

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

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

ANNUAL REPORT FOR 2013
(11th 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

Riga, 2014

OIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2013
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OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2013
Information on the investment fund

Name of fund	Citadele Eastern European Fixed Income Funds
Type of fund	Open-end investment fund with sub-funds
Registration date of fund:	20 July 2009
Number of 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)
Name of the investment management company:	"Citadele Asset Management" IPAS
Registered office of the investment management company:	Republikas laukums 2, Rīga, 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" AS
Registered office of the custodian bank:	Republikas laukums 2, Rīga, 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 – Vladimirs Ivanovs – appointed on 01.11.2012. Member of the Council – Philip Nigel Allard – appointed on 01.11.2012.</p> <p><i>Board of the investment management company:</i> Chairman of the Board – Uldis Upenieks – appointed on 01.11.2012. Member of the Board – Zigurds Vaikulis – appointed on 30.03.2007. Member of the Board – Sergejs Zaicevs – appointed on 25.01.2013. Member of the Board – Sergejs Zaicevs – resigned on 28.06.2013.</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.
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:	KPMG Baltics SIA Licence No. 55 Vesetas iela 7 Rīga, LV-1013 Latvia

OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2013
Investment management company report

"Citadele Eastern European Bond Fund – EUR" (hereinafter – the Fund) is a sub-fund of the open-end investment fund "Citadele Eastern European Fixed Income Funds". It is 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 and registration No. 40003577500. The Company holds a licence No. 06.03.07.098/285 for investment operations, last re-registered on 5 August 2010.

The Fund aims to achieve long-term capital growth by investing principally in the money market instrument, debt securities investment funds and debt securities issued or guaranteed by central and local governments, central banks and credit institutions of the Eastern European countries, as well as in ETF, with no restrictions as to industries, quoted in the market of the member states and OECD member states. The investment portfolio of the Fund is diversified to include investments in different industries and countries, thereby achieving a higher protection against volatility of the Fund's asset value versus investments in single industry or country securities.

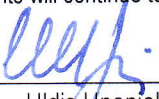
During the reporting period the total assets of the Fund increased by 18.39% and amounted to 11,931,830 lats (EUR 16,871,281) at the end of the year. During the reporting period the Fund's net assets increased by 18.54% (17.77% in EUR) and amounted to 11,901,543 lats (EUR 16,845,937) at the end of the year. The rise in net asset value was due to the increase in the amount of managed resources and the profit earned on investments. During the year the value of the Fund's share increased by 33 santims (EUR 0.37) up to 11.71 lats (EUR 16.58) at the end of the year. The profitability of the Fund was 15.60% in lats and 15.99% in the functional currency. The positive performance and contribution to the Fund's growth was provided by the largest countries of the investments – Russia, Ukraine and Kazakhstan. As regards industries, the most positive contribution to the Fund was ensured by issuers from the commercial banks sector, negative performance was demonstrated by the energy sector. As to certain instruments, the best performance was showed by the Russian Promsvyazbank bonds as the credit ability of issuer was improving, the most negative contribution was from the investment in the Czech coal extraction company New World Resources due to the low thermal and metallurgical coal prices.

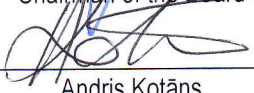
In 2013 the proportion of the Fund in Russia was increased by 6.4 base points reaching 40.76% and in Slovenia by 5 base points reaching 8.56% of the Fund's net assets. In addition new investments were made in the Hungarian and Bulgarian security markets, in which investment proportion as at the end of the reporting year was 3.59% and 3.26% respectively of the Fund's net assets. During the reporting period all investments in the Turkish, Romanian and Polish financial markets were sold. As at the end of the reporting period the assets of the Fund were diversified among debt securities markets in 12 countries. During the reporting period, proportion of the Fund's assets in the commercial banks sector was reduced significantly (by 9.5 base points) reaching 34.27% of the Fund's net assets as the attractiveness of this sector decreased due to economic indices of weaker countries, as well as maturity of several bonds was scheduled during the reporting period. The largest increase by sectors was achieved by the energy sector – up to 20.98% of the Fund's net assets in the end of the reporting period, as oil price was relatively stable and high level during the reporting period. In the end of the year the Fund's assets were diversified in 9 industries. At the end of the reporting period the average yield-to-maturity on debt securities was 6.3% with an average duration of 2.7, the weighted average of the credit ratings was Ba3. The share of the cash and cash equivalents at the end of reporting period comprised 4.13% from the Fund's net assets.

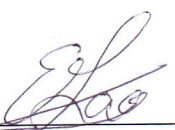
Management costs in the amount of EUR 287,186 or 1.58% of the average value of net assets in the period that does not exceed the maximum value of 3.00% provided in the Fund's prospects, were covered in the reporting period using the Fund's assets

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.

IPAS "Citadele Asset Management" managers team 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.


 Uldis Upenieks
 Chairman of the Board


 Andris Kotāns
 Member of the Investment Committee


 Edgars Lao
 Member of the Investment Committee

In Riga, 25 April 2014

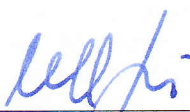
OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2013
Statement of responsibility of the Board of the investment management company

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 - EUR (hereinafter - the Fund).

The financial statements set out on pages 7 to 29 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2013 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.



Uldis Upenieks
Chairman of the Board

In Riga
25 April 2014

REPORT OF THE CUSTODIAN BANK

for the period of time: as of January 1, 2013 till December 31, 2013

The sub-fund "Citadele Eastern European Bond fund - EUR"
of an open investment fund "Citadele Eastern European Fixed Income Funds"

Hereby AS "Citadele banka", registered in the Commercial Register of the Register of Enterprises of the Republic of Latvia (RL) on 30.06.2010 with a unified registration number No. 40103303559, registered address: Riga, Republikas laukums 2A, certifies that:

- according to the Custodian Bank Agreement signed on May 11, 2009, AS "Citadele banka" (hereinafter - the Custodian Bank) is performing the functions of custodian bank for the sub-fund "Citadele Eastern European Bond fund - EUR" of an open investment fund "Citadele Eastern European Fixed Income Funds" (hereinafter - the Fund) established by IPAS "Citadele Asset Management" (hereinafter - the Company) ;
- the Custodian Bank performs the functions of the custodian bank according to the law "On Investment Management Companies", provisions of the Financial and Capital Markets Commission and other applicable legal acts of RL.

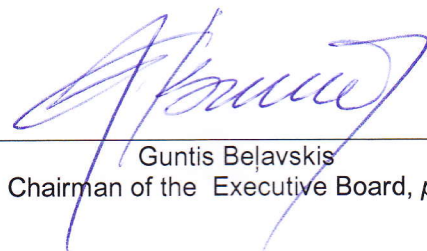
The Custodian bank is liable for the fulfilment of Custodian Bank Agreement and requirements of legal acts of RL applicable to the custodian banks. Main obligations of the Custodian Bank are the following:

- to hold the assets of the Fund, as well as documents certifying the property rights pursuant to the requirements of legal acts of RL;
- to maintain the Funds accounts, to ensure the acceptance and execution of the Company's orders, as well as the settlement of orders pursuant to the legal acts of RL, the Custodian Bank Agreement and the current market practice;
- to provide the Company with regular reports on the assets of the Fund and its value (prices of securities);
- to follow the accuracy of determination of the Fund's value and the value of the Fund's shares performed by the Company and its compliance with the legal acts of RL;
- to follow the accuracy and lawfulness of the emission, sale and redemption of the investment certificates performed by the Company;

For the period from January 1, 2013 till December 31, 2013:

- emission, sale and redemption of investment certificates had been performed pursuant to requirements of the law "On Investment Management Companies", the Fund's prospectus and the Fund Management Regulations;
- the holding of the Fund's assets had been performed pursuant to the requirements of the law "On Investment Management Companies" and the Custodian Bank Agreement;
- calculation of the Fund's net asset value had been performed according to the requirements of the law "On Investment Management Companies", regulations of the Financial and Capital Markets Commission (FCMC), the Fund's prospectus and the Fund Management Regulations;
- orders of the Company and the transactions performed with the assets of the Fund had been performed according to the requirements of the law "On Investment Management Companies", the Fund's prospectus, the Fund Management Regulations and Custodian Bank Agreement.

No errors or incompliances were detected in Company's actions handling Fund's assets over the reporting period.



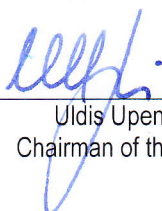
Guntis Beļavskis
Chairman of the Executive Board, *p.p.*

Riga, March 31, 2014

OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2013
Statement of financial position
(LVL)

Note		31.12.2013.	31.12.2012.
	Assets		
3	Demand deposits with credit institutions	491,352	902,796
	Financial assets held for trading		
4	Debt securities and other fixed income securities	11,251,508	9,073,837
6	Derivatives	188,970	102,062
	Total assets	11,931,830	10,078,695
	Liabilities		
	Financial liabilities held for trading		
6	Derivatives	(12,475)	(24,381)
7	Accrued liabilities	(17,812)	(14,600)
	Total liabilities	(30,287)	(38,981)
	Net assets	11,901,543	10,039,714

The accompanying notes set out on pages 11 to 29 form an integral part of these financial statements.



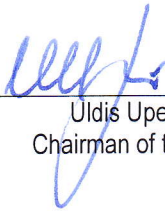
Uldis Upenieks
Chairman of the Board

In Riga
25 April 2014

OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2013
Statement of comprehensive income
(LVL)

Note		2013	2012
	Income		
8	Interest income	1,038,586	1,043,452
	Other income	557	-
	Total income	1,039,143	1,043,452
	Expenses		
	Investment management company fee	(180,176)	(132,374)
	Custodian bank fee	(21,048)	(15,444)
	Other fund management expenses	(3,815)	(20,640)
	Total expenses	(205,039)	(168,458)
	Increase/ (decrease) in investment value		
9	Realized (decrease) in investment value	(86,857)	(6,020)
10	Unrealized increase / (decrease) in investment value	(409,668)	378,680
	Total increase/ (decrease) in investment value	(496,525)	372,660
	Foreign currency revaluation (loss)	(24,581)	(2,419)
	Total comprehensive income/ (expenses)	312,998	1,245,235

The accompanying notes set out on pages 11 to 29 form an integral part of these financial statements.


 Uldis Upenieks
 Chairman of the Board

In Riga
 25 April 2014

OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2013
Statement of changes in net assets
(LVL)

	2013	2012
Net assets as at the beginning of the period	10,039,714	7,739,364
Total comprehensive income / (expenses)	312,998	1,245,235
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	3,470,836	2,414,811
<i>Outflow on redemption of investment certificates</i>	<u>(1,922,005)</u>	<u>(1,359,696)</u>
Increase/ (decrease) in net assets from transactions with investment certificates	1,548,831	1,055,115
Increase/ (decrease) in net assets for the reporting period	<u>1,861,829</u>	<u>2,300,350</u>
Net assets as at the end of the reporting period	<u>11,901,543</u>	<u>10,039,714</u>
Issued investment certificates as at the beginning of the reporting period	<u>882,551</u>	<u>786,323</u>
Issued investment certificates as at the end of the reporting period	<u>1,015,969</u>	<u>882,551</u>
Net asset value per investment certificate as at the beginning of the reporting period	<u>11.38</u>	<u>9.84</u>
Net asset value per investment certificate as at the end of the reporting period	<u>11.71</u>	<u>11.38</u>

The accompanying notes set out on pages 11 to 29 form an integral part of these financial statements.

OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2013

Notes
(LVL)

	2013	2012
Interest income	891,743	750,911
Investment management expenses	(201,827)	(165,837)
Acquisition of financial assets	(11,753,084)	(9,658,151)
Disposal of financial assets	8,936,789	8,636,808
Foreign currency translation result	176,478	(520,175)
(Decrease)/ increase in cash from operating activities	(1,949,901)	(956,444)
Inflow from sale of investment certificates	3,470,836	2,414,811
Outflow on redemption of investment certificates	(1,922,005)	(1,359,696)
Increase/ (decrease) in cash from financing activities	1,548,831	1,055,115
Increase / (decrease) in cash	(401,070)	98,671
Cash as at the beginning of the reporting period	902,796	788,233
Result of revaluation of cash denominated in foreign currencies	(10,374)	15,892
Cash as at the end of the reporting period	491,352	902,796

The accompanying notes set out on pages 11 to 29 form an integral part of these financial statements.

OIF “Citadele Eastern European Bond Fund - EUR”
Annual report for the year ended 31 December 2013
Notes
(LVL)

1. General information

Name of fund	Citadele Eastern European Fixed Income Funds
Type of 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 2, Rīga, LV-1010, Latvia

2. Summary of significant accounting policies

Basis of preparation

The financial statements of OIF 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 2013 to 31 December 2013.

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 Plan'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. When preparing the financial statements, significant estimates are used mainly to determine fair value of financial instruments. See detailed information on uncertainty in Note 13.

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.

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.

OIF "Citadele Eastern European Bond Fund - EUR"
Annual report for the year ended 31 December 2013
Notes
(LVL)

2. Summary of significant accounting policies (continued)

Foreign currency revaluation

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. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. 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>31.12.2013.</u>	<u>31.12.2012.</u>
USD	0.5150	0.5310
RUB	0.0156	0.0174

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 into 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 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.

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.

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Notes
(LVL)

2. Summary of significant accounting policies (continued)

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 value 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. The fair value of liabilities represent default risk.

When available, the Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. Market is considered active if transactions with assets or liabilities occur often enough and in the sufficient amount to be able to obtain information on the prices.

If a price quoted in active market is not available, the Fund applies valuation methods in which there are observable market data used as much as possible but unobservable input data usage is reduced to minimum. The selected valuation method includes all factors that would be considered by the market participants when determining the transaction price.

During the initial recognition the best evidence of fair value of a financial instrument is the transaction price, i.e. fair value of price received or paid. If the Fund determines that the fair value as at the initial recognition differs from the transaction price and fair value cannot be confirmed by identical quoted price of asset or liabilities in active market or valuation methods using only observable data, results, financial instrument is initially assessed in the fair value that is adjusted to represent difference between the fair value as at the date of initial recognition and transaction price. Later this difference is recognized in the profit or loss considering the expected period of use but not later than as at the date when the value can be completely based on observable market data or the transaction is completed.

Portfolios of financial assets and financial liabilities exposed to market risk and credit risk managed by the Fund on the basis of net exposure either to market risk or credit risk are evaluated considering price that would be paid to sell the net long position (or paid to transfer the net short position) for certain risks. These adjustments on the portfolio level are attributed to certain assets and liabilities on the basis of relative risk adjustments as regards each separate instrument in the portfolio.

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.

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(LVL)

2. Summary of significant accounting policies (continued)

Change in accounting policies

The Fund has applied the accounting policies described in the note to all reporting periods disclosed in these financial statements, except for the following changes.

The Fund has adopted the following new standards and amendments to standards, including the consequent amendments in other standards the initial application date of which was 1 January 2013.

(i) Fair value measurement

IFRS 13 introduces a common structure for fair value measurement and disclosures on fair value determination in cases when it is required or permitted according to other IFRS. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard replaces and amends requirements of other IFRS, including IFRS 7, as regards disclosures on measurement of fair value.

According to IFRS 13 transitional provisions, the Fund has applied the new fair value measurement guidelines prospectively and no comparable information is provided for the new information disclosed. Regardless of the above, effect of these changes on the measurement of the Fund's assets and liabilities is not material.

(ii) Other amendments to standards

The following amendments to standards that became effective on 1 January 2013 have not impacted these financial statements.

- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IFRS 7 - Offset of financial assets and liabilities
- Amendments to IAS 19 (2011) – Employee Benefits.
- Amendments to IAS 12 – Deferred tax: recovery of assets.

New standards and interpretations effective after 1 January 2013

Several new standards, amendments to standards and interpretations effective after 1 January 2013 that have not been applied to these financial statements. Standards and interpretations application of which will not affect the financial statements are listed below.

- (i) IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements, IFRS 12 Disclosure of interests in other entities (2011).
- (ii) IAS 27 (2011) Separate financial statements (effective for annual periods beginning on or after 1 January 2014).
- (iii) IAS 28 (2011) Investments in associated and joint ventures (effective for annual periods beginning on or after 1 January 2014).
- (iv) Amendments to IAS 32 Offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014).
- (v) Amendments to IFRS 10 and 12 and IAS 27 as regards investment companies (effective for annual period beginning on or after 1 January 2014).
- (vi) Amendments to IAS 36 as regards disclosures about recoverable amount of non-financial assets (effective for annual period beginning on or after 1 January 2014).
- (vii) Amendments to IAS 39 as regards renewal of financial instruments and continuing of hedge accounting (effective for annual period beginning on or after 1 January 2014).

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3. Demand deposits with credit institutions

	31.12.2013.	31.12.2012.	% of Fund's net assets as at 31.12.2013.
Demand deposits with credit institutions, JSC Citadele banka	491,352	902,796	4.13%
Total demand deposits with credit institutions	491,352	902,796	4.13%

The Fund receives interest on demand deposits at fixed rates.

4. Bonds and other fixed income securities

	31.12.2013.	31.12.2012.	Annual yield to maturity 31.12.2013.	% of Fund's net assets as at 31.12.2013.
Corporate bonds:	5,873,212	3,823,306	0.82%	49.35%
<i>Non-OECD region corporate bonds</i>	5,150,272	3,062,905	5.32%	43.27%
<i>OECD region corporate bonds</i>	722,940	760,401	7.13%	6.07%
<i>Latvian corporate bonds</i>	-	-	0.00%	0.00%
Credit institution bonds:	3,507,823	3,909,807	1.38%	29.47%
<i>Non-OECD region credit institution bonds</i>	3,011,792	3,653,327	8.06%	25.31%
<i>Latvian credit institution bonds</i>	33,303	27,769	0.00%	0.28%
<i>OECD region credit institution bonds</i>	462,728	228,711	3.63%	3.89%
Government bonds:	1,059,203	1,128,126	4.57%	8.90%
<i>Non-OECD region government bonds</i>	503,387	452,816	54.46%	4.23%
<i>OECD region credit institution bonds</i>	555,816	675,310	9.27%	4.67%
Financial institution bonds:	811,270	212,598	5.96%	6.82%
<i>OECD region financial institution bonds</i>	248,469	212,598	6.75%	2.09%
<i>Non-OECD region financial institution bonds</i>	562,801	-	43.11%	4.73%
Total debt securities and other fixed income securities	11,251,508	9,073,837	0.43%	94.54%

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

All fixed income securities are listed.

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4. Bonds and other fixed income securities (continued)

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 31.12.2012	% of Fund's net assets as at 31.12.2013.
Financial instruments traded on regulated markets				12,124,069	11,003,039	92.45%
Russian issuers:				5,073,783	4,852,086	40.77%
RUSSIAN GOVERNMENT BONDS	XS0114288789	USD	1,150	507,728	503,387	4.23%
VTB Bank OJSC Via VTB Capital	XS0772509484	USD	900	522,330	499,004	4.19%
GAZPROM	XS0424860947	USD	750	532,430	482,305	4.06%
ALFA BANK	XS0620695204	USD	800	465,015	445,548	3.74%
POLYUS GOLD Co	XS0922301717	USD	800	440,984	401,812	3.38%
SIBUR SECURITIES LTD	XS0878855773	USD	750	382,558	380,807	3.20%
CREDIT BANK OF MOSCOW	XS0655085081	USD	700	359,503	376,084	3.16%
MTS INTERNATIONAL FUNDING Ltd	XS0513723873	USD	600	371,362	365,985	3.08%
RASPADASKAYA OJSC	XS0772835285	USD	650	349,230	347,927	2.92%
SEVERSTAL OAO Via STEEL CAPITAL	XS0841671000	USD	650	364,850	327,547	2.75%
RENAISSANCE CREDIT LLC VIA	XS0938341780	USD	650	352,897	322,575	2.71%
LSR GROUP	RU000A0JRCC1	RUR	15,000	259,574	240,226	2.02%
EVRAZ GROUP	RU000A0JQTQ7	RUR	10,000	165,322	158,879	1.33%
Kazakhstan issuers:				1,664,647	1,615,867	13.58%
KAZMUNAYGAS NATIONAL CO	XS0373641009	USD	750	486,351	485,106	4.08%
BANK CENTERCREDIT	XS0282585859	USD	800	435,783	426,427	3.58%
ZHAIKMUNAI	USN97708AA49	USD	750	438,146	413,338	3.47%
ATF BANK	XS0286908867	USD	550	304,367	290,996	2.45%
Slovenian issuers:				979,255	1,018,544	8.56%
SLOVENIAN GOVERNMENT BONDS	XS0292653994	EUR	750	514,359	555,816	4.67%
SID BANKA EXPORT	XS0504013912	EUR	650	464,896	462,728	3.89%
Ukrainian issuers:				980,989	1,000,902	8.41%
AVANGARD AGROHOLDING	XS0553088708	USD	700	357,158	362,967	3.05%
FIRST UKRAINIAN INTERNATIONAL BANK	XS0287015787	USD	550	292,168	285,346	2.40%
METINVEST	XS0591549232	USD	700	331,663	352,589	2.96%
Azerbaijan issuers:				671,453	657,378	5.53%
AZERBAIJAN RAILWAYS	XS0592514144	USD	700	401,453	386,575	3.25%
MUGAN BANK	LV0000801157	USD	500	270,000	270,803	2.28%
Hungarian issuers:				430,889	427,697	3.59%
MOL GROUP FINANCE SA	XS0834435702	USD	800	430,889	427,697	3.59%
Georgian issuers:				421,095	417,584	3.51%
BANK OF GEORGIA	XS0783935561	USD	750	421,095	417,584	3.51%
Bulgarian issuers:				389,017	387,529	3.26%
VIVACOM	XS0994993037	EUR	550	389,017	387,529	3.26%
Croatian issuers:				316,241	296,906	2.49%
ZAGREBACKI HOLDING	XS0309688918	EUR	10	316,241	296,906	2.49%
Czech issuers:				395,722	295,243	2.48%
NEW WORLD RESOURCES	XS0504814509	EUR	550	395,722	295,243	2.48%
Latvian issuers:				800,978	33,303	0.28%
CAPITAL DEPARTMENT STORE	LV0000800761	EUR	429,100	238,735	-	0.00%
PAREX BANKA	LV0000800696	EUR	8,000	562,243	33,303	0.28%
Financial instruments not traded on regulated markets				245,982	248,469	2.09%
Estonian issuers:				245,982	248,469	2.09%
Q VARA	EE3300079987	EUR	15	1	-	0.00%
Creditstar Group	EE3300110436	EUR	350	245,981	248,469	2.09%
Total debt securities and other fixed income securities				12,370,051	11,251,508	94.54%

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5. Shares

All equity shares and other non-fixed income securities are classified as held-for-trading securities. At the end of the reporting year, there were no equity shares in the portfolio of the Fund.

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.

	31.12.2013.			31.12.2012.			% of Fund's net assets as at 31.12.2013.
	Notional amount	Fair value		Notional amount	Fair value		
		Assets	Liabilities		Assets	Liabilities	
Foreign exchange transactions							
Currency swap instruments	8,606,171	185,149	(12,231)	6,420,931	102,062	(23,750)	1.45%
Forward foreign exchange instruments	297,505	3,821	(244)	89,744	-	(631)	0.03%
Total derivatives	8,903,676	188,970	(12,475)	6,510,675	102,062	(24,381)	1.48%

All contracts are concluded with "Citadele banka" JSC.

7. Accrued liabilities

	31.12.2013.	31.12.2012.
Accrued commission fees payable to investment management company	(14,023)	(11,449)
Accrued commission fees payable to custodian bank	(1,663)	(1,336)
Accrued fees payable for professional services	(2,126)	(1,815)
Total accrued liabilities	(17,812)	(14,600)

8. Interest income

	2013	2012
Interest income from debt securities and other fixed income securities	7,336	1,033,728
Interest income from demand deposits with credit institutions	1,031,250	9,724
Total interest income	1,038,586	1,043,452

9. Realized (decrease) in investment value

	2013	2012
Income from sale of investments	8,992,559	8,031,168
Amortized acquisition value of investments sold in the reporting period	(9,136,059)	(8,629,978)
Increase/ (decrease) in value of investments sold, recognised in the prior reporting periods	56,643	592,790
Total realised (decrease) in investment value	(86,857)	(6,020)

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10. Unrealized increase / (decrease) in investment value

	2013	2012
Interest income from debt securities and other fixed income securities	(409,668)	378,680
Total unrealised increase/ (decrease) in investment value	(409,668)	378,680

11. Change in investments during the reporting period

	31.12.2012.	Increase during the reporting period	Decrease during the reporting period	Foreign exchange revaluation result	Fair value revaluation result	31.12.2013.
Financial assets held for trading						
Debt securities and other fixed income securities	9,073,837	11,753,084	(9,820,639)	(289,500)	534,726	11,251,508
Derivatives, net	77,681	-	-	98,814	-	176,495
Total investments	9,151,518	11,753,084	(9,820,639)	(190,686)	534,726	11,428,003

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 2013:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
Assets			
Demand deposits with credit institutions	491,352	-	491,352
Financial assets held for trading			
Debt securities and other fixed income securities	11,251,508	9,725,441	1,526,067
Derivatives	188,970		188,970
Total assets	11,931,830	9,725,441	2,206,389
Liabilities			
Financial liabilities held for trading			
Derivatives	(12,475)		(12,475)
Accrued liabilities	(17,812)		(17,812)
Total liabilities	(30,287)	-	(30,287)
Net assets	11,901,543	9,725,441	2,176,102

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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 2012:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
Assets			
Demand deposits with credit institutions	902,796	-	902,796
Financial assets held for trading			
Debt securities and other fixed income securities	9,073,837	8,833,470	240,367
Derivatives	102,062	-	102,062
Total assets	10,078,695	8,833,470	1,245,225
Liabilities			
Financial liabilities held for trading			
Derivatives	(24,381)	-	(24,381)
Accrued liabilities	(14,600)	-	(14,600)
Total liabilities	(38,981)	-	(38,981)
Net assets	10,039,714	8,833,470	1,206,244

Financial instruments at fair value

Table below analyses financial instruments at fair value as at the end of the reporting period by levels in the fair value hierarchy according to which the fair value assessment has been categorized.

	Level 1:	Level 2:	Level 3:	Total
2013				
Financial assets				
Financial instruments held for trading	10,698,932	188,970	552,576	11,440,478
	10,698,932	188,970	552,576	11,251,508
Financial liabilities				
Financial instruments at fair value through profit or loss	-	(12,475)	-	(12,475)
	10,698,932	176,495	552,576	11,428,003
2012				
Financial assets				
Financial instruments held for trading	8,833,470	102,062	240,367	9,175,899
	8,833,470	102,062	240,367	9,175,899
Financial liabilities				
Financial instruments at fair value through profit or loss	-	(24,381)	-	-
	8,833,470	77,681	240,367	9,151,518

The table below shows comparison of opening and closing balances of Level 3 fair value assessment in the hierarchy.

LVL	Financial instruments held for trading	Total
Balance as at 1 January 2013	240,367	240,367
Total profit or loss		
through profit and loss	22,937	22,937
Purchases	519,272	519,272
Payments	(230,000)	(230,000)
Reclassification to Level 3		
Reclassification from Level 3		
Balance as at 31 December 2013	552,576	552,576

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

The table below shows valuation methods applied to assess fair value of Level 2 and Level 3, as well as the most significant unobservable data:

Type	Valuation methodology	Significant unobservable data	Relation between significant unobservable data and fair value assessment
Financial instruments held for trading (debt securities and other securities with fixed income) - Level 2	Discounted cash flow method	Not applicable	Not applicable
Financial instruments held for trading (debt securities and other securities with fixed income) - Level 3	Discounted cash flow method	Discount rate: 5% Discount rate: 8.4%-14% Recoverability: 4%	Estimated fair value would increase (decrease), if: - Discount rate would be lower (higher); - Recoverability would be lower (lower);

If at the end of the reporting period any of the significant unobservable input data used in valuation of fair value of financial instruments held for trading would change but other input data would not change, these changes would have the following impact:

31 December 2013	Impact on profit or loss	
	Increase	(Decrease)
Discount rate (1% change)	192	(189)
Discount rate (2% change)	12,479	(11,946)
Recoverability (0.2% change)	67	(67)

14. Risk management

Investment process risk can be defined as probability of undesirable result occurrence that might materialize in the certain market economy in the certain time period. Risk management is characterized as risk identification, measurement and its possible assessment. Investment process may be impacted by currency exchange rate risk, interest rate risk, price change risk, as well as as a result of liquidity and other – including operational risks. 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. Fund Manager 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 to reduce investment risks developed in line with the management policy. When investing on behalf of the Fund, the Fund Manager acquires sufficient information on potential or current investment objects, as well as supervises financial and economic position of issuers of the securities in which the Fund's property has been or is to be invested.

The Company, when developing the strategy of the Fund and stating limits, performs the analysis of the Fund's investments by maturity, geographic placement, currency profile and assesses the risks inherent to each of the above factors. The Fund Manager acts in strict compliance with the Prospectus of the Fund, 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 (equity price risk), exchange rates (currency risk), interest rates (interest rate risk) etc. Evaluated below are the sources of market risk, however they cannot be eliminated completely.

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14. Risk management (continued)

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 2013, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
LVL	100	-	-	-
USD	100	-	(272,000)	(272,000)
EUR	100	-	(70,961)	(70,961)
RUR	100	-	(2,279)	2,279
Total		-	(345,241)	(345,241)

Changes in fixed income securities' prices and interest income (year 2013,% of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
LVL	100	0.00%	0.00%	0.00%
USD	100	0.00%	-2.30%	-2.30%
EUR	100	0.00%	-0.60%	-0.60%
RUR	100	0.00%	-0.02%	-0.02%
Total		0.00%	-2.92%	-2.92%

Changes in fixed income securities' prices and interest income (year 2013, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
LVL	-100	-	-	-
USD	-100	-	(272,000)	(272,000)
EUR	-100	-	(70,961)	(70,961)
RUR	-100	-	(2,279)	2,279
Total		-	(345,241)	(345,241)

Changes in fixed income securities' prices and interest income (year 2013,% of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
LVL	-50	0.00%	0.00%	0.00%
USD	-100	0.00%	-2.30%	-2.30%
EUR	-100	0.00%	-0.60%	-0.60%
RUB	-100	0.00%	-0.02%	-0.02%
Total		0.00%	-2.92%	-2.92%

Changes in fixed income securities' prices and interest income (year 2012, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
LVL	50	-	-	-
USD	100	-	(115,125)	(115,125)
EUR	100	-	(75,997)	(75,997)
RUR	100	-	(15,901)	(15,901)
Total		-	(207,022)	(207,022)

Changes in fixed income securities' prices and interest income (year 2013,% of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
LVL	50	0.00%	0.00%	0.00%
USD	100	0.00%	-1.15%	-1.15%
EUR	100	0.00%	-0.76%	-0.76%
RUR	100	0.00%	-0.16%	-0.16%
Total		0.00%	-2.07%	-2.07%

Changes in fixed income securities' prices and interest income (year 2012, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
LVL	-50	-	-	-
USD	-100	-	(115,125)	(115,125)
EUR	-100	-	(75,997)	(75,997)
RUR	-100	-	(15,901)	(15,901)
Total		-	(207,022)	(207,022)

Changes in fixed income securities' prices and interest income (year 2012,% of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
LVL	-50	0.00%	0.74%	0.74%
USD	-100	0.00%	1.15%	1.15%
EUR	-100	0.00%	0.76%	0.76%
RUB	-100	0.00%	0.16%	0.16%
Total		0.00%	2.07%	2.07%

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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 indices of a respective country (for instance, RIGSE Latvian companies stock index) and the financial position of issuer (prospects of earnings profit). 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. Therefore it is 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.

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2013:

	LVL	USD	EUR	RUB	Total
Assets					
Demand deposits with credit institutions	-	14,825	476,527	-	491,352
Financial assets held for trading					
Debt securities and other fixed income securities	-	8,572,409	2,279,994	399,105	11,251,508
Derivatives	-	(6,287,290)	6,476,260	-	188,970
Total assets	-	2,299,944	9,232,781	399,105	11,931,830
Liabilities					
Financial liabilities held for trading					
Derivatives	-	(2,439,891)	2,427,416	-	(12,475)
Accrued liabilities	(2,126)	-	(15,686)	-	(17,812)
Total liabilities	(2,126)	(2,439,891)	2,411,730	-	(30,287)
Net assets	(2,126)	(139,947)	11,644,511	399,105	11,901,543
<i>Net long/(short) position</i>	<i>-0.02%</i>	<i>-1.18%</i>	<i>97.85%</i>	<i>3.35%</i>	<i>100%</i>

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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 2012:

	USD	EUR	RUB	Total
Assets				
Demand deposits with credit institutions	12,446	890,350	-	902,796
Financial assets held for trading				
Debt securities and other fixed income securities	5,799,576	2,426,257	848,004	9,073,837
Derivatives	(2,791,437)	2,893,499	-	102,062
Total assets	3,020,585	6,210,106	848,004	10,078,695
Liabilities				
Financial liabilities held for trading				
Derivatives	(3,311,361)	3,617,177	(330,197)	(24,381)
Accrued liabilities	(1,815)	(12,785)	-	(14,600)
Total liabilities	(3,313,176)	3,604,392	(330,197)	(38,981)
Net assets	(292,591)	9,814,498	517,807	10,039,714
<i>Net long/(short) position</i>	<i>(2.92%)</i>	<i>97.76%</i>	<i>5.16%</i>	<i>100%</i>

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.

Effect of the currency exchange rate changes (2013)			
Currency	Density in Fund (% of net assets)	Exchange rate against EUR	Effect on Fund value
USD	-1.72%	7.38%	-0.13%
EUR	98.34%	0.00%	0.00%
RUR	3.38%	7.85%	0.27%
Kopā	100.00%		0.14%

Effect of the currency exchange rate changes (2012)			
Currency	Density in Fund (% of net assets)	Exchange rate against EUR	Effect on Fund value
LVL	(0.02)%	1.24%	0.00%
USD	(2.90)%	8.27%	(0.24)%
EUR	97.76%	0.00%	0.00%
RUR	5.16%	8.20%	0.42%
Kopā	100.00%		0.18%

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.

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14. Risk management (continued)

The table below shows the issuers of securities and credit institutions in which the Fund has deposits by credit ratings according to the following specification:

- 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).

The table below shows the Fund's assets by credit ratings as at 31 December 2013:

	Investments category financial instruments	High return financial instruments	Speculative financial instruments	Not rated	Total
Demand deposits with credit institutions	-	-	491,352	-	491,352
Financial assets held for trading					
Debt securities and other fixed income securities	2,525,618	3,911,526	4,532,592	281,772	11,251,508
Derivatives	-	176,495	-	-	176,495
Total investments	2,525,618	4,088,021	5,023,944	281,772	11,919,355

The table below shows the Fund's assets by credit ratings as at 31 December 2012:

	Investments category financial instruments	High return financial instruments	Speculative financial instruments	Not rated	Total
Demand deposits with credit institutions	-	902,796	-	-	902,796
Financial assets held for trading					
Debt securities and other fixed income securities	2,478,024	2,585,867	3,769,579	240,367	9,073,837
Shares					
Derivatives	-	77,681	-	-	77,681
Total investments	2,478,024	3,566,344	3,769,579	240,367	10,054,314

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14. Risk management (continued)

Risk concentration

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 2013:

	Latvia	OECD region countries	Other non-OECD region countries	Total
Assets				
Demand deposits with credit institutions	491,352	-	-	491,352
Financial assets held for trading				
Debt securities and other fixed income securities	33,303	1,989,953	9,228,252	11,251,508
Derivatives	188,970	-	-	188,970
Total assets	713,625	1,989,953	9,228,252	11,931,830
Liabilities				
Derivatives	(12,475)	-	-	(12,475)
Accrued liabilities	(17,812)	-	-	(17,812)
Total liabilities	(30,287)	-	-	(30,287)
Net assets	683,338	1,989,953	9,228,252	11,901,543

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2012:

	Latvia	OECD region countries	Other non-OECD region countries	Total
Assets				
Demand deposits with credit institutions	902,796	-	-	902,796
Financial assets held for trading				
Debt securities and other fixed income securities	27,769	1,877,020	7,169,048	9,073,837
Shares	-	-	-	-
Derivatives	102,062	-	-	102,062
Total assets	1,032,627	1,877,020	7,169,048	10,078,695
Liabilities				
Derivatives	(24,381)	-	-	(24,381)
Accrued liabilities	(14,600)	-	-	(14,600)
Total liabilities	(38,981)	-	-	(38,981)
Net assets	993,646	1,877,020	7,169,048	10,039,714

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14. Risk management (continued)

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2013:

Country	Carrying amount as at 31.12.2013	Carrying amount as at 31.12.2012	% of Fund's net assets as at 31.12.2013.
Russia	4,852,086	3,449,081	40.77%
Kazakhstan	1,615,867	1,249,131	13.58%
Slovenia	1,018,544	362,163	8.56%
Ukraine	1,000,902	938,589	8.41%
Latvia	683,338	993,646	5.74%
Azerbaijan	657,378	417,326	5.52%
Hungary	427,697	-	3.59%
Georgia	417,584	364,742	3.51%
Bulgaria	387,529	-	3.26%
Croatia	296,906	297,363	2.49%
Czech Republic	295,243	294,997	2.48%
Estonia	248,469	212,598	2.09%
Turkey	-	541,858	0.00%
Poland	-	465,404	0.00%
Romania	-	452,816	0.00%
Total	11,901,543	10,039,714	100%

The table below shows the Fund's securities portfolio by industry profile as at 31 December 2013:

Sector	Carrying amount as at 31.12.2013	Carrying amount as at 31.12.2012	% of Fund's net assets as at 31.12.2013.
Commercial banks	3,507,823	3,909,807	29.36%
Energy resources	2,484,496	1,047,840	20.98%
Raw materials	1,588,754	1,147,038	13.36%
Government	1,059,203	1,128,126	8.90%
Financial services	811,270	212,598	6.82%
Telecommunication services	753,514	-	6.33%
Logistics	386,575	664,139	3.25%
Consumer goods	362,967	470,584	3.05%
Public utilities	296,906	297,363	2.49%
Consumer services	-	196,342	0.00%
Total	11,251,508	9,073,837	94.54%

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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.

Table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2013:

	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	491,352	-	-	-	-	-	491,352
Financial assets held for trading							
Debt securities and other fixed income securities	-	957,649	-	376,084	6,804,615	3,113,160	11,251,508
Derivatives	-	139,452	42,039	7,479	-	-	188,970
Total assets	491,352	1,097,101	42,039	383,563	6,804,615	3,113,160	11,931,830
Liabilities							
Financial liabilities held for trading							
Derivatives	-	-	-	(12,475)	-	-	(12,475)
Accrued liabilities	(15,686)	(2,126)	-	-	-	-	(17,812)
Total liabilities	(15,686)	(2,126)	-	(12,475)	-	-	(30,287)
Net assets	475,666	1,094,975	42,039	371,088	6,804,615	3,113,160	11,901,543
<i>Net position as % of net assets</i>	4.00%	9.20%	0.35%	3.12%	57.17%	26.16%	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 2012:

	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	902,796	-	-	-	-	-	902,796
Financial assets held for trading							
Debt securities and other fixed income securities	-	-	492,580	495,662	5,159,548	2,926,047	9,073,837
Shares			-				
Derivatives		102,062	-				102,062
Total assets	902,796	102,062	492,580	495,662	5,159,548	2,926,047	10,078,695
Liabilities							
Financial liabilities held for trading							
Derivatives	-	(10,487)	(13,894)	-	-	-	(24,381)
Accrued liabilities	(12,785)	(1,815)	-	-	-	-	(14,600)
Total liabilities	(12,785)	(12,302)	(13,894)	-	-	-	(38,981)
Net assets	890,011	89,760	478,686	495,662	5,159,548	2,926,047	10,039,714
<i>Net position as % of net assets</i>	8.86%	0.89%	4.77%	4.94%	51.40%	29.14%	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:

	31.12.2013.	31.12.2012.	% of total certificates as at 31.12.2013
Investment certificates held by related parties	153	153	0.02%
Investment certificates held by other persons	1,015,816	882,398	99.98%
Issued investment certificates as at the end of the reporting period	1,015,969	882,551	100.00%

16. Related party transactions

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 3). All derivative contracts are concluded with "Citadele banka" JSC (see note 6).

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 and during year 2012, the related parties of the Fund made transactions with the Fund's investment certificates. 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 2013 and 31 December 2012.

During the reporting year the Fund had not invested in bonds issued by the JSC Citadele banka.

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17. Dynamics of net asset value

	31.12.2013.	31.12.2012.	31.12.2011.
Net assets (LVL)	11,901,543	10,039,714	7,739,364
Number of investment certificates	1,015,969	882,551	786,323
Value of investment fund's shares (LVL)	11.71	11.38	9.84
Performance on investment fund's shares*	2.90%	15.60%	(12.53)%
Net assets (EUR)**	16,845,937	14,304,681	10,981,025
Number of investment certificates	1,015,969	882,551	786,323
Value of investment fund's shares (EUR)	16.58	16.21	13.97
Performance on investment fund's shares*	2.28%	15.99%	(12.14)%

* 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.

18. Subsequent events

On 1 January 2014 the Republic of Latvia joined eurozone and Latvian lat was replaced by euro. As a result, the Fund converted its financial accounting to euros as of 1 January 2014 and the financial statements for subsequent periods will be prepared and presented in euros. Future comparative information will be translated into euros using the official exchange rate of LVL 0.702804 to EUR 1.



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Independent Auditors' Report

To the shareholders of Open investment fund "Citadele Eastern European Fixed Income Funds" sub-fund "Citadele Eastern European Bond Fund - EUR"

Report on Financial Statements

We have audited the accompanying separate financial statements of Open investment fund "Citadele Eastern European Fixed Income Funds" sub-fund "Citadele Eastern European Bond Fund - EUR" ("the Fund"), which is managed by the asset management company "Citadele Asset Management" ("the Manager"), which comprise the separate statement of financial position as at 31 December 2013, the separate statements of comprehensive income, changes in net assets and cash flows for the year ended 31 December 2013, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 29.

Management's Responsibility for the Financial Statements

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

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Open investment fund "Citadele Eastern European Fixed Income Funds" sub-fund "Citadele Eastern European Bond Fund - EUR" as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matters

The corresponding prior period comparative information disclosed in these financial statements is based on the Fund's financial statements as at and for the year ended 31 December 2012 which were audited by another auditor who expressed an unmodified auditors' opinion on those financial statements on 26 April 2013.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Investment management company Report, as set out on page 4, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the Management Report is consistent with the financial statements.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp, KPMG Baltics SIA
Riga, Latvia
25 April 2014

Inga Lipšāne
Sworn Auditor
Certificate No 112

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