<b>Assets</b>				
Demand deposits with credit institutions	606,002	-	-	606,002
Financial assets held for trading				
Debt securities and other fixed income securities	1,031,335	409,178	6,146,253	7,586,766
Shares and other non-fixed income securities	50,862	165,323	667,906	884,091
<b>Total assets</b>	<b>1,688,199</b>	<b>574,501</b>	<b>6,814,159</b>	<b>9,076,859</b>
<b>Liabilities</b>				
Financial liabilities held for trading				
Derivatives	(222,754)	-	-	(222,754)
Accrued liabilities	(13,370)	-	-	(13,370)
<b>Total liabilities</b>	<b>(236,124)</b>	<b>-</b>	<b>-</b>	<b>(236,124)</b>
<b>Net assets</b>	<b>1,452,075</b>	<b>574,501</b>	<b>6,814,159</b>	<b>8,840,735</b>

**AIF “Citadele Eastern European Balanced Fund”  
Annual report for the year ended 31 December 2010  
Notes**

#### 14. Risk management (continued)

The table below shows the Fund's assets and liabilities by country profile as at 31 December 2010:

Country	Carrying amount as at 31.12.2010.	Carrying amount as at 31.12.2009.	% of Fund's net assets as at 31.12.2010.
Kazakhstan	2,369,890	1,542,386	22.75%
Ukraine	2,094,960	1,739,081	20.11%
Latvia	1,829,062	1,452,075	17.56%
Russia	1,710,564	2,833,069	16.42%
Poland	694,338	117,783	6.67%
Georgia	577,378	320,906	5.54%
Estonia	371,780	55,624	3.57%
Croatia	296,520	-	2.85%
Belorussia	217,490	-	2.09%
Hungary	190,123	291,395	1.83%
Bulgaria	63,282	65,896	0.61%
Azerbaijan	-	238,283	0.00%
Lithuania	122	18,914	0.00%
Czech Republic	-	164,917	0.00%
Denmark	-	406	0.00%
<b>Total</b>	<b>10,415,509</b>	<b>8,840,735</b>	<b>100.00%</b>

The table below shows the Fund's securities portfolio by industry profile as at 31 December 2010:

Sector	Carrying amount as at 31.12.2010.	Carrying amount as at 31.12.2009.	% of Fund's net assets as at 31.12.2010.
Commercial banks	3,044,358	4,199,060	29.23%
Raw materials	1,511,848	1,123,934	14.52%
Energy resources	1,294,324	1,183,234	12.43%
Financial services	688,508	363,561	6.61%
Public utilities	598,703	298,383	5.75%
Logistics	542,653	172,652	5.21%
Food, beverages, tobacco	487,979	319,904	4.69%
Retail trade	423,890	326,182	4.07%
Mass media	275,422	-	2.64%
Pharmacy	193,963	50,862	1.86%
Telecommunications	178,051	118,827	1.71%
Hard goods	63,282	65,896	0.61%
Real estate	36,509	34,245	0.35%
Technical supply and its maintenance	-	202,115	0.00%
Professional services	-	406	0.00%
Hard goods and clothes	-	11,596	0.00%
<b>Total</b>	<b>9,339,490</b>	<b>8,470,857</b>	<b>89.67%</b>

**AIF “Citadele Eastern European Balanced Fund”  
Annual report for the year ended 31 December 2010  
Notes**

#### 14. Risk management (continued)

##### *Liquidity risk*

Liquidity risk is a risk that the Fund will have difficulties in meeting its financial obligations. The Fund Manager maintains such asset structure of the Fund which would ensure a possibility of selling securities in due time and with no significant losses. The maturity profile of the Fund's assets and liabilities is provided in the table below.

Table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2010:

	Within 1 month	1 - 3 months	3 – 6 months	6 - 12 months	1-5 years	More than 5 years	Total
<b>Assets</b>							
Demand deposits with credit institutions	1,150,109	-	-	-	-	-	1,150,109
Financial assets held for trading							
Debt securities and other fixed income securities	-	959,741	180,443	9,047	4,031,402	1,717,024	6,897,657
Shares and other non-fixed income securities	2,441,833	-	-	-	-	-	2,441,833
Derivatives	2,964,221	3,074,816	-	-	-	-	6,039,037
<b>Total assets</b>	<b>6,556,163</b>	<b>4,034,557</b>	<b>180,443</b>	<b>9,047</b>	<b>4,031,402</b>	<b>1,717,024</b>	<b>16,528,636</b>
<b>Liabilities</b>							
Financial liabilities held for trading							
Derivatives	(3,048,064)	(3,049,903)	-	-	-	-	(6,097,967)
Accrued liabilities	(14,114)	(1,046)	-	-	-	-	(15,160)
<b>Total liabilities</b>	<b>(3,062,178)</b>	<b>(3,050,949)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,113,127)</b>
<b>Net assets</b>	<b>3,493,985</b>	<b>983,608</b>	<b>180,443</b>	<b>9,047</b>	<b>4,031,402</b>	<b>1,717,024</b>	<b>10,415,509</b>
<i>Net position % of net assets</i>	33.54%	9.44%	1.73%	0.09%	38.71%	16.49%	100.00%

**AIF “Citadele Eastern European Balanced Fund”**  
**Annual report for the year ended 31 December 2010**  
**Notes**

#### 14. Risk management (continued)

Table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2009:

	Within 1 month	1 - 3 months	3 – 6 months	6 - 12 months	1-5 years	More than 5 years	Total
<b>Assets</b>							
Demand deposits with credit institutions	606,002	-	-	-	-	-	606,002
Financial assets held for trading							
Debt securities and other fixed income securities	29,755	1,152,972	335,853	758,975	4,212,820	1,096,391	7,586,766
Shares and other non-fixed income securities	884,091	-	-	-	-	-	884,091
Derivatives	7,290,871	-	-	-	-	-	7,290,871
<b>Total assets</b>	<b>8,810,719</b>	<b>1,152,972</b>	<b>335,853</b>	<b>758,975</b>	<b>4,212,820</b>	<b>1,096,391</b>	<b>16,367,730</b>
<b>Liabilities</b>							
Financial liabilities held for trading							
Derivatives	(7,513,625)	-	-	-	-	-	(7,513,625)
Accrued liabilities	(12,405)	(965)	-	-	-	-	(13,370)
<b>Total liabilities</b>	<b>(7,526,030)</b>	<b>(965)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,526,995)</b>
<b>Net assets</b>	<b>1,284,689</b>	<b>1,152,007</b>	<b>335,853</b>	<b>758,975</b>	<b>4,212,820</b>	<b>1,096,391</b>	<b>8,840,735</b>
<i>Net position % of net assets</i>	14.53%	13.03%	3.80%	8.58%	47.66%	12.40%	100.00%

#### 15. Information on holders of investment certificates

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

	31.12.2010.	31.12.2009.	% of total certificates as at 31.12.2010.
Investment certificates held by related parties	225	13,376	0.02%
Investment certificates held by other persons	925,630	928,733	99.98%
<b>Investment certificates issued as at the end of the period</b>	<b>925,855</b>	<b>942,109</b>	<b>100.00%</b>



**AIF "Citadele Eastern European Balanced Fund"**  
**Annual report for the year ended 31 December 2010**  
**Notes**

## 16. Related party disclosures

On 1 August 2010 the restructuring of the Fund's custodian bank JSC "Parex banka" was completed. As a result, a new bank JSC "Citadele banka" was created as well as so called solutions bank that continues to operate under Parex Banka name. After the restructuring the custodian bank of the Fund became JSC "Citadele banka".

The majority of the Fund's investments are acquired with the mediation of the custodian bank JSC Citadele banka. JSC Citadele banka receives remuneration as the custodian bank, as disclosed in the statement of comprehensive income (see also note 7). In addition, the Fund's cash resources (see also Note 3) are held and derivative contracts (see also Note 6) are concluded with JSC Citadele banka.

The remuneration paid to the investment management company during the reporting year is disclosed in the statement of comprehensive income (see also Note 7).

During the reporting year, related parties acquired 672 investment certificates of the Fund (2009: 72) and sold back 1,088 investment certificates of the Fund (2009: 59,042). Listed the Fund's investment certificates purchase and sale back transactions are calculated taking into account only the investment certificates held by those related parties, who have been classified as the Fund's related parties both as of 31 December 2010 and 31 December 2009.

Fund has investments in the custodian bank bonds as at 31 December 2010. Value of investments is shown in the table below:

	31.12.2010.	31.12.2009.
JSC „Citadele banka”	180,443	-
JSC „Parex banka”	163,550	440,979

During the reporting year, the Fund had no investments in investment funds managed by related parties (2009: 0 investments).

## 17. Dynamics of net asset value

	31.12.2010.	31.12.2009.	31.12.2008.
<b>Net assets (LVL)</b>	<b>10,415,509</b>	<b>8,840,735</b>	<b>7,867,912</b>
Number of investment certificates	925,855	942,109	1,308,422
Value of investment fund's shares (LVL)	11.25	9.38	6.01
Performance on investment fund's shares*	19.94%	56.07%	(37.87)%

	31.12.2010.	31.12.2009.	31.12.2008.
<b>Net assets (EUR)**</b>	<b>14,720,661</b>	<b>12,595,430</b>	<b>11,226,710</b>
Number of investment certificates	925,855	942,109	1,308,422
Value of investment fund's shares (EUR)	15.90	13.37	8.58
Performance on investment fund's shares*	18.92%	55.83%	(37.47)%

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

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



Translation from Latvian original\*

## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders of AIF Citadele Eastern European Fixed Income Funds sub-fond Citadele Eastern European Balanced Fund**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements on pages 10 to 32 of AIF Citadele Eastern European Fixed Income Funds sub-fond Citadele Eastern European Balanced Fund which comprise the statement of financial position as of 31 December 2010 and the statements of comprehensive income, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of AIF Citadele Eastern European Fixed Income Funds sub-fond Citadele Eastern European Balanced Fund as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

**Report on Other Legal and Regulatory Requirements**

We have read the Management Report set out on pages 5 - 6 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2010.

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A handwritten signature in blue ink, appearing to read 'Ilandra Lejiņa', is written over a faint, illegible stamp.

Ilandra Lejiņa  
Certified auditor in charge  
Certificate No. 168

Member of the Board

Riga, Latvia  
28 April 2011

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