

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

**Sub-fund
“Citadele Eastern European Bond Fund - EUR”**

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011
(9th 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**

Translation from Latvian original*

*This version of financial statements 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 financial statements takes precedence over this translation.

Riga, 2012

**AIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2011
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AIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2011
Information on the investment fund

Name of fund:	Citadele Eastern European Fixed Income Funds (Parex Eastern European Fixed Income Funds – until 01.08.2010)
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 Bond Fund – EUR (Citadele Eastern European Balanced Fund – until 16.09.2011) (Parex Eastern European Balanced Fund – until 01.08.2010)
Name of the investment management company:	"Citadele Asset Management" IPAS (“Parex Asset Management” IPAS – until 01.08.2010.)
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 (“Parex banka” JSC – until 01.08.2010.)
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> Chairman of the Council – Juris Jākobsons – appointed on 30.09.2010. Deputy Chairman of the Council – Philip Nigel Allard – appointed on 03.11.2010. Member of the Council – Anatolijs Fridmans – appointed on 01.04.2009. Member of the Council - James R.Breiding – resigned on 26.09.2011.</p> <p><i>Board of the investment management company:</i> Chairman of the Board – Vladimirs Ivanovs – appointed on 20.10.2010. Member of the Board – Zigurds Vaikulis – appointed on 30.03.2007. Member of the Board – Raimonds Vesers – appointed on 01.01.2011.</p>
The related rights and obligations of the management of the investment fund	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.
Names of Fund Managers:	Andris Kotāns – appointed on 27.10.2008. Edgars Lao – appointed on 16.09.2011. Edgars Makarovs – resigned on 26.01.2011. Kristiāna Ķiete - resigned on 17.10.2011. Igoris Daņilovs – appointed on 16.09.2011.

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Annual report for the year ended 31 December 2011
Information on the investment fund

Igors Daņilovs – resigned on 17.10.2011.

The related rights and obligations of the management of the fund

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.

Auditor:

PricewaterhouseCoopers SIA
Certified audit company licence No. 5
Kr. Valdemāra street 19
LV-1010, Riga

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

AIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2011
Investment management company report

The assets of the sub-fund "Citadele Eastern European Bond Fund – EUR" (hereinafter– the Fund) of the open-end investment fund "Citadele Eastern European Fixed Income Funds" are managed by the debt security investment fund having EUR as functional currency. The assets of the fund are managed by the asset management company "Citadele Asset Management" having its registered office at Republikas laukums 2a, Riga, LV-1010 (hereinafter - the Company). The Company holds a licence No. 06.03.07.098/285 for investment operations, last re-registered on 5 August 2010.

During the reporting period, i.e. 16 September 2011 the amendments concerning the investment policy and discontinuing of investments in equity securities in the future to the underlying documents of the Fund became effective. The Fund aims to achieve long-term capital appreciation by investing principally in the debt securities issued or guaranteed by central and local governments, central banks and credit institutions of the Eastern European countries. The investment portfolio of the Fund is diversified to include investments in different currencies, industries and countries, thereby achieving a higher security of investments and protection against volatility of the Fund's asset value versus investments in single currency, industry of country securities. The name of the Fund was changed from "Citadele Eastern European Balanced Fund" to "Citadele Eastern European Bond Fund – EUR".

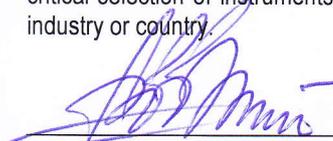
During the reporting period the total assets of the Fund declined by 21.37% and amounted to 8,267,805 lats at the end of the year. During the reporting period the Fund's net assets declined by 25.69% and amounted to 7,739,364 lats (EUR 10,981,025) at the end of the year. The decline was due to the decrease in the amount of managed resources and the losses sustained on investments. During the year the value of the Fund's share decreased by 1.41 LVL down to 9.84 LVL (EUR13.97) at the end of the year. The Fund showed negative performance: -12.53% in lats and 12.14% in the functional currency. The losses were principally caused by the Fund's equities the value of which sharply dropped in August and September of 2011 following the downgrading of the USA's credit rating and growing threats of the Eurozone recession.

During the reporting period, following the changes in the investment policy the share of equities in the Fund portfolio was gradually reduced. Free resources were primarily invested in the debt securities of credit institutions and commercial companies of the Eastern Europe. From a country perspective, a greater focus was on the biggest regional market - the Russian debt securities market - its share increased and accounted for 30.57% of the Fund's assets at the end of 2011. Overall, the Fund's investments are diversified among 11 countries. During the reporting period greater investments were made in logistics, raw material production and banking sectors. Furthermore, the euro bonds issued by the Russian government were acquired. Conversely, the share of investments in the financial instruments of utility, retail and energy companies was reduced. At year end of 2011 the Fund's assets were diversified among 9 industries. At the end of the reporting period the average yield-to-maturity on debt securities was 11.3% with an average duration of 2.5.

During the reporting period fund management fee of 229,593 EUR was paid from the Fund's resources representing 1.72% of the average net asset value and being within the maximum limit of 3% set forth in the Prospectus.

During the period between the last day of the reporting year and the date of the approval of the annual report there have been no significant events that have a material effect on the Fund's financial position and performance.

The team of managers at IPAS "Citadele Asset Management" closely monitors the developments both on the domestic and global scale such as sustainability of economic growth, monetary and fiscal policies of leading economies as well as potential inflationary and political risks in light of their material impact on the economic and capital market dynamics of the Eastern European region. A critical selection of instruments will continue to play a decisive role in the process of the Fund's investments, irrespective of the industry or country.


 Vladimirs Ivanovs
 Chairman of the Board


 Andris Kotāns
 Member of the Investment Committee


 Edgars Lao
 Member of the investment Committee

Riga, 27 April 2012

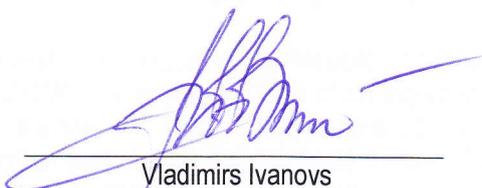
AIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2011
Statement of responsibility of the Board of the investment management company

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 9 to 31 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2011 and 31 December 2010 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 judgements 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, 27 April 2012

CUSTODIAN BANK REPORT

For holders of
OIF "Citadele Eastern European Fixed Income Funds"
"Citadele Eastern European Bond fund - EUR"
Investment fund applications

Nr. 2.2.4.-01/02

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.

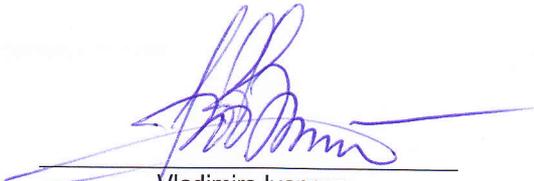


Juris Jākobsons
Chairman of the Board, p.p.

Riga, February 15, 2012

AIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2011
Statement of financial position
(LVL)

Notes	31.12.2011.	31.12.2010.
Assets		
3	Demand deposits with credit institutions	788,233 1,150,109
	Financial assets held for trading	
4	Debt securities and other fixed income securities	7,352,362 6,897,657
5	Shares and other non-fixed income securities	127,210 2,441,833
6	Derivatives	- 24,912
	Total assets	8,267,805 10,514,511
Liabilities		
	Financial liabilities held for trading	
6	Derivatives	(516,461) (83,842)
7	Accrued liabilities	(11,980) (15,160)
	Total liabilities	(528,441) (99,002)
	Net assets	7,739,364 10,415,509



 Vladimirs Ivanovs
 Chairman of the Board

Riga, 27 April 2012

AIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2011
Statement of comprehensive income
(LVL)

Notes	2011	2010
Income		
8	Interest income Dividend income	893,589 72,193
	Total income	965,782
Expenses		
	Investment management company fee Custodian bank fee Other fund management expenses	(145,138) (16,933) (3,219)
	Total expenses	(165,290)
(Decrease) / increase in investment value		
9 10	Realized (decrease) / increase in investment value Unrealized (decrease) / increase in investment value	153,183 627,974
	Total (decrease) / increase in investment value	781,157
	Foreign currency revaluation (loss) / gain	137,878
	Total comprehensive (expense) / income	1,719,527


Vladimirs Ivanovs
Chairman of the Board

Riga, 27 April 2012

AIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2011
Statement of changes in net assets
(LVL)

	2011	2010
Net assets as at the beginning of the period	10,415,509	8,840,735
Total comprehensive (expense) / income	(1,194,072)	1,719,527
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	1,575,650	2,177,063
<i>Outflow on redemption of investment certificates</i>	(3,057,723)	(2,321,816)
Decrease in net assets from transactions with investment certificates	(1,482,073)	(144,753)
(Decrease) / increase in net assets for the reporting period	(2,676,145)	1,574,774
Net assets as at the end of the reporting period	7,739,364	10,415,509
Issued investment certificates as at the beginning of the reporting period	925,855	942,109
Issued investment certificates as at the end of the reporting period	786,323	925,855
Net asset value per investment certificate as at the beginning of the reporting period	11.25	9.38
Net asset value per investment certificate as at the end of the reporting period	9.84	11.25

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

AIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2011
Statement of cash flows
(LVL)

	2011	2010
Interest income	667,174	665,526
Dividend income	25,084	72,193
Investment management expenses	(164,781)	(163,499)
Acquisition of financial assets	(10,027,955)	(7,555,637)
Disposal of financial assets	10,220,162	8,259,199
Foreign currency translation result	387,928	(658,463)
Increase in cash from operating activities	1,107,612	619,319
Inflow from sale of investment certificates	1,575,650	2,177,063
Outflow of redemption of investment certificates	(3,057,723)	(2,321,816)
Decrease in cash from financing activities	(1,482,073)	(144,753)
(Decrease) / increase in cash during the reporting period	(374,461)	474,566
Cash as at the beginning of the reporting period	1,150,109	606,002
Result of revaluation of cash denominated in foreign currencies	12,585	69,541
Cash as at the end of the reporting period	788,233	1,150,109

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

**AIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2011
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 Bond Fund – EUR
Sub-fund's business activity:	The functional currency of the Fund is euro (EUR). Investments in equity securities are not provided by the Prospectus.
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 Bond Fund – EUR 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 2011 to 31 December 2011.

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 at the moment of receipt. In some situations dividend income can be recognized when share price decreases after the issuer's announcement on payment of dividends.

**AIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2011
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>31.12.2011.</u>	<u>31.12.2010.</u>
BGN	0.3590	0.3590
CAD	0.5310	0.5350
EEK	-	0.0449
GBP	0.8400	0.8240
LTL	0.2040	0.2030
UAH	0.0677	0.0672
USD	0.5440	0.5350
RUB	0.0170	0.0176

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 long 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 and loans and receivables. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans and receivables include deposits with credit institutions. Deposits with credit institutions are carried at amortized cost, using effective interest rate less provisions for impairment, if applicable.

Impairment provisions are created when there is an objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for impairment is the difference between the amortized cost and the recoverable amount.

**AIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2011
Notes**

2. Summary of significant accounting policies (continued)

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.

Held-for-trading securities are recognised 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

The following new and amended IFRS and interpretations became effective in 2011, but are not relevant for the Fund's operations and do not have an impact on these financial statements:

Amendment to IAS 24, Related Party Disclosures.

Amendment to IAS 32 - Classification of Rights Issues

Amendment to IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first-time adopters

Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement

IFRIC 19, Extinguishing financial liabilities with equity instruments

Annual Improvements to IFRS.

**AIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2011
Notes**

2. Summary of significant accounting policies (continued)

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2011 or later periods and which are not relevant to the Fund or are not yet endorsed by the EU:

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011),

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).

Employee benefits – Amendment to IAS 19 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).

Financial statement presentation` regarding other comprehensive income – Amendment to IAS 1 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).

IFRS 10, Consolidated financial statements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

IFRS 11, Joint arrangements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

IFRS 12, `Disclosures of interests in other entities` (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

IFRS 13, `Fair value measurement` (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

`Separate financial statements` - IAS 27 (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

`Associates and joint ventures` - IAS 28 (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

IFRIC 20, `Stripping costs in the production phase of a surface mine`, (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU)

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 1, (effective for annual periods beginning on or after 1 January 2014; not yet endorsed by the EU).

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

AIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2011
Notes

3. Demand deposits with credit institutions

	31.12.2011.	31.12.2010.	% of Fund's net assets as at 31.12.2011.
Demand deposits with credit institutions, JSC Citadele banka	788,233	1,150,109	10.18%
Total demand deposits with credit institutions	788,233	1,150,109	10.18%

The Fund receives interest on demand deposits at fixed rates.

4. Bonds and other fixed income securities

	31.12.2011.	31.12.2010.	Annual yield to maturity 31.12.2011.	% of Fund's net assets as at 31.12.2011.
Corporate bonds:	3,947,862	3,694,959	12.26%	51.01%
<i>Non-OECD region corporate bonds</i>	3,123,729	2,913,180	11.58%	40.36%
<i>OECD region corporate bonds</i>	787,162	736,223	15.52%	10.17%
<i>Latvian corporate bonds</i>	36,971	45,556	0.00%	0.48%
Credit institution bonds:	2,860,390	2,810,710	10.44%	36.95%
<i>Non-OECD region credit institution bonds</i>	2,553,353	2,297,186	11.21%	32.98%
<i>Latvian credit institution bonds</i>	307,037	513,524	4.01%	3.97%
Government bonds:	402,089	-	6.03%	5.20%
<i>Non-OECD region government bonds</i>	402,089	-	6.03%	5.20%
Financial institution bonds:	142,021	391,988	16.98%	1.84%
<i>Non-OECD region financial institution bonds</i>	-	391,988	-	-
<i>OECD region financial institution bonds</i>	142,021	-	16.98%	1.84%
Total debt securities and other fixed income securities	7,352,362	6,897,657	11.30%	95.00%

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 307,542 (2010: LVL 867,394).

The table below presents debt securities by the issuer's country of residence:

Financial Instrument	ISIN code	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2011.
Financial instruments traded on regulated markets				8,416,574	7,044,820	91.02%
Russian issuers:				2,308,614	2,365,556	30.57%
RUSSIAN STATE SECURITIES	XS0114288789	USD	750	399,110	402,089	5.19%
VTB BANK	XS0223715920	USD	650	349,978	347,111	4.49%
CREDIT BANK OF MOSCOW	XS0655085081	USD	500	246,003	261,998	3.39%
EVRAZ GROUP	RU000A0JQTQ7	RUR	15,000	246,162	261,831	3.38%
RUSSIAN RAILWAYS	RU000A0JQ4F1	RUR	12,500	247,074	252,269	3.26%
METALLOINVEST	XS0650962185	USD	500	249,624	250,743	3.24%
RUSSIAN AGRICULTURAL BANK	XS0632887997	USD	500	247,764	238,204	3.08%
GAZPROM	XS0442348404	USD	350	195,889	211,775	2.74%
ALFA BANK RUSSIA	XS0494933806	USD	250	127,007	139,536	1.80%
INCOM LADA	RU000A0JPAS5	RUR	2,212	3	-	0.00%

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Financial Instrument	ISIN code	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2011.
Ukrainian issuers:				1,906,355	1,627,225	21.01%
ALFA BANK UKRAINE	XS0441089926	USD	1,725	540,941	360,404	4.65%
FIRST UKRAINIAN INTERNATIONAL BANK	XS0287015787	USD	650	330,663	307,632	3.97%
AVANGARD AGROHOLDING	XS0553088708	USD	700	351,925	287,292	3.71%
METINVEST	XS0511379066	USD	500	265,037	259,458	3.35%
OSCHADBANK	XS0594294695	USD	500	216,886	225,817	2.92%
AGROTON	XS0627994477	USD	400	200,903	186,622	2.41%
Kazakhstan issuers:				1,240,394	1,037,900	13.40%
KAZAKHGOLD GROUP	XS0273371632	USD	700	375,563	378,539	4.88%
BANK CENTERCREDIT	XS0282585859	USD	650	344,295	358,794	4.64%
ZHAIKMUNAI	USN97708AA49	USD	400	211,909	215,578	2.79%
BTA BANK	XS0532988770	USD	575,000	308,627	73,055	0.94%
BTA BANK	XS0532995049	USD	548,457	-	11,934	0.15%
Polish issuers:				641,574	521,950	6.74%
ZLOMREX	XS0283393998	EUR	500	354,794	264,054	3.41%
TVN	XS0466451548	EUR	350	286,780	257,896	3.33%
Latvian issuers:				1,081,662	344,008	4.45%
CITADELE BANKA	XS0474924320	EUR	350	246,208	250,594	3.24%
PAREX BANKA	LV0000800696	EUR	8,000	562,243	56,443	0.73%
ACME CORPORATION	LV0000800787	EUR	328	34,476	36,971	0.48%
CAPITAL DEPARTMENT STORE	LV0000800761	EUR	429,100	238,735	-	0.00%
Georgian issuers:				280,212	286,797	3.71%
GEORGIAN RAILWAY	XS0523947751	USD	500	280,212	286,797	3.71%
Azerbaijan issuers:				270,504	277,508	3.59%
AZERBAIJAN RAILWAYS	XS0592514144	USD	500	270,504	277,508	3.59%
Czech issuers:				297,447	265,212	3.43%
NEW WORLD RESOURCES	XS0504814509	EUR	400	297,447	265,212	3.43%
Croatia issuers:				316,241	255,317	3.30%
ZAGREBACKI HOLDING	XS0309688918	EUR	10	316,241	255,317	3.30%
Belarusian issuers:				73,571	63,347	0.82%
BELAGROPROMBANK	XS0553296210	USD	150	73,571	63,347	0.82%
Financial instruments not traded on regulated markets				298,626	307,542	3.98%
Estonian issuers:				298,626	307,542	3.98%
BIGBANK	EE3300081801	EUR	391	158,064	165,521	2.14%
CREDITSTAR GROUP	EE3300110147	EUR	200	140,561	142,021	1.84%
Q VARA	EE3300079987	EUR	15	1	-	0.00%
Total debt securities and other fixed income securities				8,715,200	7,352,362	95.00%

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5. Shares

	31.12.2011.	31.12.2010.	% of Fund's net assets as at 31.12.2011.
Equity shares	127,210	2,441,833	1.64%
Non-OECD region equity shares	127,210	2,099,632	1.64%
OECD region equity shares	-	148,238	0.00%
Latvian equity shares	-	193,963	0.00%
Total shares	127,210	2,441,833	1.64%

All debt securities and other fixed income securities are classified as held-for-trading securities. All fixed income securities are listed as at 31 December 2011. All fixed income securities were listed as at 31 December 2010, except for securities with the book value 122 LVL.

On 16 September 2011 the prospectus of the open-end investment fund „Citadele Eastern European Fixed Income Fund” were amended, which implies the reorganization of sub-fund Citadele Eastern European Bond Fund – EUR from balanced fund to a bond fund and determined that from 1 January 2012 assets of this fund will not be longer invested in equity securities. In November 2011 custodian bank informed the Asset management company that the execution of Company order about sale and transfer of shares traded in London Stock-Exchange and managed by the Fund is encumbered and order is not accepted. Based on the information available to the Fund ownership of 24,000 Eurasian Natural Resources (ISIN: GB00B29BCK10) shares with carrying amount LVL 127,210 LVL as at 31 December 2011 were transferred by custodian bank to MF Global UK Limited to which special administration regime applies since 31 October 2011. Taking into account the information, the Fund has no possibility, using reasonable measures and taking into account the interests of the investors, to prevent non-compliance with investment policy as at 1 January 2012 due to the fact that a small part of Fund’s assets is still invested in Eurasian Natural Resources (ISIN: GB00B29BCK10) shares. As soon as it is possible, the Company will immediately take all necessary actions to resolve these discrepancies.

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

Financial Instrument	ISIN code	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2011.
Financial instruments traded on regulated markets				212,166	127,210	1.64%
Kazakhstan issuers:				212,166	127,210	1.64%
EURASIAN NATURAL RESOURCES	GB00B29BCK10	GBP	24,000	212,166	127,210	1.64%
Total shares				212,166	127,210	1.64%

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

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.

	31.12.2011.			31.12.2010.			% of Fund's net assets as at 31.12.2011.
	Notional amount	Fair value		Notional amount	Fair value		
		Assets	Liabilities		Assets	Liabilities	
Foreign exchange transactions							
Currency swap instruments	5,463,279	-	(516,461)	5,638,107	21,795	(83,842)	(6.67)%
Forward foreign exchange instruments	-	-	-	400,930	3,117	-	0.00%
Total derivatives	5,463,279	-	(516,461)	6,039,037	24,912	(83,842)	(6.67)%

All contracts are concluded with “Citadele banka” JSC.

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7. Accrued liabilities

	31.12.2011.	31.12.2010.
Accrued commission fees payable to investment management company	(9,576)	(12,639)
Accrued commission fees payable to custodian bank	(1,117)	(1,475)
Accrued fees payable for professional services	(1,287)	(1,046)
Total accrued liabilities	(11,980)	(15,160)

8. Interest income

	2011	2010
Interest income from debt securities and other fixed income securities	444,174	864,469
Interest income from demand deposits with credit institutions	13,784	29,120
Total interest income	457,958	893,589

9. Realized (decrease) / increase in investment value

	2011	2010
Income from sale of investments	9,996,224	7,857,609
Acquisition value of investments sold	(10,399,613)	(8,455,660)
(Decrease) / increase in value of investments sold, recognised in the prior reporting periods	(387,475)	751,234
Total realised (decrease) / increase in investment value	(790,864)	153,183

10. Unrealised (decrease) / increase in investment value

	2011	2010
From shares and other non-fixed income securities	(82,847)	245,066
From debt securities and other fixed income securities	(604,541)	382,908
Total unrealised (decrease) / increase in investment value	(687,388)	627,974

11. Change in investments during the reporting period

	31.12.2010.	Increase during the reporting period	Decrease during the reporting period	Foreign currency revaluation result	Fair value revaluation result	31.12.2011.
Financial assets held for trading						
Debt securities and other fixed income securities	6,897,657	9,964,616	(9,475,942)	93,019	(126,988)	7,352,362
Shares and other non-fixed income securities	2,441,833	63,339	(1,397,609)	(73,263)	(907,090)	127,210
Derivatives, net	(58,930)	-	-	(457,531)	-	(516,461)
Total investments	9,280,560	10,027,955	(10,873,551)	(437,775)	(1,034,078)	6,963,111

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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 2011:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
Assets			
Demand deposits with credit institutions	788,233	-	788,233
Financial assets held for trading			
Debt securities and other fixed income securities	7,352,362	4,411,697	2,940,665
Shares and other non-fixed income securities	127,210	127,210	-
Total assets	8,267,805	4,538,907	3,728,898
Liabilities			
Financial liabilities held for trading			
Derivatives	(516,461)	-	(516,461)
Accrued liabilities	(11,980)	-	(11,980)
Total liabilities	(528,441)	-	(528,441)
Net assets	7,739,364	4,538,907	3,200,457

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
Assets			
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
Total assets	10,514,511	8,146,912	2,367,599
Liabilities			
Financial liabilities held for trading			
Derivatives	(83,842)	-	(83,842)
Accrued liabilities	(15,160)	-	(15,160)
Total liabilities	(99,002)	-	(99,002)
Net assets	10,415,509	8,146,912	2,268,597

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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. Evaluated below are the sources of market risk, however they cannot be eliminated completely.

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.

With market interest rates growing, the prices of fixed income securities are decreasing, 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 2011, LVL)					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	Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	50	765	(25,971)	(25,206)	RUB	300	-	-	-
RUB	300	-	(20,459)	(20,459)	USD	50	-	(61,970)	(61,970)
USD	50	-	(99,072)	(99,072)	EUR	50	4,298	(47,196)	(42,898)
					UAH	300	-	(437)	(437)
Total		765	(145,502)	(144,737)	Total		4,298	(109,603)	(105,305)

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14. Risk management (continued)

Changes in fixed income securities' prices and interest income
(year 2011, % of assets)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	50	0.01%	-0.34%	-0.33%
RUB	300	0.00%	-0.27%	-0.27%
USD	50	0.00%	-1.29%	-1.29%
Total		0.01%	-1.89%	-1.88%

Changes in fixed income securities' prices and interest income (year 2011, LVL)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-50	(765)	25,971	25,206
RUB	-300	-	20,459	20,459
USD	-50	-	99,072	99,072
Total		(765)	145,502	144,737

Changes in fixed income securities' prices and interest income
(year 2011, % of assets)

Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-50	-0.01%	0.34%	0.33%
RUB	-300	0.00%	0.27%	0.27%
USD	-50	0.00%	1.29%	1.29%
Total		-0.01%	1.89%	1.88%

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%
Total		0.04%	-1.04%	-1.00%

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
Total		(4,298)	109,603	105,305

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%
Total		-0.04%	1.04%	1.00%

Equity price risk

Changes in equity prices depend on the following two groups of factors: changes in stock indices 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. 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.

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14. Risk management (continued)

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2011:

	USD	EUR	Other	Total
Assets				
Demand deposits with credit institutions	585,275	202,958	-	788,233
Financial assets held for trading				
Debt securities and other fixed income securities	5,144,233	1,694,029	514,100	7,352,362
Shares and other non-fixed income securities	-	-	127,210	127,210
Total assets	5,729,508	1,896,987	641,310	8,267,805
Liabilities				
Financial liabilities held for trading				
Derivatives	(5,979,741)	5,463,280	-	(516,461)
Accrued liabilities	-	(11,980)	-	(11,980)
Total liabilities	(5,979,741)	5,451,300	-	(528,441)
Net assets	(250,233)	7,348,287	641,310	7,739,364
<i>Net long / (short) position</i>	<i>(3.23)%</i>	<i>94.95%</i>	<i>8.28%</i>	<i>100.00%</i>

As at 31 December 2011, other currencies are distributed as follows GBP – LVL 127,210 and RUB – LVL 514,100.

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

	LVL	USD	EUR	Other	Total
Assets					
Demand deposits with credit institutions					
Financial assets held for trading	-	261,721	845,262	43,126	1,150,109
Debt securities and other fixed income securities					
Shares and other non-fixed income securities	-	4,415,967	2,322,248	159,442	6,897,657
Derivatives	193,963	1,420,100	-	827,770	2,441,833
	-	(3,049,904)	3,074,816	-	24,912
Total assets	193,963	3,047,884	6,242,326	1,030,338	10,514,511
Liabilities					
Financial liabilities held for trading					
Derivatives	-	(3,048,064)	2,964,222	-	(83,842)
Accrued liabilities	-	-	(15,160)	-	(15,160)
Total liabilities	-	(3,048,064)	2,949,062	-	(99,002)
Net assets	193,963	(180)	9,191,388	1,030,338	10,415,509
<i>Net long / (short) position</i>	<i>1.86%</i>	<i>0.00%</i>	<i>88.25%</i>	<i>9.89%</i>	<i>100.00%</i>

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

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14. Risk management (continued)

Effect of the currency exchange rate changes on the Fund's value is represented in the tables 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 (2011)
EUR	94.95%	0.00%	0.00%
RUB	6.64%	9.50%	0.63%
USD	-3.23%	11.92%	-0.38%
GBP	1.64%	8.82%	0.14%
Total	100.00%		0.39%

The table below shows the effect of the currency exchange rate changes on the Fund's value in year 2010:

Currency	Density in Fund (% of net assets)	Exchange rate against EUR	Effect on Fund value (2010)
EUR	88.25%	0.00%	0.00%
LVL	1.86%	0.69%	0.01%
USD	0.00%	11.98%	0.00%
EEK	0.91%	1.12%	0.01%
LTL	0.00%	0.33%	0.00%
GBP	3.45%	9.28%	0.32%
CAD	3.92%	11.49%	0.45%
UAH	1.60%	12.45%	0.20%
BGN	0.01%	2.11%	0.00%
Total	100.00%		0.99%

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.

- -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).

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14. Risk management (continued)

The table below shows the Fund's assets by credit ratings as at 31 December 2011:

	High quality financial instruments	Investments category financial instruments	High return financial instruments	Speculative financial instruments	Not rated	Total
Assets						
Demand deposits with credit institutions	-	-	-	788,233	-	788,233
Financial assets held for trading						
Debt securities and other fixed income securities	-	1,451,448	910,808	3,921,169	1,068,937	7,352,362
Shares and other non-fixed income securities	-	-	-	-	127,210	127,210
Derivatives	-	-	-	(516,461)	-	(516,461)
Total assets	-	1,451,448	910,808	4,192,941	1,196,147	7,751,344

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
Assets						
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)
Total assets	-	276,734	1,841,682	4,414,605	3,897,648	10,430,669

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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 2011:

	Latvia	OECD region countries	Other non- OECD region countries	Total
Assets				
Demand deposits with credit institutions	788,233	-	-	788,233
Financial assets held for trading				
Debt securities and other fixed income securities	344,008	1,094,704	5,913,650	7,352,362
Shares and other non-fixed income securities	-	-	127,210	127,210
Total assets	1,132,241	1,094,704	6,040,860	8,267,805
Liabilities				
Financial liabilities held for trading				
Derivatives	(516,461)	-	-	(516,461)
Accrued liabilities	(11,980)	-	-	(11,980)
Total liabilities	(528,441)	-	-	(528,441)
Net assets	603,800	1,094,704	6,040,860	7,739,364

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
Assets				
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
Accrued liabilities	24,912	-	-	24,912
Total assets	1,928,064	884,461	7,701,986	10,514,511
Liabilities				
Financial liabilities held for trading				
Derivatives	(83,842)	-	-	(83,842)
Accrued liabilities	(15,160)	-	-	(15,160)
Total liabilities	(99,002)	-	-	(99,002)
Net assets	1,829,062	884,461	7,701,986	10,415,509

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14. Risk management (continued)

The table below shows the Fund's assets and liabilities by country profile as at 31 December 2011:

Country	Carrying amount as at 31.12.2011.	Carrying amount as at 31.12.2010.	% of Fund's net assets as at 31.12.2011.
Russia	2,365,556	1,710,564	30.57%
Ukraine	1,627,225	2,094,960	21.03%
Kazakhstan	1,165,110	2,369,890	15.04%
Latvia	603,800	1,829,062	7.80%
Poland	521,950	694,338	6.74%
Estonia	307,542	371,780	3.97%
Georgia	286,797	577,378	3.71%
Azerbaijan	277,508	-	3.59%
Czech Republic	265,212	-	3.43%
Croatia	255,317	296,520	3.30%
Belarus	63,347	217,490	0.82%
Hungary	-	190,123	-
Bulgaria	-	63,282	-
Lithuania	-	122	-
Total	7,739,364	10,415,509	100.00%

The table below shows the Fund's securities portfolio by industry profile as at 31 December 2011:

Sector	Carrying amount as at 31.12.2011.	Carrying amount as at 31.12.2010.	% of Fund's net assets as at 31.12.2011.
Commercial banks	2,622,186	3,044,358	33.88%
Raw materials	1,541,835	1,511,848	19.92%
Logistics	816,574	542,653	10.55%
Energy resources	692,565	1,294,324	8.95%
Financial services	635,542	688,508	8.21%
Food, beverages, tobacco	473,914	487,979	6.12%
Government	402,089	-	5.20%
Mass media	257,896	275,422	3.33%
Real estate	36,971	36,509	0.48%
Capital goods	-	63,282	0.00%
Telecommunications	-	178,051	0.00%
Pharmacy	-	193,963	0.00%
Retail trade	-	423,890	0.00%
Public utilities	-	598,703	0.00%
Total	7,479,572	9,339,490	96.64%

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.

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14. Risk management (continued)

Table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2011:

	Within 1 month	1 - 3 months	3 – 6 months	6 - 12 months	1-5 years	More than 5 years and no maturity	Total
Assets							
Demand deposits with credit institutions	788,233	-	-	-	-	-	788,233
Financial assets held for trading							
Debt securities and other fixed income securities	165,521	250,594	36,971	502,425	4,227,759	2,169,092	7,352,362
Shares and other non-fixed income securities	-	-	-	-	-	127,210	127,210
Derivatives	2,517,747	-	-	2,945,533	-	-	5,463,280
Total assets	3,471,501	250,594	36,971	3,447,958	4,227,759	2,296,302	13,731,085
Liabilities							
Financial liabilities held for trading							
Derivatives	(2,711,644)	-	-	(3,268,097)	-	-	(5,979,741)
Accrued liabilities	(10,693)	-	(1,287)	-	-	-	(11,980)
Total liabilities	(2,722,337)	-	(1,287)	(3,268,097)	-	-	(5,991,721)
Net assets	749,164	250,594	35,684	179,861	4,227,759	2,296,302	7,739,364
<i>Net position % of net assets</i>	9.68%	3.24%	0.46%	2.32%	54.63%	29.67%	100.00%

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14. Risk management (continued)

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 and no maturity	Total
Assets							
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
Total assets	4,114,330	4,034,557	180,443	9,047	4,031,402	4,158,857	16,528,636
Liabilities							
Financial liabilities held for trading							
Derivatives	(3,048,064)	(3,049,903)	-	-	-	-	(6,097,967)
Accrued liabilities	(14,114)	(1,046)	-	-	-	-	(15,160)
Total liabilities	(3,062,178)	(3,050,949)	-	-	-	-	(6,113,127)
Net assets	1,052,152	983,608	180,443	9,047	4,031,402	4,158,857	10,415,509
<i>Net position % of net assets</i>	<i>10.10%</i>	<i>9.44%</i>	<i>1.73%</i>	<i>0.09%</i>	<i>38.71%</i>	<i>39.93%</i>	<i>100.00%</i>

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:

	31.12.2011.	31.12.2010.	% of total certificates as at 31.12.2011.
Investment certificates held by related parties	225	225	0.03%
Investment certificates held by other persons	786,098	925,630	99.97%
Investment certificates issued as at the end of the reporting period	786,323	925,855	100.00%

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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 resolutions 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 Note 3) are held and derivative contracts (see 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, the Fund made no investments in investment funds managed by related parties (2010: 0 investments). 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 2011 and 31 December 2010.

During the reporting year the Fund invested in bonds issued by the JSC Citadele banka. On 31 December 2011 the book value of these investments was 250,594 lats (31 December 2010: 180,443).

17. Dynamics of net asset value

	31.12.2011.	31.12.2010.	31.12.2009.
Net assets (LVL)	7,739,364	10,415,509	8,840,735
Number of investment certificates	786,323	925,855	942,109
Value of investment fund's shares (LVL)	9.84	11.25	9.38
Performance on investment fund's shares*	(12.53)%	19.94%	56.07%
	<hr/>	<hr/>	<hr/>
	31.12.2011.	31.12.2010.	31.12.2009.
Net assets (EUR)**	10,981,025	14,720,661	12,595,430
Number of investment certificates	786,323	925,855	942,109
Value of investment fund's shares (EUR)	13.97	15.90	13.37
Performance on investment fund's shares*	(12.14)%	18.92%	55.83%

* 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 Bond Fund - EUR

Report on the Financial Statements

We have audited the accompanying financial statements on pages 9 to 31 of AIF Citadele Eastern European Fixed Income Funds sub-fond Citadele Eastern European Bond Fund - EUR which comprise the statement of financial position as of 31 December 2011 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 Bond Fund - EUR as of 31 December 2011, 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 page 5 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2011.

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A handwritten signature in blue ink, appearing to read 'I. Lejiņa', is written over the printed name of the auditor.

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
27 April 2012

* 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.