

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

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

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011
(9th financial year)

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

Translation from Latvian original*

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

Riga, 2012

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

Name of fund:	Citadele Eastern European Fixed Income Funds ("Parex Eastern European Fixed Income Funds" - until 01.08.2010.)
Type of fund:	Open-end investment fund with sub-funds
Registration date of the fund:	20 July 2009
Number of the fund:	06.03.05.098/50
Name of the sub-fund:	Citadele Eastern European Bond Fund - 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, 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" JSC ("Parex banka" JSC – until 01.08.2010.)
Registered office of the custodian bank:	Republikas laukums 2a, 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:	<i>Council of the investment management company:</i> Chairman of the Council – Juris Jākobsons – appointed on 30.09.2010. Deputy Chairman of the Council – Philip Nigel Allard – appointed on 03.11.2010. Member of the Council – Anatolijs Fridmans – appointed on 01.04.2009. Member of the Council - James R.Breiding – resigned on 26.09.2011. <i>Board of the investment management company:</i> Chairman of the Board – Vladimirs Ivanovs – appointed on 20.10.2010. Member of the Board – Zigurds Vaikulis – appointed on 30.03.2007. Member of the Board – Raimonds Vesers – appointed on 01.01.2011.
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)	Andris Kotāns – appointed on 27.10.2008. Edgars Lao – appointed on 16.09.2011. Edgars Makarovs – resigned on 26.01.2011. Kristiāna Ķiete – resigned on 17.10.2011. Igors Daņilovs – appointed on 16.09.2011. Igors Daņilovs – resigned on 17.10.2011.

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

The related rights and obligations of the management of the fund

All the duties of the Fund managers stated in the legislation of the Republic of Latvia, Statutes of the investment management company and Fund prospectus are performed by the Fund managers.

Auditor:

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

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

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

The assets of the sub-fund "Citadele Eastern European Bond Fund – USD" (hereinafter– the Fund) of the open-end investment fund "Citadele Eastern European Fixed Income Funds" is the debt securities investment fund the functional currency of which is the US dollar. The assets of the fund are managed by the asset management company "Citadele Asset Management" having its registered office at Republikas laukums 2a, Riga, LV-1010 (hereinafter - the Company) and registration number 40003577500. The Company holds a licence No. 06.03.07.098/285 authorising it to render investment management services. The licence was last re-registered on 5 August 2010.

The Fund aims to achieve long-term capital appreciation by investing principally the debt securities issued or guaranteed by central and local governments, central banks, credit institutions and commercial companies of the Eastern European countries. The investment portfolio of the Fund is diversified to include investments in different currencies, industries and countries, thereby achieving a higher security of investments and providing protection against volatility of the Fund's asset value versus investments in single currency, industry or country securities. There were no changes to the Fund's policy during the reporting period. The name of the Fund was changed from "Citadele Eastern European Bond Fund" to "Citadele Eastern European Bond Fund – USD".

During the reporting period the Fund's net asset value increased by 2.47% to 10,828,697 lats. The Fund's net asset value increased by 2.5% in lats (by 0.7% in the US dollars) and amounted to 10,808,395 lats (USD 19,872,102) at the end of the year. The rise in the net asset value was due to increase in the managed resources and profits earned on investments. During the year the value of a Fund's share increased by 0.12 LVL up to 9.37 LVL (USD 17.23) at the end of the year. In 2011, the Fund's performance was 1.30% in lats, however, the performance in the US dollars declined to 0.52%. From an industry perspective, the best of the Fund's performers were the debt securities of raw material, energy and communication sector companies. Conversely, certain issuers in the Kazakhstan financial sector were the principal contributors to poor performance.

In 2011, in the light of market volatility and shifting sentiment of investors, a larger share of resources was invested in the debt securities issued by relatively more stable issuers. The share of the Russian debt securities market increased to 41.59% of the Fund's aggregate net asset value compared to 21.76% at the end of 2010. Conversely, the share of the Ukrainian market burdened by debt was reduced from 20.26% in 2010 to 14.88% at the end of 2011. During the reporting period the share of the Fund's net assets was reduced by 9.64 percentage points in the commercial bank sector which accounted for 28.12% at the end of 2011. In contrast, investments in government bonds were increased significantly and amounted to 9.25% of the Fund's net assets at the end of 2011. At the end of 2011 the Fund's assets were diversified among 13 countries and 10 industries, the average yield-to-maturity on debt securities were 10.07% with an average duration of 2.3.

During the reporting period fund management fee of 363,082 USD was paid from the Fund's resources representing 1.70% of the average net asset value and being within the limit of 3% set forth in the Prospectus.

During the period between the last day of the reporting year and the date of approving of the report there have been no significant events that might have a material effect on the financial position of the Fund.

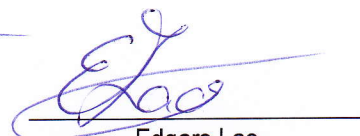
The team of managers at IPAS "Citadele Asset Management" closely monitors the developments both on the domestic and global scale, including sustainability of economic growth, monetary and fiscal policies of leading economies as well as potential inflationary and political risks in light of their material 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, irrespective of the industry or country.



Vladimirs Ivanovs
Chairman of the Board



Andris Kotāns
Member of the investment committee



Edgars Lao
Member of the investment committee

Riga, 27 April 2012

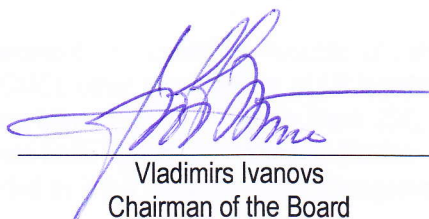
AIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2011
Statement of responsibility of the Board of the investment management company

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

The financial statements set out on pages 9 to 28 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2011 and 31 December 2010 and the results of its operations for the respective periods then ended.

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

The Board of the Company is responsible for the maintenance of proper accounting records, the safeguarding of the assets of Citadele Eastern European Bond Fund - USD 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, 27 April 2012

CUSTODIAN BANK REPORT

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

Nr. 2.2.4.-01/02

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

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

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

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

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

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

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

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

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

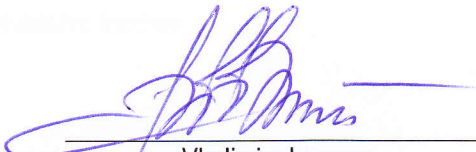


Juris Jākobsons
Chairman of the Board, p.p.

Riga, February 15, 2012

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

Note		31.12.2011.	31.12.2010.
	Assets		
3	Demand deposits with credit institutions	557,755	1,198,457
	Financial assets held for trading		
4	Debt securities and other fixed income securities	10,188,530	9,329,945
5	Derivatives	82,412	38,841
	Total assets	10,828,697	10,567,243
	Liabilities		
	Financial liabilities held for trading		
5	Derivatives	-	(6,955)
6	Accrued liabilities	(16,417)	(15,527)
	Other liabilities	(3,885)	-
	Total liabilities	(20,302)	(22,482)
	Net assets	10,808,395	10,544,761




 Vladimirs Ivanovs
 Chairman of the Board

Riga, 27 April 2012

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

Note		2011	2010
	Income		
7	Interest income	750,994	430,688
	Total income	750,994	430,688
	Expenses		
	Investment management company fee	(160,822)	(145,319)
	Custodian bank fee	(18,763)	(16,954)
	Other fund management expenses	(2,880)	(2,433)
	Total expenses	(182,465)	(164,706)
	(Decrease) / increase in investment value		
8	Realised increase in investment value	22,041	1,160,467
9	Unrealised (decrease) / increase in investment value	(655,654)	102,253
	Total (decrease) / increase in investment value	(633,613)	1,262,720
	Foreign currency revaluation gain	208,728	834,501
	Total comprehensive income	143,644	2,363,203



 Vladimirs Ivanovs
 Chairman of the Board

Riga, 27 April 2012

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

	2011	2010
Net assets as at the beginning of the period	10,544,761	8,236,089
Total comprehensive income	143,644	2,363,203
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	2,189,401	2,081,252
<i>Outflow on redemption of investment certificates</i>	(2,069,411)	(2,135,783)
Increase / (decrease) in net assets from transactions with investment certificates	119,990	(54,531)
Increase in net assets for the reporting period	263,634	2,308,672
Net assets as at the end of the reporting period	10,808,395	10,544,761
Issued investment certificates as at the beginning of the reporting period	1,139,566	1,149,367
Issued investment certificates as at the end of the reporting period	1,153,191	1,139,566
Net asset value per investment certificate as at the beginning of the reporting period	9.25	7.17
Net asset value per investment certificate as at the end of the reporting period	9.37	9.25

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

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

	2011	2010
Interest income	821,139	756,800
Investment management expenses	(182,495)	(160,904)
Acquisition of financial assets	(13,206,247)	(9,125,029)
Disposal of financial assets	11,843,318	8,805,438
Foreign currency conversion result	(26,594)	58,392
(Decrease) / increase in cash from operating activities	(750,879)	334,697
Inflow from sale of investment certificates	2,193,286	2,081,252
Outflow on redemption of investment certificates	(2,069,411)	(2,135,783)
Increase / (decrease) in cash from financing activities	123,875	(54,531)
(Decrease) / increase in cash during the reporting period	(627,004)	280,166
Cash as at the beginning of the reporting period	1,198,457	834,143
Result of revaluation of cash denominated in foreign currencies	(13,698)	84,148
Cash as at the end of the reporting period	557,755	1,198,457

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

AIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2011
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 - USD
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 - USD have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (hereinafter - FCMC) on Annual Accounts of Investment Funds.

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

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2011 to 31 December 2011.

Critical accounting estimates and judgements

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

Income and expense recognition

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

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

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 - USD"
Annual report for the year ended 31 December 2011
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>31.12.2011.</u>	<u>31.12.2010.</u>
USD	0.5440	0.5350
RUB	0.0170	0.0176
UAH	0.0677	0.0672

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

Cash

Cash comprises Fund's demand deposits with credit institutions.

Financial instruments

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

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 amortised cost, using effective interest rate less provisions for impairment, if applicable.

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

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 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 - USD"
Annual report for the year ended 31 December 2011
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

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

Amendment to IAS 24, Related Party Disclosures.
 Amendment to IAS 32 - Classification of Rights Issues
 Amendment to IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first-time adopters -
 Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement
 IFRIC 19, Extinguishing financial liabilities with equity instruments
 Annual Improvements to IFRS

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

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011),
 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).
 Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).
 Employee benefits – Amendment to IAS 19 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).

AIF "Citadele Eastern European Bond Fund - USD"
Annual report for the year ended 31 December 2011
Notes
(LVL)

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

3. Demand deposits with credit institutions

	31.12.2011.	31.12.2010.	% of Fund's net assets as at 31.12.2011.
Demand deposits with credit institutions, JSC Citadele banka	557,755	1,198,457	5.16%
Total demand deposits with credit institutions	557,755	1,198,457	5.16%

The Fund receives interest on demand deposits at fixed rates.

4. Debt securities and other fixed income securities

	31.12.2011.	31.12.2010.	Annual yield to maturity 31.12.2011.	% of Fund's net assets as at 31.12.2011.
Corporate bonds:	5,625,523	5,155,419	10.87%	52.04%
<i>Other non-OECD region corporate bonds</i>	4,869,387	4,563,636	10.69%	45.05%
<i>OECD region corporate bonds</i>	744,864	573,782	12.26%	6.89%
<i>Latvian corporate bonds</i>	11,272	18,001	0.00%	0.10%
Credit institution bonds:	3,421,537	3,981,896	9.71%	31.66%
<i>Other non-OECD region credit institution bonds</i>	2,991,948	3,595,749	10.39%	27.69%
<i>Latvian credit institution bonds</i>	429,589	386,147	4.91%	3.97%
Government bonds	999,449	192,630	5.80%	9.25%
<i>Other non-OECD region government bonds</i>	999,449	192,630	5.80%	9.25%
Finanšu institūciju parāda vērtspapīri	142,021	–	16.98%	1.31%
<i>OECD reģiona finanšu institūciju parāda vērtspapīri</i>	142,021	–	16.98%	1.31%
Total debt securities and other fixed income securities	10,188,530	9,329,945	10.07%	94.26%

AIF "Citadele Eastern European Bond Fund - USD"
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Notes
(LVL)

4. Debt securities and other fixed income securities (continued)

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 310,581 LVL (2010: LVL 1,066,929).

The table below presents debt securities by the issuer's country of residence as at 31 December 2011:

Financial instrument	ISIN code	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2011.
Financial instruments traded on regulated markets				10,922,627	9,877,949	91.39%
Russian issuers:				4,445,004	4,326,614	40.04%
KRIEVIJAS VALSTS VĒRTSPAPĪRI	XS0114288789	USD	1,000	534,676	536,117	4.97%
VTB BANK	XS0223715920	USD	850	450,337	453,915	4.20%
GAZPROM	XS0442348404	USD	700	393,041	423,550	3.92%
EUROCHEM MINERAL & CHEMICAL COMPANY	XS0289850538	USD	750	387,731	419,214	3.88%
ALFA BANK RUSSIA	XS0494933806	USD	750	395,426	418,607	3.87%
METALLOINVEST	XS0650962185	USD	800	398,678	401,188	3.71%
RASPADSKAYA	XS0301347372	USD	700	369,302	384,291	3.56%
RUSSIAN AGRICULTURAL BANK	XS0632887997	USD	800	395,369	381,126	3.53%
CREDIT BANK OF MOSCOW	XS0655085081	USD	600	295,202	314,398	2.91%
EVRAZ GROUP	RU000A0JQTQ7	RUB	15,000	253,327	261,831	2.42%
LSR GROUP	RU000A0JPXB3	RUB	15,000	276,563	257,577	2.38%
AMURMETALL	RU000A0GN9D1	RUB	10,000	193,286	74,800	0.69%
INCOM LADA	RU000A0JPAS5	RUB	29,990	102,066	-	0.00%
Ukrainian issuers:				1,957,008	1,608,605	14.88%
ALFA BANK UKRAINE	XS0441089926	USD	2,240	707,918	468,003	4.33%
FIRST UKRAINIAN INTERNATIONAL BANK	XS0287015787	USD	750	380,002	354,960	3.28%
AGROTON	XS0627994477	USD	600	301,354	279,933	2.59%
METINVEST	XS0511379066	USD	500	265,037	259,458	2.40%
AVANGARD AGROHOLDING	XS0553088708	USD	600	302,697	246,251	2.28%
Kazakhstan issuers:				1,401,650	1,212,733	11.21%
BANK CENTERCREDIT	XS0282585859	USD	800	421,801	441,592	4.09%
KAZAKHGOLD GROUP	XS0273371632	USD	800	418,895	432,616	4.00%
ZHAIKMUNAI	USN97708AA49	USD	450	228,446	242,525	2.24%
BTA BANK	XS0532988770	USD	650,000	332,508	82,584	0.76%
BTA BANK	XS0532995049	USD	616,540	-	13,416	0.12%
International financial institutions:				439,207	463,332	4.29%
EURASIAN DEVELOPMENT BANK	XS0454897363	USD	800	439,207	463,332	4.29%
Latvian issuers:				661,619	440,861	4.07%
CITADELE BANKA	XS0474924320	EUR	600	422,068	429,589	3.97%
ACME CORPORATION	LV0000800787	EUR	100	10,542	11,272	0.10%
CAPITAL DEPARTMENT STORE	LV0000800761	EUR	325,850	229,009	-	0.00%
Georgian issuers:				392,296	401,516	3.71%
GEORGIAN RAILWAY	XS0523947751	USD	700	392,296	401,516	3.71%
Azerbaijan issuers:				338,136	360,760	3.34%
AZERBAIJAN RAILWAYS	XS0592514144	USD	650	338,136	360,760	3.34%
Czech Republic's issuers:				371,808	331,515	3.07%
NEW WORLD RESOURCES	XS0504814509	EUR	500	371,808	331,515	3.07%
Croatian issuers:				314,556	255,317	2.36%
ZAGREBACKI HOLDING	XS0309688918	EUR	10	314,556	255,317	2.36%
Polish issuers:				249,162	221,054	2.05%
TVN	XS0466451548	EUR	300	249,162	221,054	2.05%

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Financial instrument	ISIN code	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2011.
Hungarian issuers:				278,610	192,295	1.78%
MAGYAR TELECOM	XS0473176658	EUR	400	278,610	192,295	1.78%
Belarussian issuers:				73,571	63,347	0.59%
BELAGROPROMBANK	XS0553296210	USD	150	73,571	63,347	0.59%
<u>Financial instruments not traded on regulated markets</u>				140,561	310,581	2.87%
Russian issuers:				-	168,560	1.56%
RBC INFORMATION SYSTEMS	RU000A0JQVB5	RUB	9,559,052	-	107,832	1.00%
RBC INFORMATION SYSTEMS	RU000A0JQVD1	RUB	9,559,052	-	60,728	0.56%
Estonian issuers:				140,561	142,021	1.31%
CREDITSTAR GROUP	EE3300110147	EUR	200	140,561	142,021	1.31%
Total securities and other fixed income securities				11,063,188	10,188,530	94.26%

5. 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.

	31.12.2011.			31.12.2010.			% of Fund's net assets as at 31.12.2011.
	Notional amount	Fair value		Notional amount	Fair value		
		Assets	Liabilities		Assets	Liabilities	
Foreign exchange contracts:							
Swaps	2,003,697	82,412	–	2,159,367	38,841	(6,955)	0.76%
Total foreign exchange contracts	2,003,697	82,412	–	2,159,367	38,841	(6,955)	0.76%

All contracts are concluded with "Citadele banka" JSC.

6. Accrued liabilities

	31.12.2011.	31.12.2010.
Accrued commission fees payable to investment management company	(13,424)	(12,968)
Accrued commission fees payable to custodian bank	(1,566)	(1,513)
Accrued fees payable for professional services	(1,427)	(1,046)
Total accrued liabilities	(16,417)	(15,527)

7. Interest income

	2011	2010
Interest income from debt securities and other fixed income securities	737,283	402,449
Interest income from demand deposits with credit institutions	13,711	28,239
Total interest income	750,994	430,688

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8. Realised increase in investment value

	2011	2010
Income from sale of investments	11,589,094	8,301,982
Acquisition value of investments sold	(11,195,715)	(8,314,875)
Decrease in value of investments sold, recognised in the prior reporting periods	(371,338)	1,173,360
Total realised increase in investment value	22,041	1,160,467

9. Unrealised increase in investment value

	2011	2010
From debt securities and other fixed income securities	(655,654)	102,253
Total unrealised (decrease) / increase in investment value	(655,654)	102,253

10. Change in investments during the reporting year

	31.12.2010.	Increase during the reporting year	Decrease during the reporting year	Foreign currency revaluation result	Fair value revaluation result	31.12.2011.
Financial assets held for trading						
Debt securities and other fixed income securities	9,329,945	13,206,247	(12,648,280)	199,733	100,885	10,188,530
Shares	-	-	(2,467)	(318)	2,785	-
Derivatives	31,886	-	-	50,526	-	82,412
Total investments	9,361,831	13,206,247	(12,650,747)	249,941	103,670	10,270,942

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 2011:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
Assets			
Demand deposits with credit institutions	557,755	-	557,755
Financial assets held for trading			
Debt securities and other fixed income securities	10,188,530	6,791,366	3,397,164
Derivatives	82,412	-	82,412
Total assets	10,828,697	6,791,366	4,037,331

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

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
Liabilities			
Accrued liabilities	(16,417)	-	(16,417)
Other liabilities	(3,885)	-	(3,885)
Total liabilities	(20,302)	-	(20,302)
Net assets	10,808,395	6,791,366	4,017,029

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

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 Fund 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.

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13. Risk management (continued)

Market risk

Market risk is a risk that the Fund's value will reduce as a result of changes in any of the following market factors: securities prices, exchange rates, interest rates, etc. Evaluated below are the sources of market risk, however they cannot be eliminated completely.

Interest rate risk

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

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

Changes in fixed income securities' prices and interest income (year 2011, LVL)					Changes in fixed income securities' prices and interest income (year 2010, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes	Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	50	-	(26,191)	(26,191)	RUB	300	-	-	-
USD	50	-	(131,561)	(131,561)	USD	50	-	(104,206)	(104,206)
RUB	300	-	(56,850)	(56,850)	EUR	50	-	(40,062)	(40,062)
					UAH	300	-	(433)	(433)
Total		-	(214,602)	(214,602)	Total		-	(144,701)	(144,701)

Changes in fixed income securities' prices and interest income (year 2011, % of assets)					Changes in fixed income securities' prices and interest income (year 2010, % of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes	Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	50	0.00%	-0.24%	-0.24%	RUB	300	0.00%	0.00%	0.00%
USD	50	0.00%	-1.23%	-1.23%	USD	50	0.00%	-1.00%	-1.00%
RUB	300	0.00%	-0.53%	-0.53%	EUR	50	0.00%	-0.38%	-0.38%
					UAH	300	0.00%	0.00%	0.00%
Total		0.00%	-2.00%	-2.00%	Total		0.00%	-1.38%	-1.38%

Changes in fixed income securities' prices and interest income (year 2011, LVL)					Changes in fixed income securities' prices and interest income (year 2010, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes	Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-50	-	26,191	26,191	RUB	-300	-	-	-
USD	-50	-	131,561	131,561	USD	-50	-	104,206	104,206
RUB	-300	-	56,850	56,850	EUR	-50	-	40,062	40,062
					UAH	-300	-	433	433
Total		-	214,602	214,602	Total		-	144,701	144,701

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Changes in fixed income securities' prices and interest income (year 2011,% of assets)					Changes in fixed income securities' prices and interest income (year 2010,% of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes	Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-50	0.00%	0.24%	0.24%	RUB	-300	0.00%	0.00%	0.00%
USD	-50	0.00%	1.23%	1.23%	USD	-50	0.00%	1.00%	1.00%
RUB	-300	0.00%	0.53%	0.53%	EUR	-50	0.00%	0.38%	0.38%
					UAH	-300	0.00%	0.00%	0.00%
Total		0.00%	2.00%	2.00%	Total		0.00%	1.38%	1.38%

Currency risk

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

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

	USD	EUR	RUB	Total
Assets				
Demand deposits with credit institutions	557,748	7	-	557,755
Financial assets held for trading				
Debt securities and other fixed income securities	7,842,699	1,583,063	762,768	10,188,530
Derivatives	2,003,698	(1,921,286)	-	82,412
Total assets	10,404,145	(338,216)	762,768	10,828,697
Liabilities				
Accrued liabilities	(14,990)	(1,427)	-	(16,417)
Other liabilities	(3,885)	-	-	(3,885)
Total liabilities	(18,875)	(1,427)	-	(20,302)
Net assets	10,385,270	(339,643)	762,768	10,808,395
<i>Net long position</i>	96.08%	(3.14)%	7.06%	100.00%

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

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13. Risk management (continued)

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%

The effect of changes in currency exchange rates on the Fund's value in 2011 is shown in the table below. Changes in currency exchange rates represent annualised standard deviation of the respective exchange rate.

Currency	Share in Fund (% of net assets)	Change in currency rate against USD	Effect on the Fund's value
EUR	-3.14%	11.89%	-0.37%
USD	96.08%	0.00%	0.00%
RUB	7.06%	11.51%	0.81%
Total	100%		0.44%

The effect of changes in currency exchange rates on the Fund's value 2010 is shown in the table below.

Currency	Share in Fund (% of net assets)	Change in currency rate against USD	Effect on the Fund's value
EUR	37.63%	11.97%	4.50%
USD	53.76%	0.00%	0.00%
RUB	7.03%	9.04%	0.64%
UAH	1.58%	3.85%	0.06%
Total	100%		5.20%

Credit risk

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

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

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

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13. Risk management (continued)

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

	High quality financial instruments	Investments category financial instruments	High return financial instruments	Speculative financial instruments	Not rated	Total
Assets						
Demand deposits with credit institutions	-	-	-	557,755	-	557,755
Financial assets held for trading						
Debt securities and other fixed income securities	-	2,258,040	1,825,841	4,901,204	1,203,445	10,188,530
Derivative financial instruments	-	-	-	82,412	-	82,412
Total assets	-	2,258,040	1,825,841	5,541,371	1,203,445	10,828,697

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	2,287,948	6,108,299	776,068	10,567,243

Concentration risk

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.

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13. Risk management (continued)

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

	Latvia	OECD region countries	Other non- OECD region countries	Total
Assets				
Demand deposits with credit institutions	557,755	-	-	557,755
Financial assets held for trading				
Debt securities and other fixed income securities	440,861	886,885	8,860,784	10,188,530
Derivatives	82,412	-	-	82,412
Total assets	1,081,028	886,885	8,860,784	10,828,697
Liabilities				
Accrued liabilities	(16,417)	-	-	(16,417)
Other liabilities	(3,885)	-	-	(3,885)
Total liabilities	(20,302)	-	-	(20,302)
Net assets	1,060,726	886,885	8,860,784	10,808,395

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
Total assets	1,641,446	573,782	8,352,015	10,567,243
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	1,618,964	573,782	8,352,015	10,544,761

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13. Risk management (continued)

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

Country	Carrying amount as at 31.12.2011.	Carrying amount as at 31.12.2010.	% of Fund's net assets as at 31.12.2011.
Russia	4,495,174	2,294,682	41.59%
Ukraine	1,608,605	2,135,919	14.88%
Kazakhstan	1,212,733	2,185,427	11.22%
Latvia	1,060,726	1,618,964	9.81%
International financial institution	463,332	-	4.29%
Georgia	401,516	717,228	3.71%
Azerbaijan	360,760	-	3.34%
Czech Republic	331,515	-	3.07%
Croatia	255,317	524,535	2.36%
Poland	221,054	236,076	2.05%
Hungary	192,295	337,706	1.78%
Estonia	142,021	276,734	1.31%
Belarus	63,347	217,490	0.59%
Total	10,808,395	10,544,761	100.00%

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

Sector	Carrying amount as at 31.12.2011.	Carrying amount as at 31.12.2010.	% of Fund's net assets as at 31.12.2011.
Commercial banks	3,040,411	3,981,896	28.12%
Raw materials	1,849,107	1,113,557	17.11%
Energy resources	1,381,881	1,444,691	12.79%
Government	999,449	192,630	9.25%
Financial services	778,464	296,520	7.20%
Logistics	762,276	1,003,261	7.05%
Food, beverages, tobacco	526,184	431,209	4.87%
Mass media	389,614	238,141	3.60%
Real estate	268,849	11,131	2.49%
Telecommunication services	192,295	-	1.78%
Retail trade	-	340,175	0.00%
Public utilities	-	276,734	0.00%
Total:	10,188,530	9,329,945	94.26%

Liquidity risk

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

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13. Risk management (continued)

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

	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1-5 years	More than 5 years	Total
Assets							
Demand deposits with credit institutions	557,755	-	-	-	-	-	557,755
Financial assets held for trading							
Debt securities and other fixed income securities	74,800	848,803	395,563	610,024	5,661,737	2,597,603	10,188,530
Derivatives	-	82,412	-	-	-	-	82,412
Total assets	632,555	931,215	395,563	610,024	5,661,737	2,597,603	10,828,697
Liabilities							
Accrued liabilities	(14,990)	-	(1,427)	-	-	-	(16,417)
Other liabilities	(3,885)	-	-	-	-	-	(3,885)
Total liabilities	(18,875)	-	(1,427)	-	-	-	(20,302)
Net assets	613,680	931,215	394,136	610,024	5,661,737	2,597,603	10,808,395
<i>Net position %</i>	5.68%	8.62%	3.65%	5.64%	52.38%	24.03%	100.00%

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

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
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	1,198,475	1,108,289	386,147	6,870	4,131,096	3,736,366	10,567,243
Liabilities							
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	1,183,994	1,100,288	386,147	6,870	4,131,096	3,736,366	10,544,761
<i>Net position %</i>	11.23%	10.43%	3.66%	0.07%	39.18%	35.43%	100.00%

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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:

	31.12.2011.	31.12.2010.	% of total certificates as at 31.12.2011.
Investment certificates held by related parties	294	1,859	0.03%
Investment certificates held by other persons	1,152,897	1,137,707	99.97%
Investment certificates issued as at the end of the period	1,153,191	1,139,566	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 resolutions bank that continues to operate under Parex Banka name. After the restructuring the custodian bank of the Fund became JSC "Citadele banka".

The majority of the Fund's investments are acquired with the mediation of the custodian bank JSC Citadele banka. JSC Citadele banka receives remuneration as the custodian bank, as disclosed in the statement of comprehensive income (see also Note 6). 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 period related parties have not carried out any transactions with the Fund's investment certificates. During the year 2010 related parties acquired 1,564 investment certificates of the Fund and did not sell back investment certificates of the Fund. The Fund's investment certificates purchase and sale back transactions are calculated taking into account only the investment certificates held by those related parties, who have been classified as the Fund's related parties both as of 31 December 2011 and 31 December 2010.

During the reporting year the Fund invested in bonds issued by the JSC Citadele banka. On 31 December 2011 the book value of these investments was 429,589 lats (31 December 2010: 386,147).

16. Dynamics of net asset value

	31.12.2011.	31.12.2010.	31.12.2009.
Net assets (LVL)	10,808,395	10,544,761	8,236,089
Number of investment certificates	1,153,191	1,139,566	1,149,367
Value of investment fund's shares (LVL)	9.37	9.25	7.17
Performance on investment fund's shares*	1.30%	29.01%	65.97%
Net assets (USD)**	19,872,102	19,734,339	16,832,679
Number of investment certificates	1,153,191	1,139,566	1,149,367
Value of investment fund's shares (USD)	17.23	17.32	14.65
Performance on investment fund's shares*	(0.52)%	18.23%	68.00%

* 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 - USD

Report on the Financial Statements

We have audited the accompanying financial statements on pages 9 to 28 of AIF Citadele Eastern European Fixed Income Funds sub-fond Citadele Eastern European Bond Fund - USD which comprise the statement of financial position as of 31 December 2011 and the statements of comprehensive income, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AIF Citadele Eastern European Fixed Income Funds sub-fond Citadele Eastern European Bond Fund - USD as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on page 5 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2011.

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

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
27 April 2012

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