

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

Sub-fund
“Citadele Eastern European Bond Fund”

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010
(8th financial year)

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

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Table of contents

| | |
|---|----|
| Information on the investment fund | 3 |
| Investment management company report | 5 |
| Statement of responsibility of the Board of the investment management company | 7 |
| Custodian bank report | 8 |
| Financial statements: | |
| Statement of financial position | 10 |
| Statement of comprehensive income | 11 |
| Statement of changes in net assets | 12 |
| Statement of cash flows | 13 |
| Notes | 14 |
| Auditors’ report | 31 |

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

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

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

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|---|---|
| | <p>Member of the Board – Elena Coleman – resigned on 03.11.2010.</p> <p>Member of the Board – Edgars Makarovs – resigned on 31.12.2010.</p> <p>Member of the Board – Igors Petrovs - resigned on 31.12.2010.</p> |
| 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 (members of the investment committee) | <p>Andris Kotāns – appointed on 27.10.2008.</p> <p>Kristiāna Ķiete – appointed on 20.07.2009.</p> <p>Edgars Makarovs - resigned on 26.01.2011.</p> |
| 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: | <p>PricewaterhouseCoopers SIA</p> <p>Certified audit company licence No. 5</p> <p>Kr. Valdemāra street 19</p> <p>LV-1010, Riga</p> <p>Ilandra Lejiņa</p> <p>Certified auditor in charge</p> <p>Certificate No. 168</p> |

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

"Citadele Eastern European Bond Fund", the sub-fund of the open end investment fund "Citadele Eastern European Fixed Income Funds", is a debt securities investments fund, the functional currency is US dollar (USD).

The Fund is managed by the asset management company "Citadele Asset Management", registered office at Republikas laukums Street 2a, Riga, LV-1010, registration number 40003577500. The investment company is holding license No 06.03.07.098/285 that was last reregistered on 5 August 2010.

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

In 2010 dynamic development of the Fund was positively affected by global economic recovery and increasing investors' appetite for risk/reward assets. Firstly, as a result of a global economic growth, there was an increase in demand for main goods exported from Eastern European regions (for example oil and steel), that influenced price growth for these products and stimulated faster recovery of local economies. Secondly, relatively higher risk premiums for Eastern European capital markets insured investors' attention and investment inflow into this region. As a result, in 2010 the JP Morgan Russia Corporate Eurobond Index (RUBI CORP) increased by 14%, while Ukrainian's and Kazakhstan's Eurobond markets showed even more impressive results, they increased by 28% and 21% respectively in accordance with Trust investment banks indexes TDI Ukraine and TDI Kazakhstan.

The year 2010 was successful for "Citadele Eastern European Bond Fund" – value of one investment certificate increased by 29% in Latvian lats (18.2% in US dollars) and reached 9.25 LVL (17.32 USD). As a result of successful investments activity the Fund's total asset value in lats equivalent increased by 28% (17.2% in US dollars) and was 10,567,243 LVL (19,763,380 USD) at period end. At the same time the Fund's net asset value increased by 28% in lats equivalent (17.2% in USD) and amounted to 10,544,761 LVL (19,734,339 USD) at period end.

In accordance with IPAS "Citadele Asset Management" market forecasts, in the year 2010 the Fund gradually reduced the share of Russian corporative Eurobonds, which previously showed good dynamic performance, from 35% to 22% of the Fund's net assets. Available finance resources were invested in Eurobonds having an attractive risk/reward ratio which were issued by large companies of Central Europe (Croatia, Hungary, Poland) and other countries. In February 2010 pre-term bond redemption of Azerbaijan Technikabank bonds was done, as a result at the end of the year the Fund's assets were diversified between debt securities markets of 10 countries. Several banking sector bonds were redeemed in 2010 and available finances were evenly directed to transport and public utilities companies, as well as to debt securities of oil extraction and energy industry companies and as a result the share of banking sector in the Fund's net assets decreased to 38%. At the end of the reporting period the average return on debt securities portfolio prior to maturity was 7.6%. The share of cash equivalents at the end of the reporting period was 11% of the Fund's total net asset value.

In the reporting year, the management fee was paid from the Fund's assets in the amount of USD 306,649 or 1.69% of the average asset value for the period, which does not exceed the maximum expense limit fixed in the Prospectus, i.e. 3.00%.

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2010.

In the year 2011 debt securities markets outlooks are not so promising as in previous two years, because interest rates for main asset classes have already reached historically low levels, furthermore, its increase could have negative impact on valuation of debt securities. Political problems in some developing countries should be mentioned as additional risk factor. In the East European debt securities market the big role will be played by monetary policy in developed countries, the exchange rates and its influence on oil prices and investors' risk appetite. Looking at individual countries the Russian debt securities market is relatively more attractive, however, instrument selection irrespective of country and industrial sector, will be the key factor in the Fund's investment process.

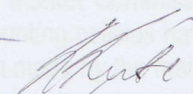
AIF "Citadele Eastern European Bond Fund"
Annual report for the year ended 31 December 2010
Investment management company report



Vladimirs Ivanovs
Chairman of the Board



Andris Kotāns
Member of the investment committee



Kristiāna Ķiete
Member of the investment committee

Riga, 28 April 2011



Vladimirs Ivanovs
Chairman of the Board

Riga, 28 April 2011

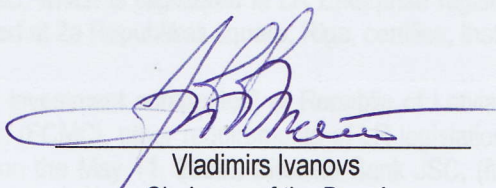
AIF "Citadele Eastern European Bond Fund"
Annual report for the year ended 31 December 2010
Statement of responsibility of the Board of the investment management company

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

The financial statements set out on pages 10 to 30 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2010 and 31 December 2009 and the results of its operations for the respective periods then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Accounts of Investment Funds, on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Board of the Company is responsible for the maintenance of proper accounting records, the safeguarding of the assets of Citadele Eastern European Bond Fund and the prevention and detection of fraud and other irregularities in the Fund. They are 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, and other laws and regulations of the Republic of Latvia


 Vladimirs Ivanovs
 Chairman of the Board

Riga, 28 April 2011

CUSTODIAN BANK REPORT

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

Nr. 2.2.4.-09_____

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

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

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

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

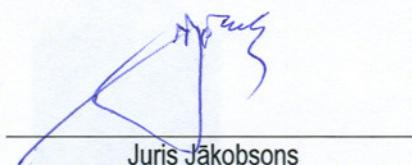
Issuing, sales and repurchasing of the investment certificates is performed according to the requirements of the law "On investment companies", fund prospect and Fund management regulations;

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

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

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

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

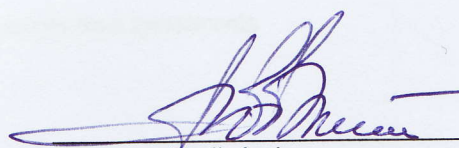


Juris Jakobsons
Chairman of the Board, p.p.

Riga, February 11, 2011

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

| Note | 31.12.2010. | 31.12.2009. |
|---|-------------------|------------------|
| Assets | | |
| 3 Demand deposits with credit institutions | 1,198,457 | 834,143 |
| Financial assets held for trading | | |
| 4 Debt securities and other fixed income securities | 9,329,945 | 7,415,657 |
| 5 Derivatives | 38,841 | - |
| Total assets | 10,567,243 | 8,249,800 |
| Liabilities | | |
| Financial liabilities held for trading | | |
| 5 Derivatives | (6,955) | (1,496) |
| 6 Accrued liabilities | (15,527) | (12,215) |
| Total liabilities | (22,482) | (13,711) |
| Net assets | 10,544,761 | 8,236,089 |

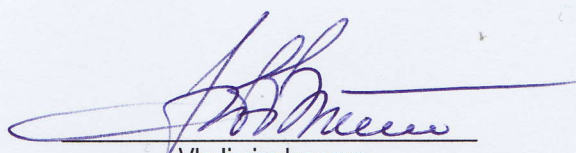

 Vladimirs Ivanovs
 Chairman of the Board

Riga, 28 April 2011

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

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

| Note | | 2010 | 2009 |
|------|--|------------------|------------------|
| | Income | | |
| 7 | Interest income | 430,688 | 1,594,659 |
| | Total income | 430,688 | 1,594,659 |
| | Expenses | | |
| | Investment management company fee | (145,319) | (135,677) |
| | Custodian bank fee | (16,954) | (16,155) |
| | Other fund management expenses | (2,433) | (1,497) |
| | Total expenses | (164,706) | (153,329) |
| | Increase in investment value | | |
| 8 | Realised increase in investment value | 1,160,468 | 2,112,368 |
| 9 | Unrealised increase in investment value | 102,253 | 1,059,390 |
| | Total increase in investment value | 1,262,721 | 3,171,758 |
| | Foreign currency revaluation gain / (loss) | 834,500 | (49,311) |
| | Increase in net assets from investments | 2,363,203 | 4,563,777 |


 Vladimirs Ivanovs
 Chairman of the Board

Riga, 28 April 2011

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

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

| | 2010 | 2009 |
|---|-------------------|------------------|
| Net assets as at the beginning of the period | 8,236,089 | 9,018,008 |
| Increase in net assets from investment activities | 2,363,203 | 4,563,777 |
| Transactions with investment certificates: | | |
| <i>Inflow from sale of investment certificates</i> | 2,081,252 | 3,897,548 |
| <i>Outflow on redemption of investment certificates</i> | (2,135,783) | (9,243,244) |
| Decrease in net assets from transactions with investment certificates | (54,531) | (5,345,696) |
| Increase / (decrease) in net assets for the reporting period | 2,308,672 | (781,919) |
| Net assets as at the end of the reporting period | 10,544,761 | 8,236,089 |
| Issued investment certificates as at the beginning of the reporting period | 1,149,367 | 2,085,608 |
| Issued investment certificates as at the end of the reporting period | 1,139,566 | 1,149,367 |
| Net asset value per investment certificate as at the beginning of the reporting period | 7.17 | 4.32 |
| Net asset value per investment certificate as at the end of the reporting period | 9.25 | 7.17 |

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

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

| | 2010 | 2009 |
|--|------------------|--------------------|
| Interest income | 756,800 | 986,471 |
| Investment management expenses | (160,904) | (156,605) |
| Acquisition of financial assets | (9,125,029) | (7,430,259) |
| Disposal of financial assets | 8,805,438 | 12,267,051 |
| Foreign currency conversion result | 58,392 | (197,290) |
| Increase in cash from operating activities | 334,697 | 5,469,368 |
| Inflow from sale of investment certificates | 2,081,252 | 3,897,548 |
| Outflow on redemption of investment certificates | (2,135,783) | (9,260,924) |
| Decrease in cash from financing activities | (54,531) | (5,363,376) |
| Increase in cash during the reporting period | 280,166 | 105,992 |
| Cash as at the beginning of the reporting period | 834,143 | 764,632 |
| Result of revaluation of cash denominated in foreign currencies | 84,148 | (36,481) |
| Cash as at the end of the reporting period | 1,198,457 | 834,143 |

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

AIF "Citadele Eastern European Bond Fund"
Annual report for the year ended 31 December 2010
Notes
(LVL)

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 debt securities issued or guaranteed by governments, municipalities, central banks and credit institutions of Eastern European countries, as well as debt securities of corporate entities, with the purpose to balance investment portfolio in terms of investments in different currencies and countries. |
| Name of the sub-fund: | Citadele Eastern European Bond Fund |
| Sub-fund's business activity: | The functional currency of the Sub-fund is USA dollar (USD). Investments in equity securities are not provided by the Prospectus. |
| Name of the investment management company: | IPAS "Citadele Asset Management", Republikas laukums 2a, Rīga, LV-1010, Latvia |

2. Summary of significant accounting policies

Basis of preparation

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

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

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

Critical accounting estimates and judgements

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

Income and expense recognition

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

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

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 US dollars 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, which is the presentation currency of the Fund.

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

2. Summary of significant accounting policies (continued)

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 of financial position of the Fund can be specified as follows:

| <u>Currency</u> | <u>31.12.2010.</u> | <u>31.12.2009.</u> |
|-----------------|--------------------|--------------------|
| USD | 0.53500 | 0.48900 |
| RUB | 0.01760 | 0.01640 |
| UAH | 0.06720 | 0.06100 |

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

Cash

Cash comprises Fund's demand deposits with credit institutions.

Financial instruments

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

Financial assets and liabilities at fair value through profit or loss

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

Investments in securities

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

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

Securities are revaluated on the basis of Bloomberg's and NASDAQ OMX Riga 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.

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

2. Summary of significant accounting policies (continued)

Derivatives

For currency risk management and profit generation 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 to 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% tax charge. For investment funds capital gain is a difference between selling price and purchase price of investment certificates. In accordance with transition norms of the law “On personal income tax”, in order to calculate income from sale of investment certificates purchased before endorsement of the law (before 01.01.2010) one has to apportion difference between selling and purchase value to the number of months investment held and multiply this by number of months investment held from 01.01.2010 until the settlement date. Changes in the law are applicable only to private persons being residents of the Republic of Latvia.

Adoption of new or revised standards and interpretations

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

| | |
|---|--|
| – revised in January 2008; | IAS 27, Consolidated and Separate Financial Statements, |
| – issued in March 2009; | Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, |
| – | Eligible Hedged Items—Amendment to IAS 39; |
| – Standards, revised in December 2008; | IFRS 1, First-time Adoption of International Financial Reporting |
| – to IFRS 1; | Additional Exemptions for First-time Adopters - Amendments |
| – Amendments to IFRS 2; | Group Cash-settled Share-based Payment Transactions - |
| – | IFRS 3, Business Combinations, revised in January 2008; |
| – Discontinued Operations (and consequential amendments to IFRS 1); | Amendment to IFRS 5, Non-current Assets Held for Sale and |
| – | IFRIC 12, Service Concession Arrangements; |
| – | IFRIC 15, Agreements for the Construction of Real Estate |
| – | IFRIC 16, Hedges of a Net Investment in a Foreign Operation; |

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

**Notes
(LVL)**

- -
 -
- issued in April 2009.*
- IFRIC 17, Distributions of Non-Cash Assets to Owners;
IFRIC 18, Transfers of Assets from Customers;
Improvements to International Financial Reporting Standards,*

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

2. Summary of significant accounting policies (continued)

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

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

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

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

AIF "Citadele Eastern European Bond Fund"
Annual report for the year ended 31 December 2010
Notes
(LVL)

3. Demand deposits with credit institutions

| | 31.12.2010. | 31.12.2009. | % of Fund's net assets as at 31.12.2010. |
|--|------------------|----------------|--|
| Demand deposits with credit institutions, JSC Citadele banka | 1,198,457 | 834,143 | 11.37% |
| Total demand deposits with credit institutions | 1,198,457 | 834,143 | 11.37% |

The Fund receives interest on demand deposits at fixed rates.

4. Debt securities and other fixed income securities

| | 31.12.2010. | 31.12.2009. | Annual yield to maturity as at 31.12.2010. | % of Fund's net assets as at 31.12.2010. |
|--|------------------|------------------|--|---|
| Corporate bonds: | 5,155,419 | 3,349,590 | 6.96% | 48.89% |
| <i>Other non-OECD region corporate bonds</i> | 4,563,636 | 3,122,786 | 6.86% | 43.28% |
| <i>OECD region corporate bonds</i> | 573,782 | - | 7.98% | 5.44% |
| <i>Latvian corporate bonds</i> | 18,001 | 226,804 | 0.00% | 0.17% |
| Credit institution bonds: | 3,981,896 | 4,066,067 | 8.50% | 37.76% |
| <i>Other non-OECD region credit institution bonds</i> | 3,595,749 | 3,769,913 | 8.52% | 34.10% |
| <i>Latvian credit institution bonds</i> | 386,147 | 296,154 | 8.32% | 3.66% |
| Government bonds | 192,630 | - | 5.34% | 1.83% |
| <i>Other non-OECD region government bonds</i> | 192,630 | - | 5.34% | 1.83% |
| Total debt securities and other fixed income securities | 9,329,945 | 7,415,657 | 7.58% | 88.48% |

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 1,066,929 LVL (2009: LVL 309,081).

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

| Financial instrument | Currency | Amount | Acquisition value | Carrying amount as at 31.12.2010. | % of Fund's net assets as at 31.12.2010. |
|--|----------|---------|----------------------|---|--|
| Financial instruments traded on regulated markets | | | 8,213,968 | 8,263,016 | 78.36% |
| Latvian issuers: | | | 577,058 | 404,148 | 3.83% |
| CITADELE BANKA (XS0253533318) | EUR | 535 | 337,507 | 386,147 | 3.66% |
| ACME CORPORATION (LV0000800787) | EUR | 100 | 10,542 | 11,131 | 0.11% |
| CAPITAL DEPARTMENT STORE (LV0000800761) | EUR | 325,850 | 229,009 | 6,870 | 0.07% |
| Russian issuers: | | | 2,158,499 | 2,022,188 | 19.18% |
| GAZPROM (XS0197695009) | USD | 1,200 | 429,500 | 406,285 | 3.85% |
| EVRAZ GROUP (RU000A0JQTD5) | RUB | 17,500 | 321,896 | 318,514 | 3.02% |
| ALLIANCE OIL (XS0493579238) | USD | 500 | 271,997 | 289,319 | 2.74% |
| VTB BANK (XS0365923977) | USD | 500 | 231,381 | 284,088 | 2.69% |
| NOVOROSSIYSK COMMERCIAL SEA PORT (XS0300986337) | USD | 500 | 202,079 | 277,762 | 2.63% |
| HOME CREDIT AND FINANCE BANK (RU000A0JQV12) | RUB | 15,000 | 276,167 | 272,628 | 2.59% |
| NIZHNEKAMSKNEFTEKHIM (XS0463418052) | USD | 3 | 130,127 | 173,574 | 1.65% |
| AMURMETALL (RU000A0GN9D1) | RUB | 10,000 | 193,286 | 18 | 0.00% |
| INCOM LADA (RU000A0JPAS5) | RUB | 29,990 | 102,066 | 0 | 0.00% |

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

Notes
(LVL)

| Financial instrument | Currency | Amount | Acquisition value | Carrying amount as at 31.12.2010. | % of Fund's net assets as at 31.12.2010. |
|--|----------|-----------|-------------------|-----------------------------------|--|
| Ukrainian issuers: | | | 1,695,113 | 1,802,614 | 17.09% |
| AZOVSTAL IRON & STEEL WORKS (XS0244470570) | USD | 650 | 308,110 | 358,214 | 3.40% |
| ALFA BANK UKRAINE (XS0441089926) | USD | 700 | 325,805 | 344,618 | 3.27% |
| FIRST UKRAINIAN INTERNATIONAL BANK (XS0287015787) | USD | 500 | 246,695 | 275,070 | 2.61% |
| UKREXIMBANK (XS0243733127) | USD | 500 | 269,217 | 269,446 | 2.56% |
| AVANGARD AGROHOLDING (XS0553088708) | USD | 400 | 199,822 | 203,194 | 1.93% |
| MEGABANK (UA4000026280) | UAH | 2,290 | 162,892 | 159,442 | 1.51% |
| UKRAINAS VALSTS VĒRTSPAPĪRI (XS0187564801) | USD | 250 | 129,643 | 137,261 | 1.30% |
| UKRAINAS VALSTS VĒRTSPAPĪRI (XS0543783194) | USD | 100 | 52,929 | 55,369 | 0.53% |
| Kazakhstan issuers: | | | 1,611,758 | 1,724,297 | 16.35% |
| BANK CENTERCREDIT (XS0243010443) | USD | 750 | 357,864 | 414,531 | 3.93% |
| ZHAIKMUNAI (USN97708AA49) | USD | 750 | 380,743 | 411,381 | 3.90% |
| HALYK SAVINGS BANK OF KAZAKHSTAN (XS0253878051) | USD | 600 | 313,122 | 339,094 | 3.22% |
| KAZAKHSTAN TEMIR ZHOLY (XS0253694755) | USD | 500 | 286,378 | 296,054 | 2.81% |
| KAZAKHGOLD GROUP (XS0273371632) | USD | 500 | 273,651 | 263,237 | 2.50% |
| Georgian issuers: | | | 636,347 | 717,228 | 6.80% |
| BANK OF GEORGIA (XS0283756624) | USD | 750 | 364,459 | 419,550 | 3.98% |
| GEORGIAN RAILWAY (XS0523947751) | USD | 500 | 271,888 | 297,678 | 2.82% |
| Croatia issuers: | | | 531,694 | 524,535 | 4.97% |
| ZAGREBACKI HOLDING (XS0309688918) | EUR | 10 | 316,241 | 296,520 | 2.81% |
| AGROKOR (XS0471612076) | EUR | 300 | 215,453 | 228,015 | 2.16% |
| Hungarian issuers: | | | 300,908 | 337,706 | 3.20% |
| MOL HUNGARIAN OIL&GAS (XS0503453275) | EUR | 500 | 300,908 | 337,706 | 3.20% |
| Estonian issuers: | | | 252,526 | 276,734 | 2.62% |
| EESTI ENERGIA (XS0235372140) | EUR | 400 | 252,526 | 276,734 | 2.62% |
| Polish issuers: | | | 249,162 | 236,076 | 2.24% |
| TVN (XS0466451548) | EUR | 300 | 249,162 | 236,076 | 2.24% |
| Belarusian issuers: | | | 200,903 | 217,490 | 2.06% |
| BELAGROPROMBANK (MOZAIC) (XS0553296210) | USD | 400 | 200,903 | 217,490 | 2.06% |
| Other financial instruments: | | | 854,173 | 1,066,929 | 10.12% |
| Kazakhstan issuers: | | | 420,724 | 461,130 | 4.37% |
| BTA BANK (XS0532988770) | USD | 673,399 | 395,880 | 408,947 | 3.88% |
| BTA BANK (XS0532990677) | USD | 67,611 | 24,844 | 27,131 | 0.26% |
| BTA BANK (XS0532995049) | USD | 616,540 | - | 25,052 | 0.24% |
| Ukrainian issuers: | | | 176,314 | 333,305 | 3.16% |
| GALNAFTOGAZ (XS0324996783) | USD | 450 | 176,314 | 333,305 | 3.16% |
| Russian issuers: | | | 257,135 | 272,494 | 2.58% |
| ALFA BANK RUSSIA (XS0544362972) | USD | 250 | 131,319 | 138,662 | 1.31% |
| SOVCOMFLOT (XS0552679879) | USD | 250 | 125,816 | 131,767 | 1.25% |
| RBC INFORMATION SYSTEMS (RU000A0JQVB5) | RUB | 9,559,052 | - | 2,065 | 0.02% |
| RBC INFORMATION SYSTEMS (RU000A0JQVD1) | RUB | 9,559,052 | - | - | 0.00% |
| Total securities and other fixed income securities: | | | 9,068,141 | 9,329,945 | 88.48% |

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

5. 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 stated on the basis of requirement arising from contracts.

| | 31.12.2010. | | | 31.12.2009. | | | % of Fund's net assets as at 31.12.2010. |
|---------------------------|--------------------|---------------|----------------|--------------------|------------|----------------|---|
| | Notional amount | Fair value | | Notional amount | Fair value | | |
| | | Assets | Liabilities | | Assets | Liabilities | |
| Currency swap instruments | 2,159,367 | 38,841 | (6,955) | 629,299 | - | (1,496) | 0.30% |
| Total derivatives | 2,159,367 | 38,841 | (6,955) | 629,299 | - | (1,496) | 0.30% |

All contracts are concluded with “Citadele banka” JSC.

6. Accrued liabilities

| | 31.12.2010. | 31.12.2009. |
|--|---------------|---------------|
| Accrued commission fees payable to investment management company | 12,968 | 10,075 |
| Accrued commission fees payable to custodian bank | 1,513 | 1,175 |
| Accrued fees payable for professional services | 1,046 | 965 |
| Total accrued liabilities | 15,527 | 12,215 |

7. Interest income

| | 2010 | 2009 |
|--|----------------|------------------|
| Interest income from debt securities and other fixed income securities | 402,449 | 1,558,666 |
| Interest income from demand deposits with credit institutions | 28,239 | 35,993 |
| Total interest income | 430,688 | 1,594,659 |

8. Realised increase in investment value

| | 2010 | 2009 |
|--|------------------|------------------|
| Income from sale of investments | 8,301,982 | 12,222,686 |
| Amortised acquisition value of investments sold | (8,314,875) | (13,776,106) |
| Decrease in value of investments sold, recognised in the prior reporting periods | 1,173,360 | 3,665,788 |
| Total realised increase in investment value | 1,160,468 | 2,112,368 |

9. Unrealised increase in investment value

| | 2010 | 2009 |
|--|----------------|------------------|
| From debt securities and other fixed income securities | 102,253 | 1,059,390 |
| Total unrealised increase in investment value | 102,253 | 1,059,390 |

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

10. Change in investments during the reporting year

| | 31.12.2009. | Increase during the reporting year | Decrease during the reporting year | Foreign currency revaluation result | Fair value revaluation result | 31.12.2010. |
|---|------------------|------------------------------------|------------------------------------|-------------------------------------|-------------------------------|------------------|
| Financial assets held for trading | | | | | | |
| Debt securities and other fixed income securities | 7,415,657 | 9,125,029 | (9,533,999) | 658,087 | 1,665,171 | 9,329,945 |
| Derivatives, net | (1,496) | - | - | 33,382 | - | 31,886 |
| Total investments | 7,414,161 | 9,125,029 | (9,533,999) | 691,469 | 1,665,171 | 9,361,831 |

11. 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.

12. Fair values of financial assets and liabilities

Management of the investment management company believes that the carrying amounts of financial assets and liabilities approximate to their fair values. The fair value is determined according to the market quotation method, based on available quotes of stock exchanges and brokers.

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

| | Carrying amount | Quoted market prices | Valuation technique - observable market inputs |
|---|-------------------|----------------------|--|
| Assets | | | |
| Demand deposits with credit institutions | 1,198,457 | - | 1,198,457 |
| Financial assets held for trading | | | |
| Debt securities and other fixed income securities | 9,329,945 | 8,228,055 | 1,101,890 |
| Derivatives | 38,841 | - | 38,841 |
| Total assets | 10,567,243 | 8,228,055 | 2,339,188 |
| Liabilities | | | |
| Financial liabilities held for trading | | | |
| Derivatives | (6,955) | - | (6,955) |
| Accrued liabilities | (15,527) | - | (15,527) |
| Total liabilities | (22,482) | - | (22,482) |
| Net assets | 10,544,761 | 8,228,055 | 2,316,706 |

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

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

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

| | Carrying amount | Quoted market prices | Valuation technique - observable market inputs |
|---|------------------|----------------------|--|
| Assets | | | |
| Demand deposits with credit institutions | 834,143 | - | 834,143 |
| Financial assets held for trading | | | |
| Debt securities and other fixed income securities | 7,415,657 | 6,971,058 | 444,599 |
| Total assets | 8,249,800 | 6,971,058 | 1,278,742 |
| Liabilities | | | |
| Financial liabilities held for trading | | | |
| Derivatives | (1,496) | - | (1,496) |
| Accrued liabilities | (12,215) | - | (12,215) |
| Total liabilities | (13,711) | - | (13,711) |
| Net assets | 8,236,089 | 6,971,058 | 1,265,031 |

13. Risk management

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

Risk management structure

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

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

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

Market risk

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

Interest rate risk

The price risk related to fixed income securities (bonds) is to a great extent dependent on fluctuations of market interest rates and changes in the issuer's credit quality. Market interest rate fluctuations affect the attractiveness of securities, as, in fact, it is an alternative source of interest income. With market interest rates growing, the prices of fixed income securities are dropping, and vice versa. Meanwhile, the increase (decrease) in market interest rates produces a positive (negative) effect on coupon rates of fixed income securities bearing interest at floating rates (when the coupon is fixed as a base rate, like Euribor or Libor, plus a

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

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.

AIF "Citadele Eastern European Bond Fund"
Annual report for the year ended 31 December 2010
Notes
(LVL)

13. Risk management (continued)

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

| Changes in fixed income securities' prices and interest income (year 2010, LVL) | | | | | Changes in fixed income securities' prices and interest income (year 2009, LVL) | | | | |
|---|---------------------------|----------------------------|-------------------------|-----------------------------------|---|---------------------------|----------------------------|-------------------------|-----------------------------------|
| Currency | Changes in base rates, bp | Changes in interest income | Changes in market value | Total effect of base rate changes | Currency | Changes in base rates, bp | Changes in interest income | Changes in market value | Total effect of base rate changes |
| RUB | 300 | - | - | - | RUB | 300 | - | (1,144) | (1,144) |
| USD | 50 | - | (104,206) | (104,206) | USD | 50 | - | (71,358) | (71,358) |
| EUR | 50 | - | (40,062) | (40,062) | EUR | 50 | - | (4,411) | (4,411) |
| UAH | 300 | - | (433) | (433) | | | | | |
| Total | | - | (144,701) | (144,701) | Total | | - | (76,913) | (76,913) |

| Changes in fixed income securities' prices and interest income (year 2010, % of assets) | | | | | Changes in fixed income securities' prices and interest income (year 2009, % of assets) | | | | |
|---|---------------------------|----------------------------|-------------------------|-----------------------------------|---|---------------------------|----------------------------|-------------------------|-----------------------------------|
| Currency | Changes in base rates, bp | Changes in interest income | Changes in market value | Total effect of base rate changes | 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% | RUB | 300 | 0.00% | -0.01% | -0.01% |
| USD | 50 | 0.00% | -1.00% | -1.00% | USD | 50 | 0.00% | -0.87% | -0.87% |
| EUR | 50 | 0.00% | -0.38% | -0.38% | EUR | 50 | 0.00% | -0.05% | -0.05% |
| UAH | 300 | 0.00% | 0.00% | 0.00% | | | | | |
| Total | | 0.00% | -1.38% | -1.38% | Total | | 0.00% | -0.93% | -0.93% |

| Changes in fixed income securities' prices and interest income (year 2010, LVL) | | | | | Changes in fixed income securities' prices and interest income (year 2009, LVL) | | | | |
|---|---------------------------|----------------------------|-------------------------|-----------------------------------|---|---------------------------|----------------------------|-------------------------|-----------------------------------|
| Currency | Changes in base rates, bp | Changes in interest income | Changes in market value | Total effect of base rate changes | Currency | Changes in base rates, bp | Changes in interest income | Changes in market value | Total effect of base rate changes |
| RUB | -300 | - | - | - | RUB | -300 | - | 1,144 | 1,144 |
| USD | -50 | - | 104,206 | 104,206 | USD | -50 | - | 71,358 | 71,358 |
| EUR | -50 | - | 40,062 | 40,062 | EUR | -50 | - | 4,411 | 4,411 |
| UAH | -300 | - | 433 | 433 | | | | | |
| Total | | - | 144,701 | 144,701 | Total | | - | 76,913 | 76,913 |

| Changes in fixed income securities' prices and interest income (year 2010, % of assets) | | | | | Changes in fixed income securities' prices and interest income (year 2009, % of assets) | | | | |
|---|---------------------------|----------------------------|-------------------------|-----------------------------------|---|---------------------------|----------------------------|-------------------------|-----------------------------------|
| Currency | Changes in base rates, bp | Changes in interest income | Changes in market value | Total effect of base rate changes | 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% | RUB | -300 | 0.00% | 0.01% | 0.01% |
| USD | -50 | 0.00% | 1.00% | 1.00% | USD | -50 | 0.00% | 0.87% | 0.87% |
| EUR | -50 | 0.00% | 0.38% | 0.38% | EUR | -50 | 0.00% | 0.05% | 0.05% |
| UAH | -300 | 0.00% | 0.00% | 0.00% | | | | | |
| Total | | 0.00% | 1.38% | 1.38% | Total | | 0.00% | 0.93% | 0.93% |

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

13. Risk management (continued)

Currency risk

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

Effect of the currency exchange rate changes on the Fund's value is represented in the table below. Changes in exchange rates are annualised standard deviation of a respective rate calculated on the basis of data for 2010 and 2009.

| Currency | Density in fund (% of net assets) | Exchange rate against USD | Effect on Fund value | Currency | Density in fund (% of net assets) | Exchange rate against USD | Effect on Fund value |
|--------------|--------------------------------------|------------------------------|-------------------------|--------------|--------------------------------------|------------------------------|-------------------------|
| RUB | 7.03% | 9.04% | 0.64% | RUB | 2.77% | 14.70% | 0.41% |
| USD | 53.76% | 0.00% | 0.00% | USD | 98.55% | 0.00% | 0.00% |
| EUR | 37.63% | 11.97% | 4.50% | EUR | -1.32% | 12.26% | -0.16% |
| UAH | 1.58% | 3.85% | 0.06% | Total | 100.00% | | 0.25% |
| Total | 100.00% | | 5.20% | | | | |

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

| | USD | EUR | RUB | UAH | Total |
|---|------------------|------------------|----------------|----------------|-------------------|
| Assets | | | | | |
| Demand deposits with credit institutions | 1,012,222 | 30,988 | 148,275 | 6,972 | 1,198,457 |
| Financial assets held for trading | | | | | |
| Debt securities and other fixed income securities | 6,798,079 | 1,779,200 | 593,224 | 159,442 | 9,329,945 |
| Derivatives | (1,418,606) | 1,457,447 | - | - | 38,841 |
| Total assets | 6,391,695 | 3,267,635 | 741,499 | 166,414 | 10,567,243 |
| Liabilities | | | | | |
| Financial liabilities held for trading | | | | | |
| Derivatives | (708,875) | 701,920 | - | - | (6,955) |
| Accrued liabilities | (14,481) | (1,046) | - | - | (15,527) |
| Total liabilities | (723,356) | 700,874 | - | - | (22,482) |
| Net assets | 5,668,339 | 3,968,509 | 741,499 | 166,414 | 10,544,761 |
| <i>Net long position</i> | 53.76% | 37.63% | 7.03% | 1.58% | 100.00% |

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

13. Risk management (continued)

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

| | USD | EUR | RUB | Total |
|---|------------------|------------------|----------------|------------------|
| Assets | | | | |
| Demand deposits with credit institutions | 834,143 | - | - | 834,143 |
| Financial assets held for trading | | | | |
| Debt securities and other fixed income securities | 6,664,945 | 522,958 | 227,754 | 7,415,657 |
| Total assets | 7,499,088 | 522,958 | 227,754 | 8,249,800 |
| Liabilities | | | | |
| Financial liabilities held for trading | | | | |
| Derivatives | 629,299 | (630,795) | - | (1,496) |
| Accrued liabilities | (11,250) | (965) | - | (12,215) |
| Total liabilities | 618,049 | (631,760) | - | (13,711) |
| Net assets | 8,117,137 | (108,802) | 227,754 | 8,236,089 |
| <i>Net long position</i> | 98.55% | (1.32)% | 2.77% | 100.00% |

Credit risk

Credit risk is a risk that the Fund's value will decrease from counterparty's or issuer's non-performance or default. Only safe and reliable counterparties are selected for transactions involving the Fund's assets. The Fund Manager monitors the solvency position of the counterparties on a regular basis, analyses their credit rating and financial position, as well as mass media information.

Credit quality of the Fund's assets is managed on the basis of the credit ratings granted by the international rating agencies Standard & Poor's, Moody's, and Fitch. In addition, a detailed analysis is performed on the issuer's financial statements, financial position and future prospects. The table below shows the issuers of securities and credit institutions in which the Fund has deposits by credit ratings.

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

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

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

13. Risk management (continued)

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

| | High quality financial instruments | Investments category financial instruments | High return financial instruments | Speculative financial instruments | Not rated | Total |
|---|--|---|---|---|----------------|-------------------|
| Assets | | | | | | |
| Demand deposits with credit institutions | - | - | 1,198,457 | - | - | 1,198,457 |
| Financial assets held for trading | | | | | | |
| Debt securities and other fixed income securities | - | 1,394,928 | 1,050,650 | 6,108,299 | 776,068 | 9,329,945 |
| Derivative financial instruments | - | - | - | 38,841 | - | 38,841 |
| Total assets | - | 1,394,928 | 2,249,107 | 6,147,140 | 776,068 | 10,567,243 |

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

| | High quality financial instruments | Investments category financial instruments | High return financial instruments | Speculative financial instruments | Not rated | Total |
|---|--|---|---|---|------------------|------------------|
| Assets | | | | | | |
| Demand deposits with credit institutions | - | - | - | 834,143 | - | 834,143 |
| Financial assets held for trading | | | | | | |
| Debt securities and other fixed income securities | - | 1,155,086 | 246,646 | 4,469,825 | 1,544,100 | 7,415,657 |
| Total assets | - | 1,155,086 | 246,646 | 5,303,968 | 1,544,100 | 8,249,800 |

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

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

| | Latvia | OECD region countries | Other non- OECD region countries | Total |
|---|-----------|-----------------------------|---|-----------|
| Assets | | | | |
| Demand deposits with credit institutions | 1,198,457 | - | - | 1,198,457 |
| Financial assets held for trading | | | | |
| Debt securities and other fixed income securities | 404,148 | 573,782 | 8,352,015 | 9,329,945 |
| Derivatives | 38,841 | - | - | 38,841 |

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

Notes
(LVL)

| | | | | |
|---|------------------|-----------------------------|---|-------------------|
| Total assets | 1,641,446 | 573,782 | 8,352,015 | 10,567,243 |
| 13. Risk management (continued) | | | | |
| Liabilities | Latvia | OECD region countries | Other non- OECD region countries | Total |
| Financial liabilities held for trading Derivatives | (6,955) | - | - | (6,955) |
| Accrued liabilities | (15,527) | - | - | (15,527) |
| Total liabilities | (22,482) | - | - | (22,482) |
| Net assets | 1,618,964 | 573,782 | 8,352,015 | 10,544,761 |

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

| | | | | |
|--|------------------|-----------------------------|---|------------------|
| | Latvia | OECD region countries | Other non- OECD region countries | Total |
| Assets | | | | |
| Demand deposits with credit institutions | 834,143 | - | - | 834,143 |
| Financial assets held for trading Debt securities and other fixed income securities | 522,958 | - | 6,892,699 | 7,415,657 |
| Total assets | 1,357,101 | - | 6,892,699 | 8,249,800 |
| Liabilities | | | | |
| Financial liabilities held for trading Derivatives | (1,496) | - | - | (1,496) |
| Accrued liabilities | (12,215) | - | - | (12,215) |
| Total liabilities | (13,711) | - | - | (13,711) |
| Net assets | 1,343,390 | - | 6,892,699 | 8,236,089 |

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

| Country | Carrying amount as at 31.12.2010. | Carrying amount as at 31.12.2009. | % of Fund's net assets as at 31.12.2010. |
|--------------|--------------------------------------|--------------------------------------|--|
| Russia | 2,294,682 | 2,911,791 | 21.76% |
| Kazakhstan | 2,185,427 | 1,444,474 | 20.73% |
| Ukraine | 2,135,919 | 1,815,744 | 20.26% |
| Latvia | 1,618,964 | 1,343,390 | 15.35% |
| Georgia | 717,228 | 363,266 | 6.80% |
| Croatia | 524,535 | - | 4.98% |
| Hungary | 337,706 | - | 3.20% |
| Estonia | 276,734 | - | 2.62% |
| Poland | 236,076 | - | 2.24% |
| Belorussia | 217,490 | - | 2.06% |
| Azerbaijan | - | 357,424 | 0.00% |
| Total | 10,544,761 | 8,236,089 | 100.00% |

AIF “Citadele Eastern European Bond Fund”
Annual report for the year ended 31 December 2010
Notes
(LVL)

13. Risk management (continued)

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

| Sector | Carrying amount as at 31.12.2010. | Carrying amount as at 31.12.2009. | % of Fund's net assets as at 31.12.2010. |
|--------------------------------------|--------------------------------------|--------------------------------------|---|
| Commercial banks | 3,981,896 | 4,066,067 | 37.76% |
| Energy resources | 1,444,691 | 1,244,411 | 13.70% |
| Raw materials | 1,113,557 | 1,112,729 | 10.56% |
| Logistics | 1,003,261 | 246,646 | 9.51% |
| Food, beverages, tobacco | 431,209 | - | 4.09% |
| Retail trade | 340,175 | 298,181 | 3.23% |
| Financial services | 296,520 | - | 2.81% |
| Public utilities | 276,734 | - | 2.62% |
| Mass media | 238,141 | 10,220 | 2.26% |
| Government | 192,630 | - | 1.83% |
| Real estate | 11,131 | 10,440 | 0.11% |
| Car and car spare parts production | - | 217,469 | 0.00% |
| Hard goods and clothes | - | 7,379 | 0.00% |
| Technical supply and its maintenance | - | 202,115 | 0.00% |
| Total: | 9,329,945 | 7,415,657 | 88.48% |

Liquidity risk

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

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

| | On demand | Within 1 month | 1 - 3 months | 3 – 6 months | 6 - 12 months | 1-5 years | More than 5 years | Total |
|---|------------------|----------------------|------------------|-----------------|------------------|------------------|-------------------------|-------------------|
| Assets | | | | | | | | |
| Demand deposits with credit institutions | 1,198,457 | - | - | - | - | - | - | 1,198,457 |
| Financial assets held for trading | | | | | | | | |
| Debt securities and other fixed income securities | - | 18 | 1,069,448 | 386,147 | 6,870 | 4,131,096 | 3,736,366 | 9,329,945 |
| Derivatives | - | - | 38,841 | - | - | - | - | 38,841 |
| Total assets | 1,198,457 | 18 | 1,108,289 | 386,147 | 6,870 | 4,131,096 | 3,736,366 | 10,567,243 |

AIF "Citadele Eastern European Bond Fund"
Annual report for the year ended 31 December 2010

Notes
(LVL)

13. Risk management (continued)

Liabilities

| | On demand | Within 1 month | 1 - 3 months | 3 – 6 months | 6 - 12 months | 1-5 years | More than 5 years | Total |
|--|------------------|-----------------|------------------|----------------|---------------|------------------|-------------------|-------------------|
| Financial liabilities held for trading | | | | | | | | |
| Derivatives | - | - | (6,955) | - | - | - | - | (6,955) |
| Accrued liabilities | - | (14,481) | (1,046) | - | - | - | - | (15,527) |
| Total liabilities | - | (14,481) | (8,001) | - | - | - | - | (22,482) |
| Net assets | 1,198,457 | (14,463) | 1,100,288 | 386,147 | 6,870 | 4,131,096 | 3,736,366 | 10,544,761 |
| <i>Net position %</i> | <i>11.37%</i> | <i>(0.14)%</i> | <i>10.43%</i> | <i>3.66%</i> | <i>0.07%</i> | <i>39.18%</i> | <i>35.43%</i> | <i>100.00%</i> |

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

| | On demand | Within 1 month | 1-3 months | 1-6 months | 6-12 months | 1-5 years | More than 5 years | Total |
|---|----------------|-----------------|------------------|----------------|----------------|------------------|-------------------|------------------|
| Assets | | | | | | | | |
| Demand deposits with credit institutions | 834,143 | - | - | - | - | - | - | 834,143 |
| Financial assets held for trading | | | | | | | | |
| Debt securities and other fixed income securities | - | 10,236 | 896,247 | 360,877 | 449,190 | 4,714,078 | 985,029 | 7,415,657 |
| Derivatives | - | - | 629,299 | - | - | - | - | 629,299 |
| Total assets | 834,143 | 10,236 | 1,525,546 | 360,877 | 449,190 | 4,714,078 | 985,029 | 8,879,099 |
| Liabilities | | | | | | | | |
| Financial liabilities held for trading | | | | | | | | |
| Derivatives | - | - | (630,795) | - | - | - | - | (630,795) |
| Accrued liabilities | - | (11,250) | (965) | - | - | - | - | (12,215) |
| Total liabilities | - | (11,250) | (631,760) | - | - | - | - | (643,010) |
| Net assets | 834,143 | (1,014) | 893,786 | 360,877 | 449,190 | 4,714,078 | 985,029 | 8,236,089 |
| <i>Net position %</i> | <i>10.13%</i> | <i>(0.01)%</i> | <i>10.85%</i> | <i>4.38%</i> | <i>5.45%</i> | <i>57.24%</i> | <i>11.96%</i> | <i>100.00%</i> |

AIF "Citadele Eastern European Bond Fund"
Annual report for the year ended 31 December 2010
Notes
(LVL)

14. Information on holders of investment certificates

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

| | 31.12.2010. | 31.12.2009. | % of total certificates as at 31.12.2010. |
|---|------------------|------------------|--|
| Investment certificates held by related parties | 1,859 | 4,784 | 0.16% |
| Investment certificates held by other persons | 1,137,707 | 1,144,583 | 99.84% |
| Investment certificates issued as at the end of the period | 1,139,566 | 1,149,367 | 100.00% |

15. Related party disclosures

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

The majority of the Fund's investments are acquired with the mediation of the custodian bank JSC Citadele banka. JSC Citadele banka receives remuneration as the custodian bank, as disclosed in the statement of comprehensive income. In addition, the Fund's cash resources (see also Note 3) are held and derivative contracts (see also Note 5) 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 6).

During the reporting year related parties acquired 1,564 investment certificates of the Fund (2009: 0) and did not sell back investment certificates of the Fund (2009: 6,895). The Fund's investment certificates purchase and sale back transactions are calculated taking into account only the investment certificates held by those related parties, who have been classified as the Fund's related parties both as of 31 December 2010 and 31 December 2009.

During the reporting year the Fund invested in bonds issued by the JSC Citadele banka. On 31 December 2010 the book value of these investments was 386,147 lats (31 December 2009 226,289).

16. Dynamics of net asset value

| | 31.12.2010. | 31.12.2009. | 31.12.2007. |
|--|-------------------|-------------------|-------------------|
| Net assets (LVL) | 10,544,761 | 8,236,089 | 9,018,007 |
| Number of investment certificates | 1,139,566 | 1,149,367 | 2,085,608 |
| Value of investment fund's shares (LVL) | 9.25 | 7.17 | 4.32 |
| Performance on investment fund's shares* | 29.01% | 65.97% | (32.89)% |
| Net assets (USD)** | 19,734,339 | 16,832,679 | 18,183,475 |
| Number of investment certificates | 1,139,566 | 1,149,367 | 2,085,608 |
| Value of investment fund's shares (USD) | 17.32 | 14.65 | 8.72 |
| Performance on investment fund's shares* | 18.23% | 68.00% | (36.18)% |

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

** The net asset value in USD 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

Report on the Financial Statements

We have audited the accompanying financial statements on pages 10 to 30 of AIF Citadele Eastern European Fixed Income Funds sub-fond Citadele Eastern European Bond Fund which comprise the statement of financial position as of 31 December 2010 and the statements of comprehensive income, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A handwritten signature in blue ink, appearing to read "Ilandra Lejiņa".

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
28 April 2011

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