

INVESTMENT FUND
CBL Eastern European Bond Fund

ANNUAL REPORT FOR 2018
(16th financial year)

PREPARED IN ACCORDANCE WITH
FCMC 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, 2019



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INFORMATION ON THE INVESTMENT FUND

Name of the Fund:	CBL Eastern European Bond Fund
Type of the Fund:	Investment fund (UCITS IV)
Classes:	- R Acc USD ISIN: LV000400125 - R Acc EUR (hedged) ISIN: LV000400174
Registration date of the Fund:	20 July 2009
Number of the Fund:	FFL92
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 11.10.2010 Deputy Chairperson of the Council - Vladimirs Ivanovs - appointed on 06.11.2012 Member of the Council - Peter Meier - appointed on 30.09.2015 <i>Board of the investment management company:</i> Chairperson of the Board – Kārlis Purgailis - appointed on 08.09.2017 Board Member - Zigurds Vaikulis - appointed on 19.04.2007 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:	The Council and the Board members shall perform all duties prescribed in laws and regulations of the Republic and in the Articles of Association of the investment management company
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
Auditor:	KPMG Baltics SIA Vesetas iela 7 Rīga, LV-1013 License No 55 Latvia



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INVESTMENT MANAGEMENT COMPANY REPORT

The investment fund "CBL Eastern European Bond Fund" (previously the sub-fund "CBL Eastern European Bond Fund - USD" of CBL Eastern European Fixed Income Funds) (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 the investment management company CBL Asset Management, legal address Republikas laukums 2a, Riga, LV-1010, registered under No. 40003577500. The Investment Company's operating license is No. 06.03.07.098/367.

The Fund aims at achieving long-term capital appreciation by investing primarily in debt instruments and money market instruments issued or guaranteed by central governments, municipalities, central banks, credit institutions and commercial companies of the Eastern European countries as well as in fixed income funds and 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 financial instruments. There were no changes to the Fund's policy during the reporting period.

In 2018, the Fund's net assets decreased by 1.26% or EUR 368,432, and, at the end of the reporting period, the net assets totaled EUR 28,784,829. As at 31 December 2018, gross assets amounted to EUR 29,047,270. The return of the Fund and its value are calculated for each sub-class individually. In the reporting year, the value of the unit of the *CBL Eastern European Bond Fund* R Acc USD share class increased by EUR 0.73 reaching EUR 21.15 while the value of the unit of the R Acc EUR (hedged) share class decreased by EUR 0.76 to EUR 18.01. In 2018, the return of the R Acc USD share class was 3.57% in terms of the euros and -1.14% in terms of the Fund's base currency (USD). In 2018, the return of the R Acc EUR (hedged) share class was -4.05% in terms of the euros and -3.79% in terms of the Fund's base currency (EUR).

In 2018, the global financial markets showed significant fluctuations; moreover, the year was closed with a significant global stock market decline. Such volatility was mainly caused by the following factors: the ignited U.S.-China trade war, investor concerns for the slowdown of global economy and changes in the U.S. monetary policy regime. These global developments also caused a headwind to Eastern European debt securities market which showed losses during the calendar year only for the fourth time in its history. In the reporting period, the value of Eastern European debt securities market fell by 3% in U.S. dollar terms while the Fund's relative performance was better as the losses were only 1.1%. In April, Russian securities market was rocked by the new set of sanctions imposed by the US and for the first time they were directed against private listed companies. It should be noted that at the time the sanctions were declared, the Fund did not have any securities of such companies. In the middle of the year, Turkish financial market also saw a steep fall as Turkey faced the risk of overheating economy; moreover, the non-traditional economic theory of President Erdoğan and his desire to influence the activities of the Central Bank only worsened the overall situation. However, in September, the Central Bank of Turkey managed to partly restore investor confidence in its ability to make independent decisions; as a result, the market recovered the losses incurred.

The largest positive contribution to the Fund's performance was provided by Estonian securities market, where yield on high-coupon bonds ensured a stable income flow. Meanwhile, the most negative impact on the Fund's overall performance was from Kazakh market which at the end of the year faced correction due to the falling oil price; moreover, the private company Nostrum Oil&Gas also faced oil extraction-related challenges. In the reporting period, we made investments in Lithuanian and Belarusian financial markets again; at the end of the year, the share of these investments constituted 3.44% and 3.23% of the Fund's net assets. At the same time, we sold all Latvian debt securities and in 2018 the share of investments in Bulgarian financial instruments considerably decreased from 6.74% to 3.22% of the Fund's net assets which is associated with the early redemption of the bonds of the Bulgarian telecom entity Vivacom. At the end of the reporting period, the debt securities held within the Fund's portfolio were diversified among 16 countries. At the end of the reporting period, the Fund's average yield in U.S. dollar terms was 6.7%, average duration - 3.4 and average credit rating - Ba1/BB+.

In the reporting period, the total management costs amounted to EUR 501,497, which did not exceed the maximum amount of 3.00% provided in the Fund's Prospectus. The investment management company fee amounted to EUR 438,516, custodian fee - EUR 52,622 and other management expenses - EUR 10,359. In 2018, the Fund's ongoing charge figure was 1.72% of the Fund's average net asset value.



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As of the last day of the reporting year until the date of signing these financial statements there have been no significant events of material effect on the interpretation of the IPAS CBL Asset Management financial position and its results.

The management team of IPAS CBL Asset Management closely follows developments both on domestic and global scale of such factors as the stability 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 economic and capital market dynamics of the Eastern European region. The instrument selection, regardless of the sector and the country, will continue to be a decisive factor in the Fund's investment process.

Kārlis Purgailis
Chairperson of the Board

Andris Kotāns
Fund Manager

Edgars Lao
Fund Manager

Riga,
29 April 2019

STATEMENT OF RESPONSIBILITY OF THE BOARD OF THE INVESTMENT MANAGEMENT COMPANY

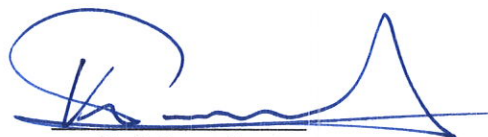
The Board of Investment Management Company (hereinafter - the Company) is responsible for preparation of financial statements of the investment fund "CBL Eastern European Bond Fund" (hereinafter - the Fund).

The financial statements on pages 8 through 26 are prepared based on source documents and present fairly the financial position of the Fund as at 31 December 2018 and the results of its operations in 2018.

Financial statements mentioned above are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, as required by the regulation 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 (FCMC) and other laws and regulations of the Republic of Latvia.

For the Board of IPAS:



Kārlis Purgailis
Chairperson of the Board

Rīga,
29 April 2019



Riga
25 February 2019

CUSTODIAN BANK REPORT

To the Share Certificates holders of IF 'CBL Eastern European Bond Fund'
For the period from 1 January 2018 to 31 December 2018

AS Citadele banka, registered in the Register of Enterprises of the Republic of Latvia on 30 June 2010 with No 40103303559, registered office: Republikas laukums 2a, Riga, hereby confirms the following:

- in accordance with the Custody Agreement concluded on 7 April 2017 AS Citadele banka (hereinafter the Custodian) performs custodian's duties for the investment fund 'CBL Eastern European Bond Fund' (hereinafter the Fund) established by IPAS 'CBL Asset Management' (hereinafter the Company);
- the Custodian has performed the functions of the Fund's custodian pursuant to the law 'On Investment Management Companies' (hereinafter the Law), Regulations of Financial and Capital Market Commission and other applicable laws and regulations of the Republic of Latvia.


The Custodian is responsible for performance of obligations set forth in laws and regulations of the Republic of Latvia and in the Custodian Agreement. The main responsibilities of the Custodian include:

- holding of the Fund's assets as well as documents confirming ownership of the Fund's assets in accordance with the laws and regulations of the Republic of Latvia and Custody Agreement;
- ensuring the maintenance of the Fund's accounts, receiving and executing the Company's orders, as well as settlement of the orders according with requirements of laws and regulations of the Republic of Latvia, Custody Agreement and current market practice;
- ensuring the Company with regular reports on Fund's assets and its value (prices of the securities);
- ensuring that the value of the Fund and Fund's Share Certificates is estimated in accordance with requirements of the Law, Regulations of Financial and Capital Market Commission, Fund's prospectus and Fund Management Regulations;
- ensuring that the issue, sale and repurchase of the Fund's Share Certificates is performed in accordance with the Law, Fund's prospectus and Fund Management Regulations.

During the period from 1 January 2018 to 31 December 2018:

- Issue, sale and repurchase of the Fund's Share Certificates were effected in compliance with requirements of the Law, Fund's prospectus and Fund Management Regulations;
- Fund assets were held in accordance with requirements of the Law and Custody Agreement;
- The value of the Fund's net assets was assessed in accordance with requirements of the Law, Regulations of Financial and Capital Market Commission, Fund's prospectus and Fund Management Regulations;
- the Company's orders, as well as transactions executed with the Fund's assets were performed in accordance with the Law, Fund's prospectus, Fund Management Regulations and the Custody Agreement.

During the reporting period, no errors or non-compliance with the applicable laws and regulations of the Republic of Latvia were detected in the Company's operations with the Fund's assets.



Guntis Beļavskis
Chairman of the Management Board, p.p.

STATEMENT OF ASSETS AND LIABILITIES

	Notes	<u>31.12.2018</u>	<u>31.12.2017</u>
Assets			
Due on demand from credit institutions	3	1,753,298	1,974,336
<i>Financial assets at fair value through profit or loss</i>			
Debt instruments	4	27,135,565	27,048,122
Derivative financial instruments	4	<u>158,407</u>	<u>329,703</u>
Total assets		<u>29,047,270</u>	<u>29,352,161</u>
Liabilities			
<i>Financial liabilities at fair value through profit or loss</i>			
Derivative financial instruments	4	(220,374)	(155,567)
Accrued expenses	5	<u>(42,067)</u>	<u>(43,333)</u>
Total liabilities		<u>(262,441)</u>	<u>(198,900)</u>
Net assets		<u>28,784,829</u>	<u>29,153,261</u>

The accompanying notes on pages 12 to 28 form an integral part of these financial statements.

For the Board of IPAS:



Kārlis Purgailis
Chairperson of the Board

Riga,
29 April 2019

STATEMENT OF INCOME AND EXPENSES

	Notes	<u>2018</u>	<u>2017</u>
Income for the reporting period			
Interest income	6	1,631,988	1,993,753
Other income		<u>36,636</u>	<u>4,303</u>
Total income		1,668,624	1,998,056
Expenses for the reporting period			
Remuneration to investment management company		(438,516)	(429,595)
Custodian fee		(52,622)	(51,551)
Other Fund management expenses		<u>(10,359)</u>	<u>(8,961)</u>
Total expenses		(501,497)	(490,107)
(Decrease)/ increase in investment value			
Realized (decrease)/ increase in investment value	7	(844,079)	143,062
Unrealized (decrease)/ increase in investment value	8	<u>(467,935)</u>	<u>325,127</u>
Total (decrease)/ increase in investments		(1,312,014)	468,189
Foreign currency revaluation result		<u>(304,802)</u>	<u>(1,956,575)</u>
(Decrease)/ increase in net assets from investment		<u>(449,689)</u>	<u>19,563</u>

The accompanying notes on pages 12 to 28 form an integral part of these financial statements.

For the Board of IPAS:



Kārlis Purgailis
Chairperson of the Board

Rīga,
29 April 2019



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STATEMENT OF CHANGES IN NET ASSETS

<i>CBL Eastern European Bond fund</i>	2018	2017
Net assets at the beginning of the reporting period	29,153,261	29,432,353
(Decrease)/ increase in net assets from investment	(449,689)	19,563
Transactions with share certificates		
Inflow from sale of share certificates	5,274,643	2,430,903
Outflow on redemption of share certificates	(5,193,386)	(2,729,558)
Increase/ (decrease)/ in net assets from transactions with share certificates	81,257	(298,655)
Net asset decrease in the reporting period	(368,432)	(279,092)
Net assets at the end of the reporting period	28,784,829	29,153,261

CBL Eastern European Bond fund: Class R Acc USD
ISIN : LV0000400125

	2018	2017
Number of share certificates issued as at the beginning of the reporting period	488,880	493,936
Number of share certificates issued at the end of the reporting period	356,182	488,880
Net assets per share certificate as at the beginning of the reporting period	20.42	21.90
Net assets per share certificate as at the end of the reporting period	21.15	20.42

CBL Eastern European Bond fund: Class R Acc EUR (hedged)
ISIN : LV0000400174

	2018	2017
Number of share certificates issued as at the beginning of the reporting period	1,022,346	1,032,779
Number of share certificates issued at the end of the reporting period	1,180,217	1,022,346
Net assets per share certificate as at the beginning of the reporting period	18.77	18.00
Net assets per share certificate as at the end of the reporting period	18.01	18.77

The accompanying notes on pages 12 to 28 form an integral part of these financial statements.

For the Board of IPAS:

Kārlis Purgailis
Chairperson of the Board

Rīga,
29 April 2019



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CASH FLOW STATEMENT

	<u>2018</u>	<u>2017</u>
Interest income	1,791,920	1,872,324
Investment management expenses	(497,798)	(501,709)
Acquisition of financial investments	(20,311,821)	(14,652,789)
Sale/ disposal of financial investments	19,248,408	12,997,185
Foreign currency revaluation result	(610,474)	472,846
(Decrease)/ increase in cash and cash equivalents from operating activities	<u>(379,765)</u>	<u>187,857</u>
Inflow from sale of share certificates	5,274,643	2,430,903
Outflow on redemption of share certificates	(5,193,386)	(2,729,558)
Increase/ (decrease) in cash and cash equivalents from financing activities	<u>81,257</u>	<u>(298,655)</u>
Decrease in cash and cash equivalents	<u>(298,508)</u>	<u>(110,798)</u>
Cash and cash equivalents at the beginning of the reporting period	<u>1,974,336</u>	<u>2,364,411</u>
Foreign currency revaluation result	77,470	(279,277)
Cash and cash equivalents at the end of the reporting period	<u>1,753,298</u>	<u>1,974,336</u>

The accompanying notes on pages 12 to 28 form an integral part of these financial statements.

For the Board of IPAS:

Kārlis Purgailis
Chairperson of the Board

Riga,
29 April 2019



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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Name of the Fund:	CBL Global Emerging Markets Bond Fund (hereinafter - the Fund)
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 investment portfolios of the Fund's sub-funds 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. The Fund's base currency is the U.S. dollar (USD). The Prospectus of the Fund does not provide for any investments in equity instruments.
Investment management company name:	IPAS CBL Asset Management (hereinafter - the Company) Republikas laukums 2a, Riga, LV-1010, Latvia

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of IF CBL Eastern European Bond Fund (hereinafter - the Fund) are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and as required by the Regulation 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 assets measured at fair value through profit or loss.

The monetary unit used in the financial statements is the euro (EUR), the official currency of the Republic of Latvia. The financial statements cover the period 1 January 2017 through 31 December 2017.

Opening balances of Statement of assets and liabilities as at 1 January 2017 agree with the closing balances of the published financial statements for the year 2016.

Functional and reporting currency

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

Significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires making of substantial assumptions. Moreover, when preparing the financial statements, the management of the Company has to make assumptions and judgments to apply the Fund's accounting policy. Preparation of financial statements in compliance with IFRS 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.

The most significant estimates and assumptions relate to determination of fair value of financial assets.

Income and expense recognition

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

Interest income and expenses are recognized in the income statement based on the effective interest rate of on the asset/liability. Interest income and expenses include discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Remuneration for the 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 revaluated 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 revaluated 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 revaluated both into functional and financial reporting currencies at the exchange rate at the date when 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 the 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	31.12.2018	31.12.2017
USD	1.1450	1.1993

Cash and cash equivalents

Cash and cash equivalents comprise the 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. The classification depends on the purpose of acquisition of the financial instrument. The management determines the classification of the financial instrument at initial recognition.

Financial instruments at fair value through profit and loss

Financial assets 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. All the Fund's investments in financial instruments are classified as financial assets at fair value through profit or loss. The result of re-measuring financial assets at fair value is included in the statement of income and expense as increase/ (decrease) in investment.

Financial instruments are revaluated based on the bid prices available from Bloomberg and the Russian Stock Exchange. Unlisted financial instruments are assessed according to the custodian's information on effected transactions, but in case such information is not available, the instruments are assessed at amortized cost. Purchase and sales transactions with financial instruments are recognized at the settlement date. The acquisition cost is measured using the FIFO (*first in, first out*) method.

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. The Fund's balances due from credit institutions are carried at their amortized cost using the effective interest rate method less impairment, if any.

Derivative financial instruments

For risk management purposes the Fund may engage in transactions with derivatives. 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, agreements are recognized in the balance sheet at their fair value. The fair value of these agreements is included in the statement of assets and liabilities as *Derivatives* and their relative value is disclosed in the Notes to the financial statements.

Profit or loss arising from changes in claims and liabilities that arise from the 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 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 are 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 by using the respective assessment technique are classified as Level 1, Level 2 or Level 3 category.

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

Level 2 represents financial instruments whose fair value is 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 instruments 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 the 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

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

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.

New standards and interpretations

In 2018, a number of new IFRS came into effect which are applicable to the Fund.

The following guidelines with effective date of 1 January 2018 were adopted for these financial statements. The relevant impact, if any, is disclosed throughout these financial statements.

9 IFRS 9 'Financial Instruments' (replaces IAS 39). When implementing IFRS 9, the Company elected to do a full restatement for the prior periods. Upon adoption of IFRS 9, there were no differences between the carrying amounts of the previous reporting period and the new carrying amounts. During the implementation process, the Company focused on upgrading the necessary processes, systems, models and capabilities. The new standard provides for different criteria for the classification of assets. To classify assets at amortized cost in accordance with the requirements of the new standard, the respective assets must be assessed under the 'solely payment of principal and interest (SPPI)' principle. Re-assessment of business models in the context of the new standard forms the basis for classification and measurement. As all the Fund's assets are classified as financial assets at fair value through profit or loss, there were no changes in classification at initial recognition.

As the Fund's financial instruments are measured at fair value through profit or loss, the adoption of the expected credit loss concept provided in the new standard did not change the allowance level. For assets at fair value through profit or loss no expected credit losses have to be estimated as they have already been included in the fair value of the assets. Such assets also need not be classified in stages depending on changes in their credit quality since initial acquisition or recognition. The Fund has balances due on demand from credit institutions balances; however, given the current structure and credit ratings, the expected credit loss allowances are not significant.

IFRS 15 'Revenue from Contracts with Customers'. The new standard establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. The Company initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without using any practical expedients. The timing or amount of the Fund's fee and commission income from contracts with customers was not affected by the adoption of IFRS 15.

New standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2018 or which have not yet been endorsed by the EU and which are not expected to have a significant impact on the Company are as follows:

IFRS 16 'Leases' (replaces IAS 17, IFRIC interpretation 4, IFRIC interpretation 15, IFRIC interpretation 27). The standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted if the entity also applies IFRS 15.

IFRS 17 'Insurance Contracts'. The standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted if the entity also applies IFRS 9 and IFRS 15.

Amendments to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'. The amendments are effective for annual periods beginning on or after 1 January 2021; must be applied retrospectively.

Annual improvements to IFRS:

- Investments in Associates and Joint Ventures (amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (amendments to IAS 19);
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatments;
- Revised Conceptual Framework for Financial Reporting.

The Company is in the process of evaluating the potential effect, if any, of these new standards and interpretations as well as of other changes on the financial statements.

NOTE 3 DUE ON DEMAND FROM CREDIT INSTITUTIONS

	31.12.2018	31.12.2017	% of the Fund's net assets 31.12.2018
Due on demand from credit institutions, AS Citadele Banka	1,753,298	1,974,336	6.09%
Total demand deposits with credit institutions	1,753,298	1,974,336	6.09%

NOTE 4 DEBT INSTRUMENTS

	31.12.2018	31.12.2017	Annual yield to maturity 31.12.2018	% of the Fund's net assets 31.12.2018
Corporate debt instruments	17,371,294	15,052,843	5.82%	60.35%
Latvian corporate debt instruments	-	644,653	-	-
Corporate debt instruments of OECD countries	5,355,479	2,829,994	5.19%	18.61%
Corporate debt instruments of non-OECD countries	12,015,815	11,578,196	6.11%	41.74%
Government debt instruments	3,021,919	4,333,110	5.27%	10.50%
Latvian government debt instruments	-	681,266	-	-
Government debt instruments of OECD countries	1,003,057	994,303	6.97%	3.48%
Government debt instruments of non-OECD countries	2,018,862	2,657,541	4.42%	7.02%
Debt instruments of credit institutions	2,116,050	4,269,478	6.70%	7.35%
Debt instruments of credit institutions of OECD countries	-	931,369	-	-
Debt instruments of credit institutions of non-OECD countries	2,116,050	3,338,109	6.70%	7.35%

	31.12.2018	31.12.2017	Annual yield to maturity 31.12.2018	% of the Fund's net assets 31.12.2018
Debt instruments of financial institutions	4,626,302	3,392,691	5.75%	16.07%
Debt instruments of financial institutions of OECD countries	3,563,733	2,657,404	3.00%	3.69%
Debt instruments of financial institutions of non-OECD countries	1,062,569	735,287	6.57%	12.38%
Total debt instruments	27,135,565	27,048,122	5.82%	94.27%

All debt instruments are classified as financial assets at fair value through profit or loss.

All fixed income financial instruments held by the Fund are traded on regulated markets, except for not traded on regulated markets instruments worth EUR 1,166,494 (as at 31 December 2017: EUR 2,012,504).

The following table presents the debt instruments broken down by the issuer's country of origin as at 31 December 2018:

Financial instrument	ISIN code	Currency	Nominal amount	Acquisition value (EUR)	Carrying amount 31.12.2018	% of the Fund's net assets 31.12.2018
Financial instruments traded on regulated markets				26,591,294	25 969 071	90.22%
Debt instruments of Russian issuers:				4,052,712	4,111,596	14.28%
NLMK 4.5% 06/2023	XS1405775617	USD	1,400,000	1,230,687	1,192,537	4.14%
Novatek OAO 6.604% 02/2021	XS0588433267	USD	1,100,000	1,033,938	1,025,043	3.56%
PhosAgro 3.949% 04/2023	XS1752568144	USD	1,200,000	936,680	989,104	3.44%
Severstal 5.90% 10/2022	XS0841671000	USD	1,000,000	851,407	904,912	3.14%
Debt instruments of Turkish issuers:				2,828,767	2,754,272	9.57%
Arcelik 5% 04/2023	XS0910932788	USD	1,250,000	1,031,880	1,000,167	3.48%
Turkey 6.0% 03/2027	US900123CL22	USD	1,200,000	1,016,672	1,003,057	3.48%
Turk Telekomunikasyon AS 4.875% 06/2024	XS1028951264	USD	1,000,000	780,215	751,048	2.61%
Debt instruments of Romanian issuers:				2,624,337	2,580,668	8.96%
Globalworth Real Estate Investments Ltd. 2.875% 06/2022	XS1577957837	EUR	1,050,000	1,078,748	1,062,569	3.69%
Digi Communications 5% 10/2023	XS1405770576	EUR	850,000	870,786	892,446	3.10%
Romania 6.75% 02/2022	US77586TAA43	USD	650,000	674,803	625,653	2.17%
Debt instruments of Kazakh issuers:				2,599,674	2,530,779	8.79%
KazTransGas JSC 4.375% 09/2027	XS1682544157	USD	1,300,000	1,072,852	1,063,359	3.69%
Halyk Savings Bank of Kazakhstan JSC 5.5% 12/2022	XS0867478124	USD	1,000,000	887,020	857,659	2.98%
Nostrum Oil & Gas 7.00% 02/2025	USN64884AD67	USD	1,100,000	639,802	609,761	2.12%
Debt instruments of Azerbaijani issuers:				2,000,213	1,897,649	6.60%
State Oil Co of the Azerbaijan 4.75% 03/2023	XS0903465127	USD	1,100,000	986,900	971,505	3.38%
Azerbaijan 4.75% 03/2024	XS1044540547	USD	1,050,000	1,013,313	926,144	3.22%
Debt instruments of Ukrainian issuers:				1,839,691	1,728,045	6.00%
Metinvest BV 7.75% 04/2023	XS1806400534	USD	1,000,000	864,114	815,633	2.83%
Kernel Holding 8.75% 01/2022	XS1533923238	USD	900,000	841,983	780,939	2.71%
First Ukrainian International Bank 11% 12/2018	XS0287015787	USD	147,342	133,594	131,473	0.46%
Debt instruments of Swedish issuers:				1,443,961	1,405,237	4.88%
DDM Debt AB 9.50% 01/2020	SE0009548332	EUR	800,000	842,035	831,699	2.89%

Financial instrument	ISIN code	Currency	Nominal amount	Acquisition value (EUR)	Carrying amount 31.12.2018	% of the Fund's net assets 31.12.2018
European Lingerie Group AB 7.75% 02/2021	SE0010831792	EUR	600,000	601,926	573,538	1.99%
Debt instruments of Croatian issuers				1,529,010	1,381,697	4.80%
Hrvatska Elektroprivreda 5.875% 10/2022	XS1309493630	USD	1,000,000	1,002,542	914,632	3.18%
Croatia 6.625% 07/2020	XS0525827845	USD	500,000	526,468	467,065	1.62%
Debt instruments of Georgian issuers:				1,191,973	1,126,918	3.92%
BGEO Group JSC 6% 07/2023	XS1405775880	USD	1,295,000	1,191,973	1,126,918	3.92%
Debt instruments of Hungarian issuers:				1,076,158	1,068,614	3.71%
MOL 2.625% 04/2023	XS1401114811	EUR	1,000,000	1,076,158	1,068,614	3.71%
Debt instruments of Lithuanian issuers:				992,945	989,005	3.44%
Maxima Grupe UAB 3.25% 09/2023	XS1878323499	EUR	1,000,000	992,945	989,005	3.44%
Debt instruments of Polish issuers:				1,007,199	973,107	3.38%
Tauron Polska Energia SA 2.375% 05/07/2027	XS1577960203	EUR	1,000,000	1,007,199	973,107	3.38%
Debt instruments of Norwegian issuers:				967,490	935,968	3.25%
B2Holding AS 7.50% 12/2020	NO0010753072	EUR	900,000	967,490	935,968	3.25%
Debt instruments of Belarusian issuers:				920,129	929,973	3.23%
Eurotorg 8.75% 10/2022	XS1577952010	USD	1,050,000	920,129	929,973	3.23%
Debt instruments of Bulgarian issuers:				887,636	925,971	3.22%
Bulgarian Energy Holding 4.875% 08/2021	XS1405778041	EUR	850,000	887,636	925,971	3.22%
Debt instruments of Estonian issuers:				629,399	629,572	2.19%
Luminor Bank AS/Estonia 1.50% 10/2021	XS1894121695	EUR	630,000	629,399	629,572	2.19%
Financial instruments not traded on regulated markets				1,150,050	1,166,494	4.05%
Debt instruments of Estonian issuers:				1,150,050	1,166,494	4.05%
Mainor Ulemiste 5.5% 04/2023	EE3300111343	EUR	600,000	600,000	611,662	2.12%
Creditstar volakiri 11.00% 06/2019	EE3300111368	EUR	550,000	550,050	554,832	1.93%
Total debt instruments				27,741,344	27,135,565	94.27%

Derivative financial instruments

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

	31.12.2018			31.12.2017			% of the Fund's net assets 31.12.2018
	Notional amount	Fair value		Notional amount	Fair value		
		Assets	Liabilities		Assets	Liabilities	
Swaps	32,087,284	158,407	(220,374)	26,933,376	329,703	(155,567)	(0.22%)
Total derivative financial instruments	32,087,284	158,407	(220,374)	26,933,376	329,703	(155,567)	(0.22%)

All derivative financial instruments are concluded with AS Citadele Banka.



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NOTE 5 ACCRUED EXPENSES

	31.12.2018	31.12.2017
Accrued expenses for investment management company fees	(33,022)	(34,153)
Accrued expenses for custodian fees	(3,963)	(4,098)
Accrued expenses for professional services	(5,082)	(5,082)
Total accrued expenses	(42,067)	(43,333)

NOTE 6 INTEREST INCOME

	2018	2017
From debt instruments	1,631,988	1,993,753
Total interest income	1,631,988	1,993,753

NOTE 7 REALIZED (DECREASE)/ INCREASE IN INVESTMENT VALUE

	2018	2017
Proceeds from sale of investments in the reporting period*	18,982,701	13,103,556
Cost of investments sold during the reporting period	(19,748,562)	(12,483,496)
Depreciation of sold investments recognized in prior reporting years	(78,218)	(476,998)
Total realized (decrease)/ increase in investment value	(844,079)	143,062

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

NOTE 8 UNREALIZED (DECREASE)/ INCREASE IN INVESTMENT VALUE

	2018	2017
From debt instruments	(467,935)	325,127
Total unrealized (decrease)/ increase in investment value	(467,935)	325,127

NOTE 9 CHANGES IN INVESTMENTS

The following table shows the changes in investments in 2018:

	31.12.2017	Increase during the reporting period	Decrease during the reporting period*	Fair value adjustment	31.12.2018
Debt instruments	27,048,122	20,311,821	(21,003,692)	779,314	27,135,565
Derivative financial instruments, net	174,136	-	-	(236,103)	(61,967)
Total investments	27,222,258	20,311,821	(21,003,692)	543,211	27,073,598

* 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.

The following table shows the changes in investments in 2017:

	31.12.2016	Increase during the reporting period	Decrease during the reporting period*	Fair value adjustment	31.12.2017
Debt instruments	27,574,835	14,652,789	(14,865,206)	(314,296)	27,048,122
Derivative financial instruments, net	(461,424)	-	-	635,560	174,136
Total investments	27,113,411	14,652,789	(14,865,206)	321,264	27,222,258

* 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.

NOTE 10 PLEDGED ASSETS

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

NOTE 11 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table analyzes 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.

2018	Level 1:	Level 2:	Level 3:	Total
Financial assets				
Financial assets at fair value through profit or loss	25,395,533	1,185,200	554,832	27,135,565
Debt instruments	-	158,407	-	158,407
	25,395,533	1,343,607	554,832	27,293,972
Financial liabilities				
Financial instruments at fair value through profit or loss	-	(220,374)	-	(220,374)
	25,395,533	1,123,233	554,832	27,073,598
2017	Level 1:	Level 2:	Level 3:	Total
Financial assets				
Financial assets at fair value through profit or loss	24,390,965	644,653	2,012,504	27,048,122
Debt instruments	-	329,703	-	329,703
	24,390,965	974,356	2,012,504	27,377,825
Financial liabilities				
Financial instruments at fair value through profit or loss	-	(155,567)	-	(155,567)
	24,390,965	818,789	2,012,504	27,222,258

The table compares the opening and closing balances for Level 3 of the fair value assessment hierarchy.

EUR	Debt instruments	Total
Balance as at 1 January 2018	2,012,504	2,012,504
Total profit or loss:		
in the statement of income and expenses	(482,603)	(482,603)
Acquisition	900,050	900,050
Settlement	(1,875,119)	(1,875,119)
Balance as at 31 December 2018	554,832	554,832

EUR	Debt instruments	Total
Balance as at 1 January 2017	1,731,492	1,731,492
Total profit or loss:		
in the statement of income and expenses	(482,238)	(482,238)
Acquisition	900,000	900,000
Settlement	(136,750)	(136,750)
Balance as at 31 December 2017	2,012,504	2,012,504

The following table presents the valuation methods used to arrive at the fair values of Level 2 and Level 3 as well as the significant unobservable inputs:

Type	Valuation method	Significant unobservable data	Relationship between the relevant unobservable data and the fair value measurement
Financial assets at fair value through profit or loss (derivative financial instruments) – Level 2	Discounted cash flow method	n/a	n/a
Financial assets at fair value through profit or loss (debt instruments) – Level 3	Discounted cash flow method	Discount rate	The estimated fair value would increase (decrease) if: the discount rate were lower (higher)

If at the end of the reporting period there were changes in any of the relevant unobservable input data used for the fair value measurement of financial instruments held for trading and all other input data held constant, the impact of such changes would be as follows:

	Impact on the profit or loss statement	
	Increase	(Decrease)
As at 31 December 2018		
Discount rate (2% change)	4,514	(4,573)

	Impact on the profit or loss statement	
	Increase	(Decrease)
As at 31 December 2017		
Discount rate (2% change)	51,690	(54,927)

NOTE 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 the future.

Risk management framework

Risk identification and measurement is a responsibility of an independent unit - 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 financial instruments 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 performs an analysis of the Fund's distribution of investments by maturity, geographic location and currency 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 financial instruments (price risk), foreign currency exchange rates (foreign currency 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

Financial instrument price risk for fixed income instruments (bonds) largely depends on market interest rate fluctuations and changes in the issuer credit quality. Market interest rate changes affect the attractiveness of financial instruments in the most direct manner, as substantially it is an alternative source of interest income. If market interest rates are growing, the prices of fixed income financial instruments 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 instruments with a variable interest rate (when the coupon is fixed as a base rate - such as Euribor or Libor plus an additional margin). After revaluation (moment starting from which a new interest rate will be applied) the coupon yield for such financial instruments increases (decreases), resulting in increase (decrease) of the interest income.

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 the market value of fixed income financial instruments and interest income (2018, 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
EUR	100	11,121	(327,580)	(316,459)
USD	100	-	(692,364)	(692,364)
Total		11,121	(1,019,944)	(1,008,823)

Changes in the market value of fixed income financial instruments and interest income (2017, 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
EUR	100	-	(188,568)	(188,568)
USD	100	-	(560,539)	(560,539)
Total		-	(749,107)	(749,107)

Changes in the market value of fixed income securities and interest income (2018,% 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
EUR	100	0.04%	(1.14%)	(1.10%)
USD	100	-	(2.41%)	(2.41%)
Total		0.04%	(3.55%)	(3.51%)

Changes in the market value of fixed income securities and interest income (2017,% 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
EUR	100	-	(0.65%)	(0.65%)
USD	100	-	(1.92%)	(1.92%)
Total		0.00%	(2.57%)	(2.57%)

Changes in the market value of fixed income securities and interest income (2018, 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
EUR	(100)	(11,121)	327,580	316,459
USD	(100)	-	692,364	692,364
Total		(11,121)	1,019,944	1,008,823

Changes in the market value of fixed income securities and interest income (2017, 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
EUR	(100)	-	188,568	188,568
USD	(100)	-	560,539	560,539
Total		-	749,107	749,107

Changes in the market value of fixed income securities and interest income (2018,% 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
EUR	(100)	(0.04%)	1.14%	1.10%
USD	(100)	-	2.41%	2.41%
Total		(0.04%)	3.55%	3.51%

Changes in the market value of fixed income securities and interest income (2017,% 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
EUR	(100)	-	0.65%	0.65%
USD	(100)	-	1.92%	1.92%
Total		0.00%	2.57%	2.57%

Foreign currency risk

Foreign currency 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. Foreign currency risk of the Fund is effectively managed by concluding forward and/or swap transactions.

The following table shows the breakdown of assets and liabilities of the Fund by currency profile as at 31 December 2018.

	USD	EUR	Total
Assets			
Due on demand from credit institutions	986,429	766,869	1,753,298
Financial assets at fair value through profit or loss			
Debt instruments	17,086,582	10,048,983	27,135,565
Derivative financial instruments	(8,560,044)	8,718,451	158,407
Total assets	9,512,967	19,534,303	29,047,270
Liabilities			
Accrued expenses	(36,985)	(5,082)	(42,067)
Derivative financial instruments	(1,738,304)	1,517,930	(220,374)
Total liabilities	(1,775,289)	1,512,848	(262,441)
Net assets	7,737,678	21,047,152	28,784,829
Net long position	26.88%	73.12%	100.00%

The following table shows the breakdown of assets and liabilities of the Fund by currency profile as at 31 December 2017:

	USD	EUR	Total
Assets			
Due on demand from credit institutions	1,771,538	202,798	1,974,336
Financial assets at fair value through profit or loss			
Debt instruments	19,128,792	7,919,330	27,048,122
Derivative financial instruments	(18,807,492)	19,137,195	329,703
Total assets	2,092,838	27,259,323	29,352,161
Liabilities			
Accrued expenses	(38,251)	(5,082)	(43,333)
Derivative financial instruments	8,075,699	(8,231,266)	(155,567)
Total liabilities	8,037,448	(8,236,348)	(198,900)
Net assets	10,130,286	19,022,975	29,153,261
Net long position	34.75%	65.25%	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.

Effect of exchange rate fluctuations (2018)				Effect of exchange rate fluctuations (2017)			
Currency	Share in the Fund (% of net assets)	Change in the exchange rate against USD	Impact on the Fund's value	Currency	Share in the Fund (% of net assets)	Change in the exchange rate against USD	Impact on the Fund's value
EUR	73.12	7.22%	5.28%	EUR	65.25%	7.42%	4.84%
USD	26.88%	0.00%	0.00%	USD	34.75%	0.00%	0.00%
Total	100.00%		5.28%	Total	100.00%		4.84%

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 is unable or refuses 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 the 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 instrument 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);
- High 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 shows the breakdown of the Fund's assets by credit ratings as at 31 December 2018.

	Investment grade financial instruments	Higher risk financial instruments	Speculative financial instruments	No rating	Total
Due on demand from credit institutions	-	1,753,298	-	-	1,753,298
Financial assets at fair value through profit or loss					
Debt instruments	8,471,901	11,931,708	4,028,752	2,703,204	27,135,565
Derivative financial instruments	-	158,407	-	-	158,407
Total investments	8,471,901	13,843,413	4,028,752	2,703,204	29,047,270

The following table shows the breakdown of the Fund's assets by credit ratings as at 31 December 2017.

	Investment grade financial instruments	Higher risk financial instruments	Speculative financial instruments	No rating	Total
Due on demand from credit institutions	-	1,974,336	-	-	1,974,336
Financial assets at fair value through profit or loss					
Debt instruments	5,240,554	10,357,936	7,411,345	4,038,287	27,048,122
Derivative financial instruments	-	329,703	-	-	329,703
Total investments	5,240,554	12,661,975	7,411,345	4,038,287	29,352,161

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 financial instruments 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 most affects the issuer's solvency) and distribution across sectors are presented in the tables below.

The following table shows the geographical profile of assets and liabilities of the Fund as at 31 December 2018.

	Latvia	Other OECD countries	Non-OECD countries	Total
Assets				
Due on demand from credit institutions	1,753,298	-	-	1,753,298
Financial assets at fair value through profit or loss				
Debt instruments	-	9,922,269	17,213,296	27,135,565
Derivative financial instruments	158,407	-	-	158,407
Total assets	1,911,705	9,922,269	17,213,296	29,047,270
Liabilities				
Derivative financial instruments	(220,374)	-	-	(220,374)
Accrued expenses	(42,067)	-	-	(42,067)
Total liabilities	(262,441)	-	-	(262,441)
Net assets	1,649,264	9,922,269	17,213,296	28,784,829

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The following table shows the geographical profile of assets and liabilities of the Fund as at 31 December 2017.

	Latvia	Other OECD countries	Non-OECD countries	Total
Assets				
Due on demand from credit institutions	1,974,336	-	-	1,974,336
Financial assets at fair value through profit or loss				
Debt instruments	1,325,919	7,413,070	18,309,133	27,048,122
Derivative financial instruments	329,703	-	-	329,703
Total assets	3,629,958	7,413,070	18,309,133	29,352,161
Liabilities				
Derivative financial instruments	(155,567)	-	-	(155,567)
Accrued expenses	(43,333)	-	-	(43,333)
Total liabilities	(198,900)	-	-	(198,900)
Net assets	3,431,058	7,413,070	18,309,133	29,153,261

The following table shows the breakdown of the Fund's net assets by sectors:

Sector	Carrying amount	Carrying amount	% of the Fund's
	31.12.2018	31.12.2017	net assets 31.12.2018
Energy	4,738,282	5,447,015	16.46%
Financial services	4,626,302	3,392,691	16.07%
Commodities	3,902,186	3,540,232	13.56%
Government	3,021,919	4,333,110	10.50%
Utilities	2,813,710	1,990,242	9.77%
Consumer staples	2,699,917	1,605,899	9.38%
Commercial banks	2,116,050	4,269,478	7.35%
Telecommunications services	1,643,494	1,824,802	5.71%
Consumption services	1,573,705	-	5.47%
IT services	-	644,653	-
Total	27,135,565	27,048,122	94.27%

The following table shows the breakdown of the Fund's net assets by individual countries:

Country	Carrying amount	Carrying amount	% of the Fund's
	31.12.2018	31.12.2017	net assets 31.12.2018
Russia	4,111,596	4,551,655	14.28%
Turkey	2,754,272	2,678,453	9.57%
Romania	2,580,668	2,288,775	8.96%
Kazakhstan	2,530,779	2,304,819	8.79%
Azerbaijan	1,897,649	2,030,590	6.60%
Estonia	1,796,066	2,012,504	6.24%
Ukraine	1,728,045	2,413,213	6.00%
Latvia	1,649,264	3,431,058	5.73%
Sweden	1,405,237	644,900	4.88%
Croatia	1,381,697	1,864,599	4.80%
Georgia	1,126,918	889,866	3.92%
Hungary	1,068,614	1,078,849	3.71%
Lithuania	989,005	-	3.44%
Poland	973,107	998,364	3.38%
Norway	935,968	-	3.25%
Belarus	929,973	-	3.23%
Bulgaria	925,971	1,965,616	3.22%
Total	28,784,829	29,153,261	100%

Liquidity risk

Liquidity risk can occur if the Fund has difficulty in meeting its financial obligations. The Fund Manager strives to maintain such asset structure which ensures a possibility of selling financial instruments in due time and with no significant losses. Moreover, 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.

The following table shows the maturity profile of the Fund's assets and liabilities as at 31 December 2018:

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years and indefinite	Total
Assets							
Due on demand from credit institutions	1,753,298	-	-	-	-	-	1,753,298
Financial assets at fair value through profit or loss							
Debt instruments	131,473	-	554,832	-	21,122,784	5,326,476	27,135,565
Derivative financial instruments	42,172	116,235	-	-	-	-	158,407
Total assets	1,926,943	116,235	554,832	-	21,122,784	5,326,476	29,047,270
Liabilities							
Derivative financial instruments	(138,841)	(81,533)	-	-	-	-	(220,374)
Accrued expenses	(36,985)	-	(5,082)	-	-	-	(42,067)
Total liabilities	(175,826)	(81,533)	(5,082)	-	-	-	(262,441)
Net assets	1,751,117	34,702	549,750	-	21,122,784	5,326,476	28,784,829
<i>Net position, %</i>	6.08%	0.12%	1.91%	0.00%	73.38%	18.51%	100.00%

The following table shows the maturity profile of the Fund's assets and liabilities as at 31 December 2017:

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years and indefinite	Total
Assets							
Due on demand from credit institutions	1,974,336	-	-	-	-	-	1,974,336
Financial assets at fair value through profit or loss							
Debt instruments	-	-	601,327	2,951,312	18,535,074	4,960,409	27,048,122
Derivative financial instruments	-	-	329,703	-	-	-	329,703
Total assets	1,974,336	-	931,030	2,951,312	18,535,074	4,960,409	29,352,161
Liabilities							
Derivative financial instruments	-	-	(155,567)	-	-	-	(155,567)
Accrued expenses	(38,251)	-	(5,082)	-	-	-	(43,333)
Total liabilities	(38,251)	-	(160,649)	-	-	-	(198,900)
Net assets	1,936,085	-	770,381	2,951,312	18,535,074	4,960,409	29,153,261
<i>Net position, %</i>	6.64%	0.00%	2.64%	10.12%	63.58%	17.02%	100.00%

NOTE 13 INFORMATION ON THE FUND'S SHARE CERTIFICATE HOLDERS

The following table shows the proportion of the share certificates held by related parties of the Fund as well as other investors in the total number of the share certificates issued:

	31.12.2018	31.12.2017	% of the total number 31.12.2018
CBL Eastern European Bond fund: Class R Acc USD			
Share certificates held by related parties	294	294	0.08%
Share certificates held by third parties	355,888	488,586	99.92%
Number of share certificates issued at the end of the reporting period	356,182	488,880	100.00%

	31.12.2018	31.12.2017	% of the total number 31.12.2018
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	1,180,064	1,022,193	99.99%
Number of share certificates issued at the end of the reporting period	1,180,217	1,022,346	100.00%

NOTE 14 RELATED PARTY TRANSACTIONS

The majority of the Fund's investments are acquired through the custodian bank. AS Citadele Banka receives a custodian fee, which is disclosed in the statement of income and expenses; the cash of the Fund is also placed with AS Citadele Banka (see Note 3). Besides, all the derivative financial instruments are concluded with AS Citadele Banka (see Note 4).

Remuneration paid to the investment management company in the reporting year is disclosed in the statement of income and expenses.

During the reporting period the 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 2018 and 2017.

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

NOTE 15 PERFORMANCE DYNAMICS OF THE INVESTMENT FUND

CBL Eastern European Bond fund: Class R Acc USD	31.12.2018	31.12.2017	31.12.2016
Net assets (EUR)	7,531,567	9,983,212	10,815,319
Number of share certificates	356,182	488,880	493,936
Value of the unit of the investment fund (EUR)	21.15	20.42	21.90
Profitability of the investment fund *	3.57%	(6.76%)	14.20%
Net assets (USD)**	8,623,645	11,972,866	11,400,427
Number of share certificates	356,182	488,880	493,936
Value of the unit of the investment fund (EUR)	24.21	24.49	23.08
Profitability of the investment fund *	(1.14%)	6.11%	10.61%

CBL Eastern European Bond fund: Class R Acc EUR (hedged)	31.12.2018	31.12.2017	31.12.2016
Net assets (EUR)	21,253,257	19,191,715	18,592,090
Number of share certificates	1,180,217	1,022,346	1,032,779
Value of the unit of the investment fund (EUR)	18.01	18.77	18.00
Profitability of the investment fund *	(4.05%)	4.28%	8.67%
Net assets (EUR)***	21,253,257	19,135,188	18,636,606
Number of share certificates	1,180,217	1,022,346	1,032,779
Value of the unit of the investment fund (EUR)	18.01	18.72	18.05
Profitability of the investment fund *	(3.79%)	3.71%	8.84%

The total assets of CBL Eastern European Bond Fund consist of the total net assets of both classes in the Fund's measurement currency; when translating the total assets of CBL Eastern European Bond Fund at the exchange rate published by the European Central Bank, an exchange rate difference between the total amounts of both classes arises which leads to the difference from the net assets presented elsewhere in the financial statements

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

** Net asset value in USD is established using exchange rates fixed by the financial markets at the end of the day.

*** Net asset value in EUR is established using exchange rates fixed by the financial markets at the end of the day.



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Independent Auditors' Report

To the shareholders of "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") set out on pages 8 to 26 of the accompanying Annual Report, which comprise:

- the statement of assets and liabilities as at 31 December 2018,
- the statement of income and expenses for the year then ended,
- the statement of changes in net assets for the year then ended,
- the cash flow statement 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 2018, 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 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 Fund's management is responsible for the other information. The other information comprises:

- Information on the Investment Fund, as set out on page 3 of the accompanying Annual Report,
- The Investment Management Company's Report, as set out on pages 4 and 5 of the accompanying Annual Report,
- the Statement of Responsibility of the Board of the Investment Management Company, 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 Related to Other Information* 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 Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Investment Management Report, our responsibility is to consider whether the Investment Management Report is prepared in accordance with the requirements No 99 "Regulations on Preparation of the Annual Report, Consolidated Annual Report and Half-Year Report of the Investment Fund and the Open-end Alternative Investment Fund".

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

- the information given in the Investment Management Company's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Investment Management Company's Report has been prepared in accordance with the requirements of the Republic of Latvia regulation No 99 "Regulations on Preparation of the Annual Report, Consolidated Annual Report and Half-Year Report of the Investment Fund and the Open-end Alternative Investment Fund".

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.

KPMG Baltics SIA
Licence Nr.55

/Ondrej Fikrle/

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Rīga, Latvia
29 April 2019

/Marina Iljina/

Marina Iljina
Sworn auditor
Certificate No. 193

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