

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

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

HALF-YEAR REPORT 2014 (UNAUDITED)

(at June 30th, 2014)

**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, 2014

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Half-year report 2014
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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 – USD (Citadele Eastern European Bond Fund – until 16.09.2011.) (Parex Eastern European Bond 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 investment management company:	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 06.11.2012. Deputy Chairman of the Council – Vladimirs Ivanovs – appointed on 06.11.2012. Member of the Council – Philip Nigel Allard – appointed on 06.11.2012. Member of the Council – Philip Nigel Allard – resigned on 04.07.2014 Member of the Council – Aldis Paegle – appointed on 06.11.2012.</p> <p><i>Board of the investment management company:</i> Chairman of the Board – Uldis Upenieks – appointed on 06.11.2012. Member of the Board – Zigurds Vaikulis – appointed on 30.04.2013.</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.

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Information on the investment fund

Auditor:

KPMG Baltics SIA
Certified audit company licence No. 55
Veetas street 7
LV-1013, Riga

"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 taukums 2a, Riga, LV-1010 and registration NO.40003577500. The Company holds a license No. 06.03.07.098/285 for investment operations, last re-registered on 5 August 2010.

The Fund aims to achieve longterm 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. There were no changes to the Fund's policy during the reporting period.

During the reporting period the total assets of the Fund decreased by 12.67% and at the end of the half-year amounted to EUR 14,826,218. During the reporting period the Fund's net assets decreased by 12.82% and amounted to EUR 14,764,073 at the end of the half-year. The decline in the net asset value was due to outflow of the managed assets that was partially compensated by the profit earned on investments. During the half-year the value of the Fund's share increased by EUR 0.45 (EUR 0.50 given the foreign exchange rates fixed by the financial markets at the end of the day) amounting to EUR 17.12 (EUR 17.08) at the end of the half-year. The profitability of the Fund in the reporting period was 2.70% (5.52% per annum) in the functional currency (3.02% and 6.17% respectively, given the foreign exchange rates fixed by the financial markets at the end of the day).

The largest positive contribution to the Fund's performance in the first half of 2014 was provided by the largest countries of the investments - Russia and Kazakhstan, as well as by Croatia and Slovenia. At the same time the largest negative performance was demonstrated by investments in Czech and Ukrainian debt securities markets. At the beginning of the period the Fund's performance was still affected by Czech New World Resources eurobonds, given the growing concerns about the company's ability to serve its debt the Fund disposed of these securities in the reporting period. At the same time negative performance of Ukrainian debt securities market was due to military action in the Eastern part of the country significantly affecting activities of particular issuers and economic indicators of the country in general.

In the reporting period the most significant changes in the Fund's structures were due to disposal of all investments in Slovenian debt securities market as their values in Management Company's view reached adequate levels to realize profit. At the end of the reporting period the Fund no longer comprises investments in Czech debt securities market. At the same time the proportion of the Fund in Bulgaria was increased from 3.26% to 8.43% as attractive investment opportunities were identified there. As at the end of the reporting period the assets of the Fund were diversified among debt securities markets in 10 countries. At the end of the reporting period the average yield-to-maturity on debt securities was 6.0% with an average duration of 2.9, the weighted average of the credit ratings was Ba3. The share of the cash and cash equivalents at the end of reporting period comprised 8.76% from the Fund's net assets.

Management costs in the amount of EUR 145,495 or 1.77% 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.

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Investment management company report

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The team of managers at IPAS "Citadele Asset Management" closely monitors the developments both on the domestic and global scale, including 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.

Uldis Upenieks
Chairman of the Board

Andris Kotāns
Member of the investment committee

Edgars Lao
Member of the investment committee

Riga, 28 August 2014

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Statement of financial position
(EUR)

Note		<u>30.06.2014.</u>	<u>31.12.2013.</u>
	Assets		
1	Demand deposits with credit institutions	1,293,624	699,130
	Financial assets held for trading		
2	Debt securities and other fixed income securities	13,502,979	16,009,454
3	Derivatives	29,615	268,880
	Total assets	<u>14,826,218</u>	<u>16,977,464</u>
	Liabilities		
	Financial liabilities held for trading		
3	Derivatives	(38,859)	(17,750)
	Accrued liabilities	(23,286)	(25,344)
	Total liabilities	<u>(62,145)</u>	<u>(43,094)</u>
	Net assets	<u>14,764,073</u>	<u>16,934,370</u>

The accompanying notes set out on pages 10 to 12 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga, 28 August 2014

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Statement of comprehensive income
(EUR)

	01.01.2014.- 30.06.2014.	01.01.2013.- 30.06.2013.
Income		
Interest income	1,344,008	569,456
Total income	1,344,008	569,456
Expenses		
Investment management company fee	(126,043)	(131,172)
Custodian bank fee	(15,125)	(15,303)
Other fund management expenses	(2,269)	(3,517)
Total expenses	(143,437)	(149,992)
Increase in investment value		
Realised increase in investment value	(796,882)	22,763
Unrealised (decrease) / increase in investment value	103,115	(649,626)
Total (decrease) / increase in investment value	(693,767)	(626,863)
Foreign currency revaluation gain	(98,199)	(100,859)
Total comprehensive income	408,605	(308,258)

The accompanying notes set out on pages 10 to 12 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga, 28 August 2014

OIF "Citadele Eastern European Bond Fund - EUR"
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Statement of changes in net assets
(EUR)

	01.01.2014.- 30.06.2014.	01.01.2013.- 30.06.2013.
Net assets as at the beginning of the period	16,934,370	14,285,226
Total comprehensive income	408,605	(308,258)
Transactions with investment certificates:		
Inflow from sale of investment certificates	1,370,675	4,442,885
Outflow on redemption of investment certificates	(3,949,577)	(1,935,811)
(Decrease)/ increase in net assets from transactions with investment certificates	(2,578,902)	2,507,074
Decrease in net assets for the reporting period	(2,170,297)	2,198,816
Net assets as at the end of the reporting period	14,764,073	16,484,042
Issued investment certificates as at the beginning of the reporting period	1,015,969	882,551
Issued investment certificates as at the end of the reporting period	862,431	1,034,751
Net asset value per investment certificate as at the beginning of the reporting period	16.67	16.19
Net asset value per investment certificate as at the end of the reporting period	17.12	15.93

The accompanying notes set out on pages 10 to 12 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga, 28 August 2014

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Notes
(EUR)**1. Demand deposits with credit institutions**

	30.06.2014.	31.12.2013.	% no Fonda neto aktiviem 30.06.2014.
Demand deposits with credit institutions, JSC Citadele banka	1,293,624	699,130	8.76%
Total demand deposits with credit institutions	1,293,624	699,130	8.76%

The Fund receives interest on demand deposits at fixed rates.

2. Debt securities and other fixed income securities

All debt securities 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 EUR 737,497 (2013: EUR 353,540).

The table below presents debt securities by the issuer's country of residence as at 30 June 2014:

Financial instrument	ISIN	Currency	Amount	Acquisition value	Carrying amount as at 30.06.2013.	% of Fund's net assets as at 30.06.2013.
Financial instruments traded on regulated markets				13,961,503	12,765,482	86.47%
Russian issuers:				6,408,303	6,233,790	42.22%
CREDIT BANK OF MOSCOW	XS0879105558	USD	850	645,669	651,067	4.40%
POLYUS GOLD	XS0922301717	USD	800	617,125	587,448	3.98%
GAZPROM	XS0424860947	USD	650	649,505	583,951	3.96%
EDC	XS0918604496	USD	800	515,392	578,337	3.92%
SIBUR SECURITIES LTD RUSSIA	XS0878855773	USD	750	544,331	537,777	3.64%
XS0114288789		USD	900	565,284	532,272	3.61%
BORETS FINANCE LTD	XS0974469206	USD	650	466,266	486,419	3.29%
ALFA BANK	XS0620695204	USD	600	496,243	481,093	3.26%
RASPADSKAYA OJSC VIA RASPADSKAYA SECURITIES LTD	XS0772835285	USD	650	496,910	478,188	3.24%
SEVERSTAL	XS0841671000	USD	650	496,558	472,977	3.20%
RENAISSANCE CREDIT LLC	XS0938341780	USD	650	502,127	453,333	3.07%
VTB BANK	XS0772509484	USD	500	412,893	390,928	2.65%
Kazakhstan issuers:				1,698,804	1,740,938	11.80%
NOSTRUM OIL & GAS	USN64884AA29	USD	800	585,591	627,075	4.25%
KAZMUNAYGAS	XS0373641009	USD	650	599,746	594,717	4.03%
INTERGAS	USN45748AB15	USD	650	513,467	519,146	3.52%
Ukrainian issuers:				1,395,822	1,337,364	9.06%
AVANGARD	XS0553088708	USD	700	508,190	502,651	3.40%
METINVEST BV	XS0591549232	USD	700	471,914	463,183	3.14%
FIRST UKRAINIAN INTERNATIONAL BANK	XS0287015787	USD	550	415,718	371,530	2.52%

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(EUR)

Financial instrument	ISIN	Currency	Amount	Acquisition value	Carrying amount as at 30.06.2013.	% of Fund's net assets as at 30.06.2013.
Bulgarien issuers:				1,204,676	1,246,387	8.43%
BULGARIAN ENERGY HOLDING EAD	XS0989152573	EUR	650	651,155	667,610	4.51%
VIVACOM	XS0994993037	EUR	550	553,521	578,777	3.92%
Georgian issuers:				593,865	609,068	4.13%
BANK OF GEORGIA	XS0783935561	USD	750	593,865	609,068	4.13%
Azerbaijani issuers:				571,216	548,525	3.72%
AZERBAIJAN RAILWAYS	XS0592514144	USD	700	571,216	548,525	3.72%
Hungarian issuers:				499,157	527,224	3.57%
MOL	XS0834435702	USD	650	499,157	527,224	3.57%
Croatian issuers:				449,970	497,812	3.37%
ZAGREBACKI HOLDING	XS0309688918	EUR	10	449,970	497,812	3.37%
Latvian issuers:				1,139,690	24,374	0.17%
PAREX BANKA CAPITAL DEPARTMENT STORE SC	LV0000800696	EUR	8,000	800,001	24,374	0.17%
	LV0000800761	EUR	429,100	339,689	-	0.00%
<u>Financial instruments not traded on regulated markets</u>				<u>734,177</u>	<u>737,497</u>	<u>4.99%</u>
Azerbaijani issuers:				384,175	383,958	2.60%
MUGAN BANK	LV0000801157	USD	500	384,175	383,958	2.60%
Estonian issuers:				350,002	353,539	2.39%
CREDITSTAR GROUP	EE3300110436	EUR	350	350,000	353,539	2.39%
Q VARA	EE3300079987	EUR	15	2	-	0.00%
Total securities and other fixed income securities				14,695,680	13,502,979	91.46%

3. Derivatives

The following table presents the notional amounts and fair values of foreign exchange contracts. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

	30.06.2014.			31.12.2013.			% of Fund's net assets as at 30.06.2013.
	Notional amount	Fair value		Notional amount	Fair value		
		Assets	Liabilities		Assets	Liabilities	
Foreign exchange contracts:							
Swaps	7,831,124	21,591	(68,923)	6,420,931	102,062	(23,750)	(0.41)%
Forwards	138,979	-	(1,356)	89,744	-	(631)	(0.01)%

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(EUR)

Total foreign exchange contracts	12,019,652	29,615	(38,859)	12,668,790	268,880	(17,750)	(0.06)%
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All contracts are concluded with "Citadele banka" JSC

4. Dynamics of net asset value

	30.06.2014.	31.12.2013.	31.12.2012.	31.12.2011.
Net assets (EUR)	14,764,073	16,934,370	14,285,226	11,012,123
Number of investment certificates	862,431	1,015,969	882,551	786,323
Value of investment fund's shares (LVL)	17.12	16.67	16.19	14.00
Performance on investment fund's shares*	5.52%	2.96%	15.60%	(12.55)%
Net assets (EUR)**	14,734,096	16,845,937	14,304,681	10,981,025
Number of investment certificates	862,431	1,015,969	882,551	786,323
Value of investment fund's shares (USD)	17.08	16.58	16.21	13.97
Performance on investment fund's shares*	6.17%	2.28%	15.99%	(12.14)%

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

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