

INVESTMENT FUND

CBL Eastern European Bond Fund

**(until 18.04.2016 the sub-fund of CBL Eastern European Fixed Income Funds,
CBL Eastern European Bond Fund – USD)**

ANNUAL REPORT FOR 2016

(14th financial year)

PREPARED IN ACCORDANCE WITH FCMC NORMATIVE REGULATIONS ON PREPARATION OF ANNUAL REPORTS, CONSOLIDATED ANNUAL REPORTS AND SEMI-ANNUAL REPORTS OF INVESTMENT FUND AND OPEN ALTERNATIVE INVESTMENT FUND AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EUROPEAN UNION

Riga, 2017

IF CBL Eastern European Bond Fund
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IF CBL Eastern European Bond Fund
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Information on the investment fund

Name of the Fund:	CBL Eastern European Bond Fund (until 18.04.2016 a sub-fund of CBL Eastern European Fixed Income Funds, CBL Eastern European Bond Fund - USD Investment fund (UCITS IV))
Type of the Fund:	
Class:	- <i>R Acc USD</i> <i>ISIN: LV000400125</i>
	- <i>R Acc EUR (hedged)</i> <i>ISIN: LV000400174</i>
Registration date of the Fund:	20 July 2009
Number of the Fund:	FFL93
Investment management company name:	CBL Asset Management IPAS
Investment management company's registered office:	Republikas laukums 2a, Riga, LV-1010, Latvia
Investment management company's registration number:	40003577500
Number of the license for investment management company operations:	06.03.07.098/367
Name of the Fund's Custodian:	AS Citadele Banka
Registered office of the Fund's Custodian:	Republikas laukums 2a, Riga, LV-1010, Latvia
Registration number of the Fund's Custodian:	40103303559
Investment management company's Council and Board members and their positions:	<i>Council of the investment management company:</i> Chairperson of the Council – Juris Jākobsons – appointed on 30.09.2010. Deputy Chairperson of the Council - Vladimirs Ivanovs - appointed on 01.11.2012. Member of the Council - Aldis Paegle – appointed on 04.07.2014. Member of the Council - Aldis Paegle dismissed on 24.08.2016. Member of the Council - Peter Meier - appointed on 30.09.2015.
	<i>Board of the investment management company:</i> Chairperson of the Board – Uldis Upenieks – appointed on 01.11.2012. Board Member - Zigurds Vaikulis - appointed on 30.03.2007. Board Member - Andris Kotāns - appointed on 11.05.2015. Board Member - Lolita Sičeva - appointed on 11.05.2015.
Rights and responsibilities related to investment fund management:	Council and Board members shall perform all duties prescribed in laws and regulations of the Republic of Latvia and in the Articles of Association of the investment management company, which must be performed by members of the Council and the Board.
Fund managers (members of the Investment Committee):	Andris Kotāns - appointed on 27.10.2008. Edgars Lao - appointed on 16.09.2011.
Rights and responsibilities related to the Fund's management:	The Fund Manager shall perform all duties prescribed in laws and regulations of the Republic of Latvia, in the Articles of Association of the investment management company and in the prospectus of the Fund, which must be performed by the Fund's manager.
Auditor:	KPMG Baltics SIA Vesetas iela 7 Riga, LV-1013 Latvia License No 55

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ces' of the Republic of Latvia with

Investment fund "CBL Eastern European Bond Fund" (previously "CBL Eastern European Fixed Income Funds" with a sub-fund "CBL Eastern European Bond Fund - USD") (hereinafter – the Fund) is a debt securities investment fund with two share classes: R Acc USD and R Acc EUR (hedged). The Fund manager is investment management company CBL Asset Management, legal address Republikas laukums 2a, Riga, LV-1010, registered under No 40003577500. The number of Investment Company's operating licence, which was last re-registered on 15 January 2015, is 06.03.07.098/367.

The Fund aims to achieve long-term capital appreciation by investing primarily in debt securities and money market instruments issued or guaranteed by central and local governments, central banks, credit institutions and commercial companies of the Eastern European countries; in fixed income funds, as well as in ETFs traded on the regulated markets of the European Economic Area member states and OECD member states, without industry limitations. The investment portfolio of the Fund is diversified to include investments in different industries and countries, thereby achieving a higher protection against volatility of the Fund's asset value versus investments in a single industry or country securities. There were no changes to the Fund's policy during the reporting period.

On 18 April 2016 a domestic merger of Investment Fund's "CBL Eastern European Fixed Income Funds" sub-funds "CBL Eastern European Bond Fund – EUR" and "CBL Eastern European Bond Fund – USD" was conducted, with the sole purpose to ensure more efficient management of the investment portfolio, following the best international practice in the industry of investment funds. The name of sub-fund "CBL Eastern European Bond Fund – USD" was changed to "CBL Eastern European Bond Fund", and the fund created as a result of the merger henceforth issues shares of two classes: R Acc USD and R Acc EUR (hedged). During the merger, investors of the existing funds were not required to take any actions in regard to these changes.

During the reporting year, the amount of Fund's net assets increased by 188% (EUR 19,221,495), as a result of merging two sub-funds; at the end of the reporting period, the net assets amounted to EUR 29,432,353. As at 31.12.2016, gross assets amounted to EUR 30,403,215. The share value of the "CBL Eastern European Bond Fund" R Acc USD share class during the reporting period increased by EUR 2.73 and at the end of the year it amounted to EUR 21.90; the share value of the "CBL Eastern European Bond Fund" R Acc EUR (hedged) share class during the reporting period increased by EUR 1.44 and at the end of the year amounted to EUR 18.00. The R Acc USD share class's total in 2016 was 14.20% in terms of euro and 10.61% in terms of its base currency (USD). The R Acc EUR (hedged) share class's total return in 2016 was 8.67% in terms of euro and 8.84% in terms of its base currency (EUR).

Global financial markets started the year on a negative tone, as commodity prices dropped, while the US Federal Reserve's monetary policy and China's economy growth perspectives raised concerns. However, investors' unease disappeared fairly rapidly and financial markets entered the growth phase, which continued for several months. In Eastern European bond market the positive trend dominated until autumn when investors' fears resumed amid potentially more rapid hiking cycle by the Fed and the unanticipated victory by Donald Trump in the US presidential elections. All in all, the reporting year turned out to be very successful for Eastern European Eurobonds, as they returned more than 9%, on average. On the other hand, the region's macroeconomic recovery remained slow and the aggregate growth of Eastern Europe's GDP reached just 1.2% in 2016, as most of the region's largest countries are stagnating. In the reporting period, rating agencies actively reviewed credit ratings of several countries in the region. In particular, Turkey lost its investment grade status, partly due to unsuccessful coup attempt in July, while Hungary, in contrast, regained its investment grade rating rank.

In the reporting period, all countries contributed positively to the Fund's performance, while the largest effect was generated by Ukraine's issuers. Government change in Ukraine ensured that IMF's requirements to unlock the previously delayed debt facility were met. At the same time, privately-owned Ukraine's issuers, albeit with mixed results, proceeded with their debt restructuring processes. During the reporting period, we partly took profit in Ukraine and reduced its weight from 8.99% to 5.94%, and to a certain extent mitigated risks in Turkey, trimming exposure from 13.33% to 10.31% of the Fund's net assets. Towards the end of the reporting period, we increased Azerbaijan's exposure from 4.10% to 10.74% of the Fund's net assets amid agreement between OPEC member states and Russia to curb oil output, which had a positive effect on oil price. At the end of the reporting period, debt securities held within the Fund's portfolio were diversified among 15 countries. Eastern Europe's bond yields have declined due to the market's positive performance, hence the Fund's average yield-to-maturity decreased to 5.2% from 7.5% a year ago. The Fund's average duration slightly increased to 3.1 from 2.8 at the beginning of the reporting period, while the weighted-average credit rating remained unchanged at Ba2.

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Investment management company report

Lipper, a global investment fund research company, for the second consecutive year has recognized CBL Eastern European Bond Fund R Acc USD as the best fund in 2016 in terms of return and risk within the Emerging Europe Bond category over both three- and five-year periods.

Management costs during the reporting period amounted to USD 445,669 or 1.72% of average value of net assets during the period, which does not exceed the maximum amount of 3.00% provided in the Fund's prospectus.

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

The management team of IPAS "CBL Asset Management" closely follows developments both locally and globally: in terms of sustainability of economic growth, monetary and fiscal policies of leading economies, as well as potential inflationary and political risks, as they have a substantial impact on the dynamics of Eastern European region's economy and capital market. Selective instrument selection, regardless of the sector and the country will continue to be a decisive factor in the Fund's investment process.



Uldis Upenieks
Chairman of the Board



Andris Kotāns
Investment Committee Member



Edgars Lao
Investment Committee Member

Riga, 27 April 2017

IF CBL Eastern European Bond Fund
Annual Report for 2016
Statement of responsibility of the Board of the investment management company

The Board of Investment Management Company (hereinafter - the Company) is responsible for preparation of financial statements of the investment fund CBL Eastern European Bond Fund (hereinafter - the Fund).

The financial statements on pages 8 to 34 are prepared based on source documents and present fairly the financial position of the Fund as at 31 December 2016 and the results of its operations in 2016.

Financial statements mentioned above are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, as required by regulation No 99 of the Financial and Capital Market Commission (FCMC) *On preparation of annual reports, consolidated annual reports and semi-annual reports of investment fund and open alternative investment fund on a going concern basis*. Appropriate accounting methods have been consistently applied in the reporting period, except for the changes made to the accounting policies with regard to interest income and revaluation results. 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 CBL Eastern European Bond Fund assets and the prevention and detection of fraud and other irregularities. The Board is also responsible for ensuring compliance with the Law on Investment Management Companies, regulations of the Financial and Capital Market Commission and other laws and regulations of the Republic of Latvia.



Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

Riga, February 28, 2017

CUSTODIAN BANK REPORT

For holders of IF "CBL Eastern European Bond Fund"
Investment fund applications

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 February 11, 2016, Citadele Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the IF "CBL Eastern European Bond Fund" (further in the text – Fund) founded by IPAS "CBL 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 IF "CBL Eastern European Bond Fund" 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.



Guntis Beļavskis
Chairman of the Board, p.p.

IF CBL Eastern European Bond Fund
Annual Report for 2016
Statement of assets and liabilities
(EUR)

Note		<u>31.12.2016</u>	<u>31.12.2015</u>
	Assets		
3	Due on demand from credit institutions	2,364,411	772,720
	<i>Financial assets held for trading</i>		
4	Debt securities and other fixed income securities	27,574,835	9,464,425
5	Derivative financial instruments	463,969	-
	Total assets	<u>30,403,215</u>	<u>10,237,145</u>
	Liabilities		
	<i>Financial liabilities held for trading</i>		
5	Derivative financial instruments	(925,393)	(9,179)
6	Accrued expenses	(45,469)	(17,108)
	Total liabilities	<u>(970,862)</u>	<u>(26,287)</u>
	Net assets	<u>29,432,353</u>	<u>10,210,858</u>

The accompanying notes on pages 12 to 34 form an integral part of these financial statements.



Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

IF CBL Eastern European Bond Fund
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Statement of income and expenses
(EUR)

Note	2016	2015 (adjusted)
Income of the reporting period		
7	1,389,960	962,001
	45,852	4,199
	1,435,812	966,200
Expenses of the reporting period		
	(363,796)	(151,190)
	(43,655)	(18,143)
	(7,886)	(4,754)
	(415,337)	(174,087)
Increase in investment value		
8	385,367	153,224
9	797,775	(45,790)
	1,183,142	107,434
	304,736	962,494
	2,508,353	1,862,041

The accompanying notes on pages 12 to 34 form an integral part of these financial statements.



Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

IF CBL Eastern European Bond Fund
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Statement of changes in net assets
(EUR)

<u>CBL Eastern European Bond fund</u>	2016	2015
Net assets at the beginning of the reporting period	10,210,858	8,933,007
Increase in net assets from investment	2,508,353	1,862,041
Transactions with share certificates		
<i>Inflow from sale of share certificates</i>	3,124,890	3,412,727
<i>Outflow on redemption of share certificates</i>	(2,330,975)	(3,996,917)
<i>Net assets of IF CBL Eastern European Bond Fund-EUR added at the merger</i>	15,919,227	-
Increase in net assets from transactions with share certificates	16,713,142	(584,190)
Net asset increase during the reporting period	19,221,495	1,277,851
Net assets at the end of the reporting period	29,432,353	10,210,858

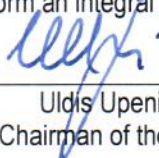
<u>CBL Eastern European Bond fund: Class R Acc USD</u> <u>ISIN : LV0000400125</u>	2016	2015*
The number of share certificates issued as at the beginning of the reporting period	532,541	575,854
The number of share certificates issued at the end of the reporting period	493,936	532,541
Net assets per share certificate as at the beginning of the reporting period	19.17	15.51
Net assets per share certificate as at the end of the reporting period	21.90	19.17

*The number of share certificates of CBL Eastern European Bond Fund: Class R Acc USD and net assets per share certificate as at 31 December 2015 refer to the sub-fund CBL Eastern European Bond fund - USD. See Note 18 for the position before merger of the sub-funds.

<u>CBL Eastern European Bond fund: Class R Acc EUR (hedged)</u> <u>ISIN : LV0000400174</u>	2016	2015*
The number of share certificates issued as at the beginning of the reporting period	875,201	680,178
The number of share certificates issued at the end of the reporting period	1,032,779	875,201
Net assets per share certificate as at the beginning of the reporting period	16.56	15.24
Net assets per share certificate as at the end of the reporting period	18.00	16.56

*The number of share certificates of CBL Eastern European Bond Fund: Class R Acc EUR (hedged) and net assets per share certificate as at 31 December 2015 refer to the sub-fund CBL Eastern European Bond fund - EUR. The net assets and the number of issued share certificates taken over as a result of the merger are disclosed in Note 18.

The accompanying notes on pages 12 to 34 form an integral part of these financial statements.



 Uldis Upenieks
 Chairman of the Board

Riga,
 27 April 2017

IF CBL Eastern European Bond Fund
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Cash flow statement
(EUR)

	2016	2015
Cash received as interest income	1,308,801	663,936
Investment management expenses	(380,828)	(170,012)
Acquisition of financial investments	(16,370,199)	(7,291,109)
Sale/cancellation of financial investments	14,893,374	6,805,656
Foreign currency translation result	(123,964)	261,679
Increase/(decrease) in cash and cash equivalents from operating activities	(672,816)	270,150
Inflow from sale of share certificates	3,124,890	3,412,727
Outflow on redemption of share certificates	(2,330,975)	(3,996,917)
<i>Cash balances of IF CBL Eastern European Bond Fund-EUR added at the merger.</i>	1,447,290	-
Increase/(decrease) in cash and cash equivalents from financing activities	2,241,205	(584,190)
Increase/(decrease) in cash and cash equivalents	1,568,389	(314,040)
Cash and cash equivalents at the beginning of the reporting period	772,720	1,036,550
Result of revaluation of cash and cash equivalents denominated in foreign currencies	23,302	50,210
Cash and cash equivalents at the end of the reporting period	2,364,411	772,720

The accompanying notes on pages 12 to 34 form an integral part of these financial statements.



Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

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Notes
(EUR)

1. General information

Name of the Fund:	CBL Eastern European Bond Fund (until 18.04.2016 a sub-fund of CBL Eastern European Fixed Income Funds, CBL Eastern European Bond Fund - USD)
Type of the Fund:	Investment fund
Scope of the Fund:	Investments primarily in debt securities issued or guaranteed by the Eastern European countries, local authorities, central banks, credit institutions and commercial undertakings. The Fund's investment portfolios are diversified among investments in various currencies, sectors and countries, thus providing greater investment safety and protection against fluctuations in asset value, compared to investments in securities of a single currency, sector or country.
Scope of the Fund:	The base currency of the Fund is US dollar (USD). Investments in equity securities are not provided for in the Prospectus.
Investment management company name:	CBL Asset Management IPAS (hereinafter the Company) Republikas laukums 2a, Riga, LV-1010, Latvia

2. Summary of significant accounting policies

Basis of preparation

Financial statements of IF CBL Eastern European Bond Fund (hereinafter - the Fund) are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS), as required by regulation No 99 of the Financial and Capital Market Commission (FCMC) *On preparation of annual reports, consolidated annual reports and semi-annual reports of investment fund and open alternative investment fund*.

The financial statements are prepared on a historical cost basis and adjusted for the fair value of the financial instruments held for trading.

The functional and presentation currency in the financial statements is the official currency of the Republic of Latvia, euro (EUR). The financial statements cover the period from 1 January 2016 to 31 December 2016.

Opening balances of Statement of assets and liabilities as at 1 January 2016 agree with the closing balances of the published financial statements for the year 2015. See Note 17 for classification changes in the Statement of Income and Expenses.

See Note 18 for information on taking over the sub-fund. Comparative data on certain indicators of CBL Eastern European Bond Fund - EUR is provided.

Functional and financial reporting currency

The functional currency of the Fund is US dollar, but in accordance with FCMC requirements, the Fund also maintains accounts in Latvian currency - euro.

Significant estimates and assumptions

Preparation of financial statements in compliance with IFRS as adopted by EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures in the financial statements at the date of financial statements, as well as income and expenses recognized in the reporting period. Similarly, when preparing the financial statements, the management of the Company has to make assumptions and judgments to apply the Fund's accounting policy.

IF CBL Eastern European Bond Fund
Annual Report for 2016
Notes
(EUR)

Income and expense recognition

All interest income and expenses are recognized on an accrual basis.

As a result of changes in accounting policy, certain positions of the Statement of income and expenses of the comparative period have been adjusted, see Note 17. The adjustment has no impact on the decrease in net assets in 2015.

Interest income and expenses are recognized in the Statement of income and expenses, based on the effective interest rate method. The effective interest rate is the rate that is used for the exact discounting of future cash flows of the financial instrument over the expected useful life of the financial asset or liability.

Remuneration for Fund's management and Custodian fee is calculated as a certain part of the value of Fund's assets, accrued on a daily basis but paid out on a monthly basis.

Foreign currency revaluation

Transactions in foreign currencies are translated into euro at the foreign exchange rate published by the European Central Bank as at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into euro according to the foreign exchange rate published by the European Central Bank as at the end of the last day of the reporting period. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency using the exchange rate at the date on which the fair value was determined. Profit or loss arising from changes in foreign exchange rate is charged to the profit and loss statement as profit or loss on revaluation of foreign exchange positions.

The exchange rates (foreign currency units against EUR) published by the European Central Bank that were mainly applied when preparing the Statement of Assets and Liabilities of the Fund were as follows:

Currency	31.12.2016	31.12.2015
USD	1.0541	1.0887
RUB	-	80.6736

Cash and cash equivalents

Cash and cash equivalents comprise Fund's current account balances and other short term high liquidity investments with original maturity of less than 3 months.

Financial instruments

Financial instruments are classified into the following categories: instruments measured at fair value through profit or loss and loans and receivables. Classification depends on the purpose of acquisition of the financial instrument. Management determines the classification of the financial instrument at initial recognition.

Financial instruments measured at fair value through profit and loss

Financial assets measured at fair value through profit and loss are financial assets that are purchased or acquired for the purpose of selling in the near future or that are classified as measured at fair value through the profit or loss after initial recognition. A financial instrument is held for trading if the Fund holds it for the sole purpose of profiting from short-term fluctuations of financial instrument prices. Financial instruments held for trading include debt securities with fixed income, as well as derivative financial instruments.

Securities are revalued on the basis of financial information provided by *Bloomberg* and NASDAQ OMX Riga on the market demand (*bid*) prices of these securities. Unlisted securities are assessed according to the custodian's information on effected transactions, but in case such information is not available, the securities are assessed at amortized cost. Purchase and sales transactions with securities are recognized at the settlement date. The historical cost is measured using the FIFO (*first in, first out*) method.

Derivative financial instruments

For the purposes of foreign currency risk management and generating profit, the Fund is engaged in forward and swap transactions. For accounting purposes, all derivatives are classified as held for trading and are accounted for as follows.

Subsequent to initial recognition and determination of value, forwards are recognized in the balance sheet at their fair value. The fair value of these agreements is included in the Statement of financial position as *Derivatives* and their relative value is disclosed in the Notes to the financial statements.

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Profit or loss arising from changes in claims and liabilities that arise from currency forward and swap agreements are charged to the profit or loss statement as the result of foreign currency revaluation.

Fair value of financial assets and liabilities

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an arm's length transaction between market participants at the measurement date in the principal market, or in its absence, the most advantageous market to which the Fund has access at that date. The fair value of liabilities reflects the risk of default.

When possible, the Fund measures the fair value of the Fund's financial instruments using the price of the respective financial instrument quoted in an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

As regards initial recognition, the best evidence of fair value is the transaction price, i.e., the fair value of remuneration given or received. If the Fund determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by the quoted market price of an identical asset or liability in an active market, nor by results of assessment methods that use only observable data, the financial instrument is initially carried at fair value which is adjusted to reflect the difference between the fair value at initial recognition and the transaction price. Later this difference is recognized in the profit or loss statement, taking into account the instrument's expected useful life, but no later than the time when the value may be fully justified by observable market data or when the transaction is completed.

IFRS determine the hierarchy of financial instrument fair value assessment techniques, based on whether observable market data is used when determining the fair value of financial instruments or whether such data are unavailable. The financial assets of the Fund measured at fair value are classified in the 1st, 2nd or 3rd level category of this assessment technique.

The 1st level represents financial instruments whose fair value is determined based on stock exchange prices quoted in an active market. This category generally includes shares, debt securities, short-term bonds and standardized derivatives whose value is assessed using stock exchange price quotes. Securities that are traded in active OTC markets are also included in this category.

Level 2 represents financial instruments whose fair value was determined by using available market data such as prices for similar financial instruments that have been traded in market transactions. This category generally includes less liquid debt securities and derivatives that are measured based on available market data. The price of less liquid debt securities is adjusted by the difference between the available yield rates.

Level 3 represents financial instruments whose fair value is determined using available market data and company's internal estimates.

The Company recognizes changes in the fair value hierarchy level for instruments at the end of the reporting period in which the changes have occurred. Compared to the previous year, there have been no changes in the fair value hierarchy.

Financial asset and financial liability portfolios that are exposed to market risk and credit risk, managed by the Fund based on the net exposure to either market risk or credit risk, are assessed taking into account the price that would be paid for the sale of the net long position (or paid to transfer net short position) for particular risks. These portfolio-level adjustments are allocated to individual assets and liabilities based on relative risk adjustments related to each of the individual instruments in the portfolio.

Taxes

Fund's income is subject to taxes in the country where it has been generated. The Fund is not subject to Latvian corporate income tax.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include amounts due from credit institutions. Fund's claims against credit institutions are carried at their amortized cost using the effective interest rate method less impairment, if any.

Provision for impairment of receivables is created when there is objective evidence that the Fund will not be able to collect the full amount due according to the original repayment terms. Provision for impairment is defined as the difference between the amortized cost and the recoverable amount.

IF CBL Eastern European Bond Fund
Annual Report for 2016
Notes
(EUR)

Changes in accounting policies

The Fund has consistently applied the accounting policies through all the periods presented in these financial statements, except for the changes described below.

As a result of changes in accounting policy, certain positions of the Statement of income and expenses of the comparative period have been adjusted, see Note 17.

The Fund has considered the following new standards and amendments to standards, including the resulting amendments to other standards, whose initial effective date was 1 January 2016, and have concluded that they do not apply to the Fund.

- IFRS 11 : *Accounting for Acquisition of Interests in Joint Operations*
- IAS 1: *Presentation of Financial Statements*
- IAS 16: *Property, Plant and Equipment* and IAS 38: *Intangible Assets*
- IAS 16: *Property, Plant and Equipment* and IAS 41: *Agriculture*
- IAS 19: *Benefit Plans: Employee Benefits*
- IAS 27: *Separate Financial Statements*
- Annual amendments to IFRS

New standards and interpretations

Several new standards, amendments and interpretations of standards enter into force in the period after 1 January 2017, and they have not been applied in these financial statements. Standards and interpretations applicable to the Fund are described below. There are no plans to apply these standards to the Fund before the prescribed time.

(i) IFRS 9: *Financial instruments* (2014) (In force for the period beginning on or after 1 January 2018, and with certain exceptions will be applied retrospectively. There is no requirement to reclassify comparative data and it is only allowed if the information is available without revaluation. Earlier application is permitted.)

This standard is the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* specifying an exception with regard to hedge accounting where IAS 39 can still be applied and companies may choose whether to apply IFRS 9 or IAS 39.

Although permissible basic categories of financial asset classification are similar to those provided for in IAS 39 - amortized cost, fair value reported in other comprehensive income (FVOCI) or fair value reported at profit or loss statement (FVPL), the classification in the respective valuation category is based on significantly different criteria.

Financial assets are valued at amortized cost if they meet the following two criteria:

- the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, the Fund may permanently choose to charge any changes in fair value (including profit or loss from fluctuations in foreign exchange rates) of equity instruments that are not actively traded to other comprehensive income. They may not, in any circumstances, be charged to the profit or loss statement.

Interest income, expected credit losses or gains or losses from foreign exchange fluctuations of debt instruments that are measured at fair value through other comprehensive income are recognized in the profit or loss statement in the same way as those derived from the assets recognized at amortized cost. Other gains and losses are recognized in other comprehensive income and transferred to profit or loss after the respective instruments are derecognized.

IFRS 9 introduces a new expected loss impairment model replacing the 'incurred loss model' of IAS 39, which means that the impairment provision will have to be recognized before the loss event.

IFRS 9 introduces a new comprehensive hedge accounting model, aligning the hedge accounting with risk management. The risk hedging methods: fair value hedge, cash flow hedge and hedge of a net investment in a foreign operation remain unchanged, yet, additional judgments will have to be made for classification purposes.

The standard includes new requirements, based on which the hedge accounting shall be commenced, continued and terminated, and this allows for additional exposures to be designated as hedged items.

The Fund will have to disclose extensive additional information on risk management and the performed hedging transactions.

It is not expected that IFRS 9 (2014) will significantly affect the financial statements of the Fund. Taking into account the activities of the Fund and its financial instruments, it is not expected that the introduction of the requirements specified in IFRS 9 will change classification and valuation of financial instruments.

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(ii) IFRS 15 *Revenue from Contracts with Customers* (effective for accounting periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new standard replaces the currently effective IFRS guidelines on the recognition of revenue. To determine when and to what extent revenue shall be recognized, companies will have to use a five-step model. The new model provides that the entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Depending on whether certain criteria are met, revenue is recognized:

- over time, reflecting the company's financial results; or
- when the control over goods or services is transferred to the customer.

IFRS 15 prescribes principles that should be followed to provide useful qualitative and quantitative information to users of financial statements, enabling them to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Even though the initial assessment of the potential impact of IFRS 15 on financial statements have not yet been completed, the management does not expect that the initial application of the new standard will significantly affect financial statements of the Fund.

(iii) IFRS 16 *Leases* (effective for accounting periods beginning on or after 1 January 2019. Earlier application is permitted if the company also applies IFRS 15).

IFRS 16: replaces IAS 17 *Leases* and its interpretations. This standard cancels the double accounting model currently applied by lessees and instead prescribes that most leases shall be recognized in the balance sheet under a single model, abolishing classification of leases as operating or finance.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new lease model prescribes that in the case of such contract a lessee recognizes a right-of-use asset and a lease liability. With regard to the right-of-use asset depreciation must be assessed and interest expense must be recognized with regard to the liability on accrual basis. As a result, most of the lease expenses will be recognized at the beginning of the lease period, even in cases where the lessee will pay the same amount each year.

The new standard offers the lessees several exceptions restricted as to their volume, which include:

- lease with a term not exceeding 12 months without a buy-out option, and
- lease of an asset with a low value.

The introduction of the new standard will not affect the accounts of lessors where the difference between the operational and financial lease will be retained.

It is not expected that application of the new standard will significantly affect financial statements of the Fund, as no contracts within the scope of IFRS 16 have been concluded.

(iv) Amendments to IFRS 2 : *Classification and Measurement of Share-based Payment* (effective for the reporting period that begins on or after 1 January 2018; must be applied retrospectively. Earlier application is permitted).

Amendments clarify the accounting for share-based payments in the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

It is expected that at the time of the initial application these amendments will not substantially affect the Fund's financial statements as no share-based payments are being performed.

(v) Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (IASB has not yet determined the effective date but earlier application is permitted).

The Amendments clarify that recognition of gains or losses from a transaction with associate or joint venture depends on whether the sold or invested assets constitute a business, thus:

- the full amount of gain or loss resulting from a transaction between the investor and its associate or a joint venture is recognized if in the framework of the transaction an asset or assets that constitute a business (disregarding whether it is a part of the subsidiary) are being transferred, but

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- only a part of the gain or loss resulting from the transaction between the investor and its associate or a joint venture is recognized if in the framework of the transaction assets that do not constitute a business are being transferred, even if these assets are a part of the subsidiary).

It is not expected that at the time of the initial application these amendments will significantly affect financial statements of the Fund, as the Fund has no subsidiaries, associated companies or joint ventures.

(vi) Amendments to IAS 7 (effective for accounting periods beginning on or after 1 January 2017; must be applied retrospectively. Earlier application is permitted).

The Amendments prescribe additional disclosures that will help users to assess the changes in liabilities from financing activities, including changes resulting from cash flows and other changes (for example, profit or loss from foreign exchange fluctuations, changes incurred in gaining or losing control over subsidiaries, changes in fair value).

It is expected that at the time of the initial application these amendments will not substantially affect the Fund's financial statements.

(vii) Amendments to IAS 12 : *Recognition of Deferred Tax Assets for Unrealized Losses* (effective for reporting periods beginning on or after 1 January 2017; must be applied retrospectively. Earlier application is permitted).

The Amendments clarify how and when, in specific circumstances, the deferred tax assets must be recognized, and explain how to determine future taxable income to consider the recognition of the deferred tax asset.

It is expected that at the time of the initial application these amendments will not affect the Fund's financial statements as the Fund is not subject to corporate income tax.

(viii) Amendments to IAS 40 *Transfers of Investment Property* (effective for accounting periods beginning on or after 1 January 2018; must be applied retrospectively).

The Amendments reinforce the principle prescribed in IAS 40, *Investment property*, regarding the transfer of assets to, or from, investment property, stating that reclassification may only be performed when there has been a change in use of the property. In accordance with the Amendments, reclassification may only be performed when the type of use has actually changed, i.e. the asset meets, or ceases to meet, the definition of investment property and there was an evident change in use. Reclassification may not be based solely on management's intentions for the use of a property.

It is expected that at the time of the initial application these amendments will not affect the Fund's financial statements as the Fund does not hold investment property.

(ix) IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective for reporting periods beginning on or after 1 January 2018).

The Interpretation clarifies how to determine the date of transaction in order to establish the effective foreign exchange rate to be used for the initial recognition of an underlying asset, expense or revenue (or its part) or derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in foreign currency. In these circumstances, the date of the transaction is the date of initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

It is not expected that at the time of its initial application this interpretation will have significant impact on the financial statements of the Fund because, for initial recognition, the Fund uses the foreign currency exchange rate effective on the transaction date.

Annual improvements — 2014-2016 cycle were published on 8 December 2016 introducing two amendments in two standards and further amendments to other standards and interpretations resulting thereof, changing the accounting principles applicable to information disclosure, recognition or valuation. Amendments to IFRS 12, *Disclosure of Interests in Other Entities* are effective for reporting periods starting on or after 1 January 2017, and Amendments to IAS 28, *Investments in Associates and Joint Ventures* are effective for reporting periods starting on or after 1 January 2018 and must be applied retrospectively. Earlier application is permitted.

It is not expected that either of these amendments will significantly affect the financial statements of the Fund.

It is planned to implement the above standards and interpretations of their effective date.

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3. Due on demand from credit institutions

	31.12.2016	31.12.2015	% of the Fund's net assets 31.12.2016
Due on demand from credit institutions, AS Citadele Banka	2,364,411	772,720	8.03%
Total demand deposits with credit institutions	2,364,411	772,720	8.03%

For cash on demand the Fund receives interest income calculated at fixed rate.

4. Debt securities and other fixed income securities

	31.12.2016	31.12.2015	Annual yield before the maturity 31.12.2016	% of the Fund's net assets 31.12.2016
Corporate debt securities	13,413,794	4,662,839	6.91%	45.57%
<i>Corporate debt securities of non-OECD countries</i>	9,686,435	3,335,150	7.58%	32.90%
<i>Corporate debt securities of OECD countries</i>	3,092,100	1,073,585	4.59%	10.51%
<i>Latvian corporate debt securities</i>	635,259	254,104	8.00%	2.16%
Debt securities of credit institutions	6,292,295	2,323,448	6.55%	21.38%
<i>Debt securities of credit institutions of non-OECD countries</i>	5,241,179	1,670,867	6.87%	17.81%
<i>Debt securities of credit institutions of OECD countries</i>	1,051,116	652,581	4.95%	3.57%
Government debt securities	5,237,928	1,464,562	3.82%	17.80%
<i>Government debt securities of non-OECD countries</i>	2,891,839	780,665	3.81%	9.83%
<i>Government debt securities of OECD countries</i>	2,346,089	683,897	3.83%	7.97%
Financial institution debt securities	2,630,818	1,013,576	6.92%	8.94%
<i>Debt securities of financial institutions of non-OECD countries</i>	914,316	588,340	3.43%	3.11%
<i>Debt securities of financial institutions of OECD countries</i>	1,716,502	425,236	8.79%	5.83%
Total debt securities and other fixed income securities	27,574,835	9,464,425	6.24%	93.69%

All debt securities and other fixed income securities are classified as held for trading securities.

All fixed income securities are listed on regulated market stock exchanges, except for securities with a carrying value of EUR 503,294 (in 2015: EUR 460,691).

The following table presents the distribution of the debt securities by the issuer's country of origin as at 31 December 2016:

Financial instrument	ISIN code	Acquisition on currency	Amount	Acquisition value (EUR)	Carrying value as at 31.12.2016	% of the Fund's net assets as at 31.12.2016
Financial instruments traded in regulated markets				25,612,674	27,071,541	91.98%
Debt securities of Turkish issuers:				1,315,076	1,360,572	10.31%
TURKEY	US900123AX87	USD	1,100	1,085,947	1,124,744	3.82%
EXPORT CREDIT BANK OF TURKEY	XS0774764152	USD	1,075	1,039,907	1,051,116	3.57%
YASAR HOLDINGS AS	XS1132450427	USD	875	827,954	858,890	2.92%

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Financial instrument	ISIN code	Acquisition currency	Amount	Acquisition value (EUR)	Carrying value as at 31.12.2016	% of the Fund's net assets as at 31.12.2016
Debt securities of Russian issuers:				3,516,570	3,543,646	12.04%
SEVERSTAL	XS0841671000	USD	1,000	933,573	1,029,194	3.50%
HOME CREDIT & FINANCE BANK OOO VIA EURASIA CAPITAL SA	XS0846652666	USD	900	815,299	897,274	3.05%
GAZPROM	XS0290580595	USD	800	768,552	853,630	2.90%
CREDIT BANK OF MOSCOW	XS1510534677	USD	800	724,125	763,548	2.59%
AMURMETALL	RU000A0GN9D1	RUB	12,500	275,021	-	0.00%
Debt securities of Azerbaijan issuers:				3,018,540	3,161,972	10.74%
REPUBLIC OF AZERBAIJAN INTERNATIONAL BOND	XS1044540547	USD	1,250	1,206,325	1,192,069	4.05%
STATE OIL CO OF THE AZERBAIJAN REPUBLIC	XS0903465127	USD	1,100	986,900	1,027,868	3.49%
INTERNATIONAL BANK OF AZERBAIJAN	XS1076436218	USD	1,000	825,315	942,035	3.20%
Debt securities of Kazakhstan issuers:				2,575,231	3,044,963	10.35%
NOSTRUM OIL & GAS	USN64884AA29	USD	1,150	830,301	1,086,400	3.69%
HALYK BANK	XS0583796973	USD	1,000	913,023	1,044,247	3.55%
KAZAGRO	XS1070363343	EUR	900	831,908	914,316	3.11%
Debt securities of Croatian issuers:				2,639,190	2,717,886	9.24%
HRVATSKA ELEKTROPRIVREDA CROATIA	XS1309493630	USD	1,000	1,002,542	1,008,789	3.43%
ZAGREBACKI HOLDING	XS1028953989	EUR	900	964,754	987,566	3.36%
	XS0309688918	EUR	14	671,894	721,531	2.45%
Debt securities of Hungarian issuers:				2,375,351	2,473,642	8.39%
MOL	XS0834435702	USD	1,200	1,208,215	1,252,297	4.24%
HUNGARY	US445545AD87	USD	1,150	1,167,136	1,221,345	4.15%
Debt securities of Bulgarian issuers:				1,920,461	1,928,161	6.55%
BULGARIAN ENERGY HOLDING EAD	XS1405778041	EUR	950	992,064	1,006,713	3.42%
VIVACOM	XS0994993037	EUR	900	928,396	921,448	3.13%
Debt securities of Ukrainian issuers:				1,339,559	1,746,689	5.94%
METINVEST BV	XS0591549232	USD	1,000	532,944	917,510	3.12%
FIRST UKRAINIAN INTERNATIONAL BANK	XS0287015787	USD	748	445,081	621,229	2.11%
AVANGARD	XS0553088708	USD	776,089	361,535	207,950	0.71%
Debt securities of Polish issuers:				949,687	980,913	3.33%
SYNTHOS	XS1115183359	EUR	950	949,687	980,913	3.33%
Debt securities of Georgian issuers:				933,932	972,846	3.31%
BGEO GROUP JSC	XS1405775880	USD	1,000	933,932	972,846	3.31%
Debt securities of Romanian issuers:				870,786	905,402	3.08%
CABLE COMMUNICATIONS SYSTEMS	XS1405770576	EUR	850	870,786	905,402	3.08%
Debt securities of Macedonian issuers:				699,633	712,204	2.42%
FYR MACEDONIA	XS1087984164	EUR	700	699,633	712,204	2.42%

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Financial instrument	ISIN code	Acquisition currency	Amount	Acquisition value (EUR)	Carrying value as at 31.12.2016	% of the Fund's net assets as at 31.12.2016
Debt securities of Latvian issuers:				632,531	635,259	2.16%
ELKO GRUPA AS	LV0000801892	EUR	625	632,531	635,259	2.16%
PAREX BANKA	LV0000800696	EUR	8,000	-	-	0.00%
Debt securities of Norwegian issuers:				600,332	620,269	2.11%
B2HOLDING ASA	NO0010775166	EUR	600	600,332	620,269	2.11%
Debt securities of Estonian issuers:				587,064	592,939	2.01%
CREDITSTAR INTERNATIONAL OU	EE3300111046	EUR	600	587,064	592,939	2.01%
Financial instruments not traded in regulated markets				506,003	503,294	1.71%
Debt securities of Estonian issuers:				506,003	503,294	1.71%
MAINOR ULEMISTE AS	EE3300110691	EUR	500	506,003	503,294	1.71%
Q VARA	EE3300079987	EUR	15	-	-	0.00%
Total debt securities and other fixed income securities				26,118,677	27,574,835	93.69%

Derivative financial instruments

The following table presents the notional amount and fair value of forwards and swaps. The notional amount of foreign exchange transactions is determined in accordance with the requirements arising from these transactions.

	31.12.2016			31.12.2015			% of the Fund's net assets as at 31.12.2016
	Notional value	Fair value		Notional value	Fair value		
		Assets	Liabilities		Assets	Liabilities	
<i>Currency swaps</i>	31,377,802	463,969	(916,613)	3,067,515	-	(9,179)	(1.54%)
<i>Currency forwards</i>	225,218	-	(8,780)	-	-	-	(0.03%)
Total derivative financial instruments	31,603,020	463,969	(925,393)	3,067,515	-	(9,179)	(1.57%)

All derivative financial instrument agreements are concluded with AS Citadele Banka.

5. Accrued expenses

	31.12.2016	31.12.2015
Accrued expenses for investment management company fees	(36,190)	(12,734)
Accrued expenses for custodian fees	(4,342)	(1,528)
Accrued expenses for professional services	(4,937)	(2,846)
Total accrued expenses	(45,469)	(17,108)

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6. Interest income

	2016	2015 <i>(adjusted)</i>
From debt securities and other fixed income securities	1,385,828	959,946
From due on demand from credit institutions	4,133	2,055
Total interest income	1,389,960	962,001

7. Realized increase in investment value

	2016	2015 <i>(adjusted)</i>
Proceeds from sale of investments in the reporting period*	14,240,917	6,045,141
Amortized cost of investments sold during the reporting period	14,112,341	(6,473,503)
Appreciation of disposed investments recognized in previous reporting periods	256,791	581,586
Total realized increase in investment value	385,367	153,224

* Proceeds from sales (disposal) of investments in the reporting period are recognized based on the exchange rate effective at the security acquisition date.

8. Unrealized increase/(decrease) in investment value

	2016	2015 <i>(adjusted)</i>
From debt securities and other fixed income securities	797,775	(45,790)
Total unrealized increase/(decrease) in investment value	797,775	(45,790)

9. Changes in investment value in the reporting period

The following table reflects changes in investments in 2016:

	31.12.2015	Increase during the reporting period	Decrease during the reporting period*	Addition of the acquired assets**	Fair value adjustment	31.12.2016
Financial investments held for trading						
Debt securities and other fixed income securities	9,464,425	16,370,199	(16,152,190))	14,280,387	3,612,014	27,574,835
Net derivative financial instruments	(9,179)	-	-	205,943	(658,188)	(461,424)
Total investments	9,455,246	16,370,199	(16,152,190)	14,271,974	2,953,826	27,113,411

* Decrease during the reporting period is carried at the exchange rate at the date of sale of investments. This position includes proceeds from sales and disposal of investments and the coupons received.

** See Note 18 on the take-over of CBL Eastern European Bond Fund-EUR

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The following table reflects changes in investments in 2015:

	31.12.2014	Increase during the reporting period	Decrease during the reporting period*	Fair value adjustment	31.12.2015
Financial investments held for trading	-	-	-	-	-
Debt securities and other fixed income securities	7,866,032	7,291,109	(7,463,339)	1,770,623	9,464,425
Derivative financial instruments	45,281	-	-	(54,460)	(9,179)
Total investments	911,313	7,291,109	(7,463,339)	1,716,163	9,455,246

* Decrease during the reporting period is carried at the exchange rate at the date of sale of investments. This position includes proceeds from sales and disposal of investments and the coupons received.

10. Pledged assets

In the reporting period, the Fund has neither issued any assurances or guarantees, nor has it pledged or encumbered any assets.

11. Fair value of financial assets and liabilities

The table below analyses the estimated fair value of financial instruments at the end of the reporting period by levels of the fair value hierarchy under which the fair value assessment has been categorized.

2016	1st level:	2nd level:	3rd level:	Total
Financial assets				
Financial instruments held for trading	25,843,343	-	1,731,492	27,574,835
Derivative financial instruments	-	463,969	-	463,969
	25,843,343	463,969	1,731,492	28,038,804
Financial liabilities				
Financial instruments measured at fair value through profit and loss	-	(925,393)	-	(925,393)
	25,843,343	(461,424)	1,731,492	27,113,411
2015	1st level:	2nd level:	3rd level:	Total
Financial assets				
Financial instruments held for trading	8,548,311	-	916,114	9,464,425
Derivative financial instruments	-	-	-	-
	8,548,311	-	916,114	9,464,425
Financial liabilities				
Financial instruments measured at fair value through profit and loss	-	(9,179)	-	(9,179)
	8,548,311	(9,179)	916,114	9,455,246

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The table shows the comparison of the opening and closing balances for the 3rd level of the fair value assessment hierarchy.

EUR	Debt securities and other fixed income securities	Total
Balance as at 1 January 2016	916,114	916,115
Total profit or loss:		
in the profit or loss statement	(383,131)	(383,131)
Acquisition	1,272,322	1,272,322
Settlement	(73,813)	(73,813)
Balance as at 31 December 2016	1,731,492	1,731,492

EUR	Debt securities and other fixed income securities	Total
Balance as at 1 January 2015	549,871	549,871
Total profit or loss:		
in the profit or loss statement	91,124	91,124
Acquisition	673,483	673,483
Settlement	(398,364)	(398,364)
Balance as at 31 December 2015	916,114	916,114

The table describes the valuation method used to arrive at the Level 2 and 3 fair value, and the significant unobservable inputs:

Type	Assessment method	Significant unobservable data	Relationship between relevant unobservable data and the fair value measurement
Financial instruments held for trading (derivatives) - 2nd level	Discounted cash flow method	Not applicable	Not applicable
Financial instruments held for trading (debt securities and other fixed income securities)- 3rd level	Discounted cash flow method	Discount rate	The estimated fair value would increase (decrease) if: - the discount rate was lower (higher);

If at the end of the reporting period there were changes in any of relevant unobservable input data that are used for the fair value measurement of financial instruments held for trading, but other input data would remain unchanged; the impact of such changes would be as follows:

as at 31 December 2016	Impact on the profit or loss statement	
Discount rate (2% change)	Increase	(Decrease)
	54,705	(52,685)

as at 31 December 2015	Impact on the profit or loss statement	
Discount rate (2% change)	Increase	(Decrease)
	26,910	(25,993)

12. Risk management

Investment process risk can be defined as a probability of undesirable outcome that may materialize in a given market economy in a given period. Risk management is described as risk identification, measurement and its possible prevention. The investment process can be affected by the exchange rate risk, interest rate risk, risk of price changes, as well as credit risk, liquidity risk and other risks, including operational risk. The investment strategy of the Fund is aimed at minimizing the aforementioned risks, however, the Company cannot guarantee that these risks can be completely avoided in future.

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Risk management structure

Risk identification and measurement is a responsibility of an independent unit of the Company - the Risk management department, which develops and presents the information on risk profile to the Fund manager. The Fund manager, however, can make certain decisions on the necessity to reduce existing or potential risks.

Risk measurement process employs models that are developed by the company, are based on historical data and are adjusted according to the economic situation. Certain models are also used to predict the financial risk factor changes under both normal and exceptional financial market circumstances.

The Manager of Investment Fund follows risk diversification and hedging principles whose objective is to reduce the investment risk that are developed in accordance with the Management Policy. When making investments on the Fund's account, the Company obtains sufficient information on potential or acquired investment objects, as well as supervises financial and economic position of issuers of the securities in which the Fund's property has been or is to be invested.

When developing the Fund's investment strategy and setting risk limits, the Company analyzes the Fund's investment distribution across maturities, geographic locations and currencies assessing the risk level for each of these factors. The Company acts in strict compliance with the Prospectus of the Fund, Fund Management Regulations, as well as regulations and restrictions prescribed in laws and regulations of the Republic of Latvia.

Market risk

Market risk is the probability that the Fund's value may decrease when any of the market factors changes, for example, in case of changes in interest rates (interest rate risk), prices of securities (price change risk), foreign currency exchange rates (exchange rate risk) or other market risk factors. The assessment of each of these market risk sources is provided below, however, they cannot be fully diversified.

Interest rate risk

Securities price risk for fixed income securities (bonds) largely depends on market interest rate fluctuations and changes in the issuers credit quality. Market interest rate changes affect the attractiveness of securities in the most direct manner, as substantially it is an alternative source of interest income. If market interest rates are growing then the prices of fixed income securities fall and vice versa. On the other hand, the increase (decrease) in market interest rates have a positive (negative) effect on the coupon rates of fixed income securities with a variable interest rate (when the coupon is fixed as a base rate - such as Euribor or Libor plus an additional margin). Following revaluation (moment starting from which a new interest rate will be applied) the yield rate for such securities coupons increases (decreases), with the result that the interest income increases (decreases).

The tables below show the effects of changes in certain currency market interest rates on the value of a particular Fund, where the interest income changes are calculated for one year. Changes in the real value of the Fund may differ from estimates and the difference may be material.

Changes in fixed-income securities market value and interest income (2016, EUR)

Currency	Changes in the base rates, bp	Changes in the annual interest income	Changes in market value	Impact of the base rate changes on the total value of the portfolio
USD	100	-	(297,790)	(297,790)
EUR	100	-	(616,766)	(616,766)
Total			(914,556)	(914,556)

Changes in fixed-income securities market value and interest income (2015, EUR)

Currency	Changes in the base rates, bp	Changes in the annual interest income	Changes in market value	Impact of the base rate changes on the total value of the portfolio
USD	100	-	(159,262)	(159,262)
EUR	100	-	(76,474)	(76,474)
Total		-	(235,736)	(235,736)

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Changes in fixed-income securities market value and interest income (2016, % of net assets)				
Currency	Changes in the base rates, bp	Changes in the annual interest income	Changes in market value	Impact of the base rate changes on the total value of the portfolio
USD	100	0.00%	(0.96%)	(0.96%)
EUR	100	0.00%	(1.99%)	(1.99%)
Total		0.00%	(2.95%)	(2.95%)

Changes in fixed-income securities market value and interest income (2016, EUR)				
Currency	Changes in the base rates, bp	Changes in the annual interest income	Changes in market value	Impact of the base rate changes on the total value of the portfolio
USD	(100)	-	297,790	297,790
EUR	(100)	-	616,766	616,766
Total		-	914,556	914,556

Changes in fixed-income securities market value and interest income (2016, % of net assets)				
Currency	Changes in the base rates, bp	Changes in the annual interest income	Changes in market value	Impact of the base rate changes on the total value of the portfolio
USD	(100)	0.00%	0.96%	0.96%
EUR	(100)	0.00%	1.99%	1.99%
Total		0.00%	2.95%	2.95%

Changes in fixed-income securities market value and interest income (2015, % of net assets)				
Currency	Changes in the base rates, bp	Changes in the annual interest income	Changes in market value	Impact of the base rate changes on the total value of the portfolio
USD	100	0.00%	(2.00%)	(2.00%)
EUR	100	0.00%	(0.96%)	(0.96%)
Total		0.00%	(2.96%)	(2.96%)

Changes in fixed-income securities market value and interest income (2015, EUR)				
Currency	Changes in the base rates, bp	Changes in the annual interest income	Changes in market value	Impact of the base rate changes on the total value of the portfolio
USD	(100)	-	159,262	159,262
EUR	(100)	-	76,474	76,474
RUR				
Total		-	235,736	235,736

Changes in fixed-income securities market value and interest income (2015, % of net assets)				
Currency	Changes in the base rates, bp	Changes in the annual interest income	Changes in market value	Impact of the base rate changes on the total value of the portfolio
USD	(100)	0.00%	2.00%	2.00%
EUR	(100)	0.00%	0.96%	0.96%
Total		0.00%	2.96%	2.96%

Exchange rate risk

Exchange rate risk arises when the nominal currency of securities and other financial instruments in the Fund differs from the Fund's currency. Exchange rate fluctuations may cause profit or loss depending on the direction of exchange rate fluctuations and the currency's position in the Fund. Currency risk of the Fund is effectively managed by closing forward and/or SWAP transactions.

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The following table reflects the distribution of net assets and liabilities of the Fund across currencies as at 31 December 2016:

	USD	EUR	Total
Assets			
Due on demand from credit institutions	900,452	1,463,959	2,364,411
Financial assets held for trading			
Debt securities and other fixed income securities	18,072,981	9,501,854	27,574,835
Derivative financial instruments	6,095,478	(5,631,509)	463,969
Total assets	25,068,911	5,334,304	30,403,215
Liabilities			
Accrued expenses	(40,532)	(4,937)	(45,469)
Derivative financial instruments	(14,331,393)	13,406,000	(925,393)
Total liabilities	(14,371,925)	13,401,063	(970,862)
Net assets	10,696,986	18,735,367	29,432,353
Net long position	36.34%	63.66%	100.00%

The following table reflects the distribution of net assets and liabilities of the Fund across currencies as at 31 December 2015:

	USD	EUR	Total
Assets			
Due on demand from credit institutions	768,998	3,722	772,720
Financial assets held for trading			
Debt securities and other fixed income securities	6,329,597	3,134,828	9,464,425
Derivative financial instruments	-	-	-
Total assets	7,098,595	3,138,550	10,237,145
Liabilities			
Accrued expenses	(14,262)	(2,846)	(17,108)
Derivative financial instruments	3,067,515	(3,076,694)	(9,179)
Total liabilities	3,053,253	(3,079,540)	(26,287)
Net assets	10,151,848	59,010	10,210,858
Net long position	99.42%	0.58%	100.00%

The effects of exchange rate fluctuations on the value of the Fund are shown in the table below. Exchange rate changes represent one year standard deviation of the particular rate.

Effects of changes in exchange rate (2016)			
Currency	Proportion of the Fund (% of net assets)	Change in the exchange rate against USD	Impact on the Fund's value
EUR	63.66%	0.00%	0.00%
USD	36.34%	8.27%	3.01%
Total	100.00%		3.01%

Effects of changes in exchange rate (2015)			
Currency	Proportion of the Fund (% of net assets)	Change in the exchange rate against USD	Impact on the Fund's value
USD	99.42%	0.00%	0.00%
EUR	0.58%	12.26%	0.07%
Total	100.00%		0.07%

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Credit Risk

Credit risk refers to the probability that the value of the Fund may decrease if the Fund's counterparty or the issuer of debt securities will be unable to or will refuse to meet the obligations. Consequently, only safe counterparties with a good reputation are selected when performing transactions with the Fund's assets. The Fund manager regularly monitors the solvency of the Fund's counterparties, analyzes their credit rating, financial situation and information in mass media.

The Fund's asset credit quality is managed based on international rating agencies Standard & Poor's, Moody's and Fitch credit ratings. In addition, issuers' financial statements, financial position and future prospects are also analyzed. The table shows the classification of debt securities issuers and credit institutions in which the Fund has deposits by credit ratings according to the following classification:

- High-quality financial instruments: MA - AA- (Standard & Poor's); Aaa - Aa3 (Moody's Investors Service); AAA - AA- (Fitch);
- Investment grade financial instruments: A+ - BBB- (Standard & Poor's); A1 - Baa3 (Moody's Investors Service); A+ - BBB- (Fitch);
- Higher risk financial instruments: BB+ - BB- (Standard & Poor's); Ba1 - Ba3 (Moody's Investors Service); BB+ - BB- (Fitch);
- Speculative financial instruments: B+ - C (Standard & Poor's); B1 - C (Moody's Investors Service); B+ - C (Fitch).

The following table reflects the distribution of the Fund's assets across credit ratings as at 31 December 2016:

	Investment grade financial instruments	Higher-risk financial instruments	Speculative financial instruments	No rating	Total
Due on demand from credit institutions	-	-	2,364,411	-	2,364,411
Financial assets held for trading					
Debt securities and other fixed income securities	2,250,539	15,583,586	6,559,770	3,180,940	27,574,835
Derivative financial instruments	-	-	463,969	-	463,969
Total investments	2,250,539	15,583,586	9,388,150	3,180,940	30,403,215

The following table reflects the distribution of the Fund's assets across credit ratings as at 31 December 2015:

	Investment grade financial instruments	Higher-risk financial instruments	Speculative financial instruments	No rating	Total
Due on demand from credit institutions	-	-	772,720	-	772,720
Financial assets held for trading					
Debt securities and other fixed income securities	1,319,031	4,488,902	2,624,374	1,032,118	9,464,425
Derivative financial instruments	-	-	-	-	-
Total investments	1,319,031	4,488,902	3,397,094	1,032,118	10,237,145

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Concentration risk

The business sector of the issuer and its geographical position are additional credit risk factors that can influence both the price of the securities issued, and the issuer's solvency. Therefore it is important to identify concentration risk - i.e., the extent to which the Fund's value depends on changes in certain regions and/or sectors. Geographical distribution of credit risk concentration (based on the countries whose position affects the issuer's solvency the most) and distribution across sectors are presented in tables below.

The following table reflects the geographical distribution of assets and liabilities of the Fund as at 31 December 2016.

	Latvia	Other OECD countries	Non - OECD countries	Total
Assets				
Due on demand from credit institutions	2,364,411	-	-	2,364,411
Financial assets held for trading				
Debt securities and other fixed income securities	635,259	8,205,807	18,733,769	27,574,835
Derivative financial instruments	463,969		-	463,969
Total assets	3,463,639	11,669,446	18,733,769	30,403,215
Liabilities				
Derivative financial instruments	(925,393)	-	-	(925,393)
Accrued expenses	(45,469)	-	-	(45,469)
Total liabilities	(970,862)	-	-	(970,862)
Net assets	2,492,777	10,698,584	18,733,769	29,432,353

The following table reflects the geographical distribution of assets and liabilities of the Fund as at 31 December 2015.

	Latvia	Other OECD countries	Non - OECD countries	Total
Assets				
Due on demand from credit institutions	772,720	-	-	772,720
Financial assets held for trading				
Debt securities and other fixed income securities	254,104	2,932,067	6,278,254	9,464,425
Derivative financial instruments	-	-	-	-
Total assets	1,026,824	2,932,067	6,278,254	⊗ 10,237,145
Liabilities				
Derivative financial instruments	(9,179)	-	-	(9,179)
Accrued expenses	(17,108)	-	-	(17,108)
Total liabilities	(26,287)	-	-	(26,287)
Net assets	1,000,537	2,932,067	6,278,254	10,210,858

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The following table reflects the distribution of net assets and liabilities of the Fund across individual countries:

Country	Carrying value as at 31.12.2016	Carrying value as at 31.12.2015	% of the Fund's net assets 31.12.2016
Turkey	3,034,750	1,360,572	10.31%
Russia	3,543,646	1,141,895	12.04%
Kazakhstan	3,044,963	1,077,627	10.35%
Latvia	2,492,777	1,000,537	8.47%
Ukraine	1,746,689	917,473	5.94%
Hungary	2,473,642	770,078	8.39%
Bulgaria	1,928,161	720,699	6.55%
Azerbaijan	3,161,972	655,006	10.74%
Croatia	2,717,886	635,958	9.24%
Estonia	1,096,233	425,236	3.72%
Georgia	972,846	417,858	3.31%
Romania	905,402	375,302	3.08%
Poland	980,913	376,181	3.33%
Macedonia	712,204	336,436	2.42%
Norway	620,269	-	2.11%
Total	29,432,353	10,210,858	100.00%

The following table reflects the distribution of the Fund's securities portfolio across sectors:

Sector	Carrying value as at 31.12.2016	Carrying value as at 31.12.2015	% of the Fund's net assets 31.12.2016
Commercial banks	6,292,295	2,323,448	21.38%
Government	5,237,928	1,464,562	17.80%
Raw materials	2,927,617	1,253,731	9.95%
Financial services	2,630,818	1,013,576	8.94%
Energy	4,220,195	902,692	14.32%
Consumer services	-	775,216	0.00%
Utilities	2,737,033	653,995	9.30%
Consumer goods	1,066,840	467,900	3.63%
Telecommunications	1,826,850	355,201	6.21%
IT services	635,259	254,104	2.16%
Other	-	746,433	-
Total	27,574,835	10,210,858	93.69%

Liquidity Risk

Liquidity risk can occur if the Fund is having difficulty in meeting its financial obligations. Fund Manager maintains such asset structure which ensures a possibility of selling securities in due time and with no significant losses. In addition, a large part of the Fund's assets are invested in short-term investment rating government bonds, which is one of the most liquid types of assets.

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The following table reflects the maturity distribution of the Fund's assets and liabilities as at 31 December 2016:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years and indefinite	Total
Assets							
Due on demand from credit institutions	2,364,411	-	-	-	-	-	2,364,411
Financial assets held for trading							
Debt securities and other fixed income securities	-	-	-	721,531	18,875,940	7,977,364	27,574,835
Derivative financial instruments	-	-	463,969	-	-	-	463,969
Total assets	2,364,411	-	463,969	721,531	18,875,940	7,977,364	30,403,215
Liabilities							
Derivative financial instruments	-	-	(925,393)	-	-	-	(925,393)
Accrued expenses	(40,532)	-	(4,937)	-	-	-	(45,469)
Total liabilities	(40,532)	-	(930,330)	-	-	-	(970,862)
Net assets	2,323,879	-	(466,361)	721,531	18,875,940	7,977,364	29,432,353
<i>Net position, %</i>	<i>7.90%</i>	<i>0%</i>	<i>(1.58%)</i>	<i>2.45%</i>	<i>64.13%</i>	<i>27.10%</i>	<i>100.00%</i>

The following table reflects the maturity distribution of the Fund's assets and liabilities as at 31 December 2015:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years and indefinite	Total
Assets							
Due on demand from credit institutions	772,720	-	-	-	-	-	772,720
Financial assets held for trading							
Debt securities and other fixed income securities	-	236,774	229,967	223,917	6,892,489	1,881,278	9,464,425
Derivative financial instruments	-	-	-	-	-	-	-
Total assets	772,720	236,774	229,967	223,917	6,892,489	1,881,278	10,237,145
Liabilities							
Derivative financial instruments	-	-	(9,179)	-	-	-	(9,179)
Accrued expenses	(14,262)	-	(2,846)	-	-	-	(17,108)
Total liabilities	(14,262)	-	(12,025)	-	-	-	(26,287)
Net assets	758,458	236,774	217,942	223,917	6,892,489	1,881,278	10,210,858
<i>Net position, %</i>	<i>7.43%</i>	<i>2.32%</i>	<i>2.13%</i>	<i>2.19%</i>	<i>67.51%</i>	<i>18.42%</i>	<i>100.00%</i>

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13. Information on the holders of the Fund's Share Certificates

The following table reflects the proportion of the share certificates held by related parties and other investors to the total number of the share certificates issued:

	31.12.2016	31.12.2015*	% of the total number as at 31.12.2016
CBL Eastern European Bond fund: Class R Acc USD			
Share certificates held by related parties	294	294	0.06%
Share certificates held by third parties	493,642	532,247	99.94%
The number of share certificates issued at the end of the reporting period	493,936	532,541	100.00%

*The number of share certificates of CBL Eastern European Bond Fund: Class R Acc USD and net assets per share certificate as at 31 December 2015 refer to the sub-fund CBL Eastern European Bond fund - USD.

	31.12.2016	31.12.2015*	% of the total number as at 31.12.2016
CBL Eastern European Bond fund: Class R Acc EUR (hedged)			
Share certificates held by related parties	153	153	0.01%
Share certificates held by third parties	1,032,626	875,048	99.99%
The number of share certificates issued at the end of the reporting period	1,032,779	875,201	100.00%

*The number of share certificates of CBL Eastern European Bond Fund: Class R Acc EUR (hedged) and net assets per share certificate as at 31 December 2015 refer to the sub-fund CBL Eastern European Bond fund - EUR.

The net assets and the number of issued share certificates taken over as a result of the merger are disclosed in Note 18.

14. Related party transactions

The majority of Fund's investments are acquired through the custodian bank. AS Citadele Banka receives custodian fee, which is disclosed in the Statement of income and expenses (see Note 3); cash of the Fund is also placed with AS Citadele Banka (see Note 3) and derivative financial instrument agreements have been concluded (see Note 5).

Remuneration paid to the Company in the reporting year is disclosed in the Statement of income and expenses.

During the reporting period related parties did not conduct any transactions with the Fund's share certificates. Purchase and re-selling transactions of the Fund's share certificates are calculated taking into account only the share certificates held by those related parties, which have been classified as related parties of the Fund in 2016 and also in 2015.

In the reporting period, the Fund had no investments in bonds issued by AS Citadele Bank.

15. Performance dynamics of the classes of the Investment Fund's share certificates

CBL Eastern European Bond fund: Class R Acc USD	31.12.2016	31.12.2015 ^A	31.12.2014 ^A	31.12.2013 ^A
Net assets (EUR)	10,815,319	10,210,858	8,933,007	12,276,239
The number of share certificates	493,936	532,541	575,854	822,467
The value of the unit of the Investment Fund (EUR)	21.90	19.17	15.51	14.93
Profitability of the Investment Fund*	14.20%	23.60%	3.88%	(0.33%)
Net assets (USD)**	11,400,427	11,108,715	10,839,243	16,777,634
The number of share certificates	493,936	532,541	575,854	822,467
The value of the unit of the Investment Fund (USD)	23.08	20.86	18.82	20.40
Profitability of the Investment Fund*	10.61%	10.84%	(7.75%)	2.93%

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CBL Eastern European Bond fund: Class R Acc EUR (hedged)	31.12.2016	31.12.2015 ^B	31.12.2014 ^B	31.12.2013 ^B
Net assets (EUR)	18,592,090	14,492,267	10,363,493	16,934,370
The number of share certificates	1,032,779	875,201	680,178	1,015,969
The value of the unit of the Investment Fund (EUR)	18.00	16.56	15.24	16.67
Profitability of the Investment Fund*	8.67%	8.66%	(8.58%)	(2.96%)
Net assets (EUR)**	18,636,606	14,513,204	10,393,417	16,845,937
The number of share certificates	1,032,779	875,201	680,178	1,015,969
The value of the unit of the Investment Fund (EUR)	18.05	16.58	15.28	16.58
Profitability of the Investment Fund*	8.84%	8.51%	(7.84%)	2.28%

* Profitability is calculated, assuming there are 365 days in a year.

** Net asset value is translated to US dollars using exchange rates determined in financial markets at the end of the day.

*** Net asset value is translated to EUR using exchange rates determined by the financial markets at the end of the day.

^A Information on CBL Eastern European Bond Fund Class R Acc USD share certificates in the previous periods refers to that on the sub-fund CBL Eastern European Bond fund - USD. .

^B Information on CBL Eastern European Bond Fund Class R Acc EUR (hedged) share certificates in the previous periods refers to that on the sub-fund CBL Eastern European Bond fund - EUR..

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16. Implemented changes in accounting policies

In order to improve accuracy of the recognized interest income and revaluation results, in the reporting period the Fund has changed the accounting policy regarding interest income. According to the effected changes, interest income and expenses do not include discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date.

The information provided below summarizes the impact of changes in the accounting policy to the Statement of income and expenses in comparison with the 2015 financial statements.

Comparative Statement of income and expenses

Note	2015	Increase/ (decrease)	2015
	As reported before		(Adjusted)
Income of the reporting period			
8	Interest income	991,925	29,924
	Other income	4,199	-
	996,124	29,924	962,001
	962,001		4,199
	966,200		966,200
Total income			
Expenses of the reporting period			
	Remuneration to investment management company	(149,122)	2,068
	Custodian Fee	(17,895)	248
	Other Fund management expenses	(4,754)	-
	(171,771)	2,316	(151,190)
	(151,190)		(18,143)
	(174,087)		(4,754)
	(174,087)		(174,087)
Increase in investment value			
9	Realized increase in investment value	130,110	(23,114)
10	Unrealized decrease in investment value	(52,601)	(6,811)
	77,509	(29,925)	107,434
	107,434		107,434
	107,434		107,434
	Foreign currency revaluation result	960,179	(2,315)
	1,862,041	-	1,862,041
	1,862,041		1,862,041
	1,862,041		1,862,041

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17. Added net assets of the sub-fund CBL Eastern European Bond Fund - EUR

On 18 April 2016, a domestic merger of the sub-funds of CBL Eastern European Fixed Income Funds: CBL Eastern European Bond Fund - EUR and CBL Eastern European Bond Fund - USD was effected. The net assets of the sub-fund CBL Eastern European Bond Fund-EUR as at 18 April 2016 and 31 December 2015, which were added as a result of the merger of the sub-funds, are indicated below.

	<u>18.04.2016</u>	<u>31.12.2015</u>
Assets		
Due on demand from credit institutions	1,447,290	1,031,613
Financial assets held for trading		
Debt securities and other fixed income securities	14,280,387	13,590,469
Derivative financial instruments	211,022	31,973
Total assets	<u>15,938,669</u>	<u>14,654,055</u>
Liabilities		
Financial liabilities held for trading		
Derivative financial instruments	(5,079)	(137,236)
Accrued expenses	(14,402)	(24,552)
Total liabilities	<u>(20,747)</u>	<u>(161,788)</u>
Net assets	<u>15,919,227</u>	<u>14,492,267</u>
The number of units	<u>940,272</u>	<u>875,201</u>
Value of the unit	<u>16,93</u>	<u>16,56</u>



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Independent Auditors' Report

To the shareholders of Investment fund "CBL Eastern European Bond Fund"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of Investment fund "CBL Eastern European Bond Fund" ("the Fund"), which is managed by the investment management company "CBL Asset Management" ("the Company") set out on pages 8 to 34 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2016,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholders' equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Investment fund "CBL Eastern European Bond Fund" as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

We are independent of the Fund and of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

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

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Management report, as set out on pages 4 to 5 of the accompanying Annual Report,
- the Statement of responsibility of the Company's management, as set out on page 6 of the accompanying Annual Report,



Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Fund and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Report of the Company's council and management board, our responsibility is to consider whether the Report of the Company's council and management board is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue



an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Ondrej Fikrle

Ondrej Fikrle
Partner pp
KPMG Baltics SIA
Riga, Latvia
27 April 2017

Inga Lipšāne

Inga Lipšāne
Sworn auditor
Certificate No 112