



**INVESTMENT FUND
CBL Eastern European Bond Fund**

ANNUAL REPORT FOR 2019
(17th 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, 2020



TABLE OF CONTENTS

Information on the investment fund	3
Investment management company's report	4
Statement of responsibility of the Board of the investment management company	6
Custodian report	7
Financial statements:	
Statement of assets and liabilities	8
Statement of income and expenses	9
Statement of changes in net assets	10
Statement of cash flows	11
Notes to the financial statements	12
Auditors' report	27



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: LV0000400125 - R Acc EUR (hedged) ISIN: LV0000400174
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 AS Vesetas iela 7 Riga, LV-1013 License No 55 Latvia



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 2019, the Fund's net assets increased by 6.41% or EUR 1,846,524, and, at the end of the reporting period, the net assets totaled EUR 30,631,353. As at 31 December 2019, gross assets amounted to EUR 30,773,876. The Fund's return and value are calculated for each 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 2.57 reaching EUR 23.72 while the value of the unit of the R Acc EUR (hedged) share class increased by EUR 1.22 up to EUR 19.23. In 2019, the return of the R Acc USD share class was 12.15% in terms of the euro and 10.08% in terms of the Fund's base currency (USD). In 2019, the return of the R Acc EUR (hedged) share class was 6.77% in terms of the euro.

In the global financial markets, the beginning of 2019 was marked by a sharp rise in stock and bond prices recovering after the fall at the end of 2018. A key role was played by the world leading central banks as they changed their monetary policy for 180 degrees, namely, shifting to a monetary stimulus regime. Basic interest rates were reduced all over the world, including the central banks in the US and Eurozone. Moreover, both of them resumed increasing their assets by purchasing debt securities. The 2019 global financial markets closed the year on a strong note owing to the conclusion of the US – China the so called “first phase” trade deal at the end of the year. Overall, as to the investment returns to financial participants, 2019 was one of the best years of the past decade. The Fund's performance was also very successful in the reporting period – for the sixth time in the seventeen years of its history, the return exceeded 10%.

The largest positive contribution to the Fund's performance was provided by the Russian debt market, the largest country in the Fund, followed by investments in Ukraine where Volodymyr Zelensky was elected as the President in spring 2019. So far, the activities of the new and inexperienced politician at crucial points have been successful allowing Ukraine to return to the international financial markets. A slightly negative contribution to the Fund was only from the investments in Kazakhstan where the private oil company Nostrum Oil&Gas continued facing oil extraction-related challenges. Subsequent to the year end, this position was sold. In the reporting period, we made new investments in bonds issued by the largest grain trader in Moldova and the second biggest commercial bank in Uzbekistan. Moreover, after a short break, we again invested in securities of Czech and Latvian companies. By contrast, investments in Kazakhstan and Turkey were considerably reduced where, in our opinion, political risks are high. Investments in Bulgaria were fully disposed of. At the end of the reporting period, the debt securities held within the Fund's portfolio were diversified among 19 countries, and the Fund's average yield in terms of the U.S. dollar was 5.0%, average duration - 3.5 and the average credit rating Ba1/BB+.

In the reporting period, a number of measures were taken to be in contact with the management of companies both through e-mail and in person where, inter alia, such issues as corporate governance, capital structure, strategy and environmental impact of their activities were addressed.

In the reporting period, the total management costs amounted to EUR 509,415, which did not exceed the maximum amount of 3.00% provided in the Fund's Prospectus. The investment management company fee amounted to EUR 442,139, custodian fee - EUR 53,057 and other management expenses - EUR 14,219. In 2019, the Fund's ongoing charge figure was 1.72% of the Fund's average net asset value.

A significant event as of the last day of the reporting year until the date of signing these financial statements that may have a material impact on the financial situation of the Fund and its performance and which should be mentioned is the spread of coronavirus first in China and afterwards in Europe and the US. Financial market participants reacted to the virus spread outside China at the end of February and in March with very rapid sales of almost all types of assets. For example, from the beginning of the year to the second half of March, the investment-rating corporate bond segment experienced a drop of approximately 5-10%. The falls in the high-risk bond segment were closer to the levels of 15-20% while in the stock segment – of 25-30% on average depending on the region. The overall negative impact on various global economy sectors is impossible to estimate while the virus spread continues.

The operations and functions of IPAS CBL Asset Management have been changed to a remote working mode and thus it continues ensuring the continuity of the processes related to the management of the Fund. The information at the disposal of IPAS CBL Asset Management reveals that the Fund's Custodian has reacted similarly – no interruptions in the services provided by the Custodian have been observed.



The management team of IPAS CBL Asset Management closely follows developments both on domestic and global scale of such factors as the 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 East European region. At the same time, 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 2020

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 2019 and the results of its operations in 2019.

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
Chairman of the Board

Riga, 29 April 2020



CUSTODIAN BANK REPORT
For the period from 1 January 2019 to 31 December 2019

To the Share Certificate holders of
IF CBL Eastern European Bond Fund

AS Citadele banka, registered with the Register of Enterprises of the Republic of Latvia on 30 June 2010 under No 40103303559, registered office at 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) exercises custodian's functions for the investment fund "CBL Eastern European Bond Fund" (hereinafter - the Fund) established by IPAS CBL Asset Management (hereinafter - the Company);
- the Custodian exercises the functions of the Fund's custodian pursuant to the Law on Investment Management Companies (hereinafter – the Law), and other laws and regulations of the Republic of Latvia applicable to the Custodian (hereinafter – the laws and regulations).

The Custodian is responsible for compliance with the laws and regulations and the Custody Agreement. The main responsibilities of the Custodian include:

- holding of the Fund's assets in accordance with the laws and regulations and the Custody Agreement;
- ensuring the maintenance of the Fund's accounts, receiving and executing the Company's orders as well as settling payments in accordance with the requirements of the laws and regulations and the Custody Agreement;
- ensuring that the Fund's net asset value and the value of the unit of the Fund are calculated in accordance with the requirements of the laws and regulations, regulations of the Financial and Capital Market Commission, Prospectus of the Fund and Fund Rules;
- ensuring that the issue, sale and redemption of the Fund's Share Certificates are performed according to the laws and regulations, Prospectus of the Fund and Fund Rules;
- ensuring that the Fund's income is used according to the laws and regulations, Prospectus of the Fund and Fund Rules.

During the period from 1 January 2019 to 31 December 2019:

- the issue, sale and redemption of the Fund's Share Certificates were performed in accordance with the requirements of the laws and regulations, Prospectus of the Fund and Fund Rules;
- the Fund's assets were held in accordance with the requirements of the laws and regulations and the Custody Agreement;
- the Fund's net asset value was calculated in accordance with the requirements of the laws and regulations, regulations of the Financial and Capital Market Commission, Prospectus of the Fund and Fund Rules;
- the Company's orders were submitted as well as transactions with the Fund's assets were performed in accordance with the requirements of the laws and regulations, Prospectus of the Fund, Fund Rules and the Custody Agreement.

In the reporting period, no errors or non-compliance with the applicable laws and regulations were identified in the Company's operations with the Fund's assets.

Valters Ābele
Board Member

Riga, 2020

* This document is signed electronically with a secure electronic signature and is time-stamped.

STATEMENT OF ASSETS AND LIABILITIES

	Notes	<u>31.12.2019</u>	<u>31.12.2018</u>
Assets			
<i>Financial assets at amortized cost</i>	3		
Due on demand from credit institutions		1,406,272	1,753,298
<i>Financial assets at fair value through profit or loss</i>			
Debt instruments	4	29,228,408	27,135,565
Derivative financial instruments	4	139,196	158,407
Total assets		<u>30,773,876</u>	<u>29,047,270</u>
Liabilities			
<i>Financial liabilities at fair value through profit or loss</i>			
Derivative financial instruments	4	(92,264)	(220,374)
<i>Other liabilities</i>			
Accrued expenses	5	(50,259)	(42,067)
Total liabilities		<u>(142,523)</u>	<u>(262,441)</u>
Net assets		<u>30,631,353</u>	<u>28,784,829</u>

The accompanying notes on pages 12 through 26 form an integral part of these financial statements.

For the Board of IPAS:

Kārlis Purgailis
Chairman of the Board

Riga, 29 April 2020



STATEMENT OF INCOME AND EXPENSES

	Notes	<u>2019</u>	<u>2018</u>
Income for the reporting period			
Interest income	6	1,452,270	1,631,988
Other income		-	36,636
Total income		1,452,270	1,668,624
Expenses for the reporting period			
Remuneration to investment management company		(442,139)	(438,516)
Custodian fee		(53,057)	(52,622)
Other Fund management expenses		(14,219)	(10,359)
Total expenses		(509,415)	(501,497)
Increase/(decrease) in investment value			
Realized increase/(decrease) in investment value	7	420,170	(844,079)
Unrealized increase/(decrease) in investment value	8	1,069,095	(467,935)
Total increase/(decrease) in investment value		1,489,265	(1,312,014)
<i>Foreign currency revaluation result</i>		<u>(196,268)</u>	<u>(304,802)</u>
Increase/(decrease) in net assets from investment		<u>2,235,852</u>	<u>(449,689)</u>

The accompanying notes on pages 12 through 26 form an integral part of these financial statements.

For the Board of IPAS:

Kārlis Purgailis
Chairman of the Board

Riga, 29 April 2020

STATEMENT OF CHANGES IN NET ASSETS

<u>CBL Eastern European Bond fund</u>	<u>2019</u>	<u>2018</u>
Net assets at the beginning of the reporting period	28,784,829	29,153,261
Increase/(decrease) in net assets from investment	2,235,852	(449,689)
<i>Transactions with share certificates</i>		
Inflow from sale of share certificates	3,602,571	5,274,643
Outflow on redemption of share certificates	(3,991,899)	(5,193,386)
(Decrease)/increase in net assets from transactions with share certificates	(389,328)	81,257
Net asset increase/(decrease) in the reporting period	1,846,524	(368,432)
Net assets at the end of the reporting period	<u>30,631,353</u>	<u>28,784,829</u>

<u>CBL Eastern European Bond fund: Class R Acc USD</u> <u>ISIN : LV0000400125</u>	<u>2019</u>	<u>2018</u>
Number of share certificates issued as at the beginning of the reporting period	356,182	488,880
Number of share certificates issued as at the end of the reporting period	300,343	356,182
Net assets per share certificate as at the beginning of the reporting period	21.15	20.42
Net assets per share certificate as at the end of the reporting period	<u>23.72</u>	<u>21.15</u>

<u>CBL Eastern European Bond fund: Class R Acc EUR (hedged)</u> <u>ISIN : LV0000400174</u>	<u>2019</u>	<u>2018</u>
Number of share certificates issued as at the beginning of the reporting period	1,180,217	1,022,346
Number of share certificates issued as at the end of the reporting period	1,222,126	1,180,217
Net assets per share certificate as at the beginning of the reporting period	18.01	18.77
Net assets per share certificate as at the end of the reporting period	<u>19.23</u>	<u>18.01</u>

The accompanying notes on pages 12 through 26 form an integral part of these financial statements.

For the Board of IPAS:

Kārlis Purgailis
Chairman of the Board

Rīga, 29 April 2020

STATEMENT OF CASH FLOWS

	Notes	<u>2019</u>	<u>2018</u>
Interest income		1,318,041	1,791,920
Investment management expenses		(501,743)	(497,798)
Acquisition of financial investments	9	(15,357,367)	(20,311,821)
Sale/disposal of financial investments		15,245,707	19,248,408
Cash flow from swaps		(667,995)	(610,474)
Increase/(decrease) in cash and cash equivalents from operating activities		<u>36,643</u>	<u>(379,765)</u>
Inflow from sale of share certificates		3,602,571	5,274,643
Outflow on redemption of share certificates		(3,991,899)	(5,193,386)
(Decrease)/ increase in cash and cash equivalents from financing activities		<u>(389,328)</u>	<u>81,257</u>
Decrease in cash and cash equivalents		<u>(352,685)</u>	<u>(298,508)</u>
Cash and cash equivalents at the beginning of the reporting period		<u>1,753,298</u>	<u>1,974,336</u>
Foreign currency revaluation result		5,659	77,470
Cash and cash equivalents at the end of the reporting period		<u><u>1,406,272</u></u>	<u><u>1,753,298</u></u>

The accompanying notes on pages 12 through 26 form an integral part of these financial statements.

For the Board of IPAS:

Kārlis Purgailis
Chairman of the Board

Riga, 29 April 2020



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Name of the Fund:	CBL Eastern European Bond 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 2019 through 31 December 2019.

Opening balances of the statement of assets and liabilities as at 1 January 2019 agree with the closing balances of the published financial statements for the year 2018.

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.

For assets or liabilities stated at amortized cost, interest income and expenses are recognized in the statement of income and expenses under the effective interest method. An effective interest rate is the rate that exactly discounts future cash flows of the financial instrument through the estimated useful life of the respective financial asset or liability. For financial instruments at fair value through profit or loss, interest income is recognized on an accrual basis without applying the effective interest rate (while the effective interest rate is not applied?).

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.

Two types of transactions with derivative financial instruments (DFI) are concluded at the expense of the Fund. The first type relates to the Fund's total assets aiming to hedge foreign currency risks or earn profit. In this case, all income or expenses from DFI are attributed to the Fund's total assets. The other type focuses on containing the volatility of the value of the unit of the R Acc EUR (hedged) class share certificates due to changing exchange rates between the currency of the share certificate class (EUR) and the Fund's base currency (USD). In this case, all income and expenses from DFI are attributed only to the Fund's assets which are attributable to the R Acc EUR (hedged) class share certificates.

Derivatives listed on stock exchanges or traded on other regulated markets are valued at a price for which the instrument can be sold (the last purchase price at the market close on the day of the calculation of the Fund's value).

Derivatives not publicly traded on stock exchanges or on other regulated markets are valued at their redemption price or at compensatory transaction price confirmed in writing by the transaction partner on the day of the calculation of the Fund's value or at a price that is calculated on the basis of the market price of the underlying asset. A compensatory transaction is a transaction that liquidates a derivative.

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:

<u>Currency</u>	<u>31.12.2019</u>	<u>31.12.2018</u>
USD	1.1234	1.1450

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 measured using the discounted cash flow method 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.

Financial assets and liabilities at amortized cost

For a financial asset to be measured at amortized cost it should both be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI' criterion).

Financial assets measured at amortized cost are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

The impairment allowance for financial assets that are not-credit impaired (Stage 1 and Stage 2 classified) is measured as the present value of all cash shortfalls which is the difference between the cash flows due to the Company in accordance with contract and the cash flows that the Company expects to receive discounted at the effective interest rate of a financial asset. The impairment allowance for financial assets that are credit impaired at the reporting date (Stage 3 classified) is measured as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the effective interest rate of the financial asset. For the purchased or originated credit-impaired financial assets the credit-adjusted effective interest rate is applied from initial recognition.

A gain or loss on a financial asset that is measured at amortized cost is recognized in profit or loss when the financial asset is derecognized, reclassified, through the amortization process or in order to recognize impairment gains or losses. Financial assets at amortized cost are recognized on drawdown. From the date of signing a contractual agreement till drawdown, they are accounted for as off-balance sheet commitments

When the financial asset cannot be recovered, it is written-off and charged against impairment for credit losses. A decision to write off a loan is taken by the Company's management. Recoveries of previously written-off assets are credited to the statement of income and expenses.

The Company classified all financial liabilities as subsequently measured at amortized cost using the effective interest rate method, except for derivatives and certain deposit components of the insurance plan liabilities which are measured at fair value through profit or loss. A gain or loss on a financial liability that is measured at amortized cost is recognized in profit or loss when the financial liability is derecognized and through the amortization process.

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 statement of income and expenses 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 statement income and expenses, 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 interest 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

The following new standards, amendments and interpretations with effective date of 1 January 2019 were adopted for these financial statements without a material impact thereon.

IFRS 16 SFPS 'Leases' (replaces IAS 17, IFRIC interpretation 4, IFRIC interpretation 15, IFRIC interpretation 27).

IFRIC interpretation 23 'Uncertainty over Income Tax Treatments'

IFRS 9: Prepayment features with negative compensation (Amendment)

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)
IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)
Annual Improvements to IFRSs 2015 – 2017 Cycle – Amendments to IFRS 2, IFRS 11, IAS 12 and IAS 23.

Future guidance that does not have any impact on the 2019 year financial data

The EU has issued a number of new standards, amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2020, but that have not yet been endorsed by the EU. They have not been applied in preparing these financial statements. The Fund is not inclined towards their early adoption. The Company is in the process of evaluating the potential effect, if any, of the changes arising from these new standards and interpretations

IFRS 17 'Insurance contracts' effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 and IFRS 9 have also been applied.

Amendments to References to Conceptual Framework in IFRS Standard

Amendments to IFRS 3 –Definition of a Business

Amendments to IAS 1 and IAS 8 –Definition of Material

Amendments to IFRS 10 and IAS 28 –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

NOTE 3 DUE ON DEMAND FROM CREDIT INSTITUTIONS

	31.12.2019	% of the Fund's net assets 31.12.2019	31.12.2018	% of the Fund's net assets 31.12.2018
Due on demand from credit institutions, AS Citadele Banka	1,406,272	4.59%	1,753,298	6.09%
Total demand deposits with credit institutions	1,406,272	4.59%	1,753,298	6.09%

NOTE 4 DEBT INSTRUMENTS

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

Debt securities by sectors and regions:

	31.12.2019	% of the Fund's net assets 31.12.2019	31.12.2018	% of the Fund's net assets 31.12.2018
Corporate debt instruments	20,355,006	66.45%	17,371,294	60.35%
Latvia	579,921	1.89%	-	-
OECD countries	8,818,895	28.79%	5,355,479	18.61%
Non-OECD countries	10,956,190	35.77%	12,015,815	41.74%
Government debt instruments	2,729,574	8.91%	3,021,919	10.50%
Latvia	-	-	-	-
OECD countries	-	-	1,003,057	3.48%
Non-OECD countries	2,729,574	8.91%	2,018,862	7.02%
Debt instruments of credit institutions	3,413,846	11.14%	2,116,050	7.35%
OECD countries	2,182,031	7.12%	-	-
Non-OECD countries	1,231,815	4.02%	2,116,050	7.35%
Debt instruments of financial institutions	2,729,982	8.91%	4,626,302	16.07%
OECD countries	1,577,927	5.15%	3,563,733	3.69%
Non-OECD countries	1,152,055	3.76%	1,062,569	12.38%
Total debt instruments	29,228,408	95.42%	27,135,565	94.27%

All fixed income financial instruments held by the Fund are traded on regulated markets, except for not traded on regulated markets instruments worth EUR 1,016,445 (as at 31 December 2018: EUR 1,166,494).

The following table presents the debt instruments broken down by the issuer's country of origin as at 31 December 2019:

Financial instrument	ISIN code	Currency	Nominal amount	Acquisition value (EUR)	Carrying amount 31.12.2019	% of the Fund's net assets 31.12.2019
Financial instruments traded on regulated markets				27,225,811	28,211,963	92.11%
Debt instruments of Russian issuers:				3,758,683	4,229,560	13.80%
NLMK 4.5% 06/2023	XS1405775617	USD	1,400,000	1,230,687	1,318,703	4.31%
PhosAgro 3.949% 04/2023	XS1752568144	USD	1,200,000	936,680	1,107,303	3.60%
Rusal Capital 4.85% 02/2023	XS1759468967	USD	1,000,000	830,320	925,551	3.02%
Petropavlovsk Ltd 8.125% 11/2022	XS1711554102	USD	950,000	760,996	878,003	2.87%
Debt instruments of Romanian issuers:				2,654,411	2,681,084	8.75%
Globalworth Real Estate						
Investments Ltd 3.0% 03/2025	XS1799975922	EUR	1,050,000	1,108,822	1,152,055	3.76%
Digi Communications 5% 10/2023	XS1405770576	EUR	850,000	870,786	880,671	2.87%
Romania 6.75% 02/2022	US77586TAA43	USD	650,000	674,803	648,358	2.12%
Debt instruments of Polish issuers:				2,140,636	2,194,895	7.17%
PKO Bank 4.63% 09/2022	XS0783934085	USD	1,200,000	1,133,437	1,135,620	3.71%
Tauron Polska Energia SA 2.375% 05/07/2027	XS1577960203	EUR	1,000,000	1,007,199	1,059,275	3.46%
Debt instruments of Ukrainian issuers:				2,031,883	2,144,730	7.00%
Ukraine Railways Via Rail Capital						
Markets PLC 8.25% 07/2024	XS1843433472	USD	800,000	723,242	787,451	2.57%
Metinvest BV 5.625% 06/2025	XS2056722734	EUR	750,000	745,225	763,299	2.49%
Kernel Holding 8.75% 01/2022	XS1533923238	USD	600,000	563,416	593,980	1.94%
Debt instruments of Czech issuers:				2,154,506	2,128,127	6.95%
EP Infrastructure AS 1.698% 07/2026						
	XS2034622048	EUR	1,200,000	1,210,588	1,204,182	3.93%
CEZ AS 3.0% 06/2028	XS0940293763	EUR	800,000	943,918	923,945	3.02%
Debt instruments of Azerbaijani issuers:				2,030,763	2,081,216	6.79%
Southern Gas Corridor CJSC						
6.875% 03/2026	XS1319820897	USD	1,000,000	1,017,450	1,069,417	3.49%
Azerbaijan 4.75% 03/2024	XS1044540547	USD	1,050,000	1,013,313	1,011,799	3.30%
Debt instruments of Turkish issuers:				1,662,272	1,849,546	6.04%
Arcelik 5% 04/2023	XS0910932788	USD	1,050,000	882,057	961,724	3.14%
Turk Telekomunikasyon AS 4.875% 06/2024	XS1028951264	USD	1,000,000	780,215	887,822	2.90%
Debt instruments of Lithuanian issuers:				1,637,400	1,741,076	5.68%
Maxima Grupe UAB 3.25% 09/2023	XS1878323499	EUR	1,000,000	992,945	1,064,059	3.47%
AUGA group AB 6.00% 12/2024	LT0000404238	EUR	700,000	644,455	677,017	2.21%
Debt instruments of Kazakh issuers:				1,465,073	1,408,202	4.60%
KazTransGas JSC 4.375% 09/2027	XS1682544157	USD	1,000,000	825,271	942,464	3.08%
Nostrum Oil & Gas 7.00% 02/2025	USN64884AD67	USD	1,100,000	639,802	465,738	1.52%
Debt instruments of Hungarian issuers:				1,076,158	1,087,145	3.55%
MOL 2.625% 04/2023	XS1401114811	EUR	1,000,000	1,076,158	1,087,145	3.55%
Debt instruments of Georgian issuers:				1,005,187	1,049,409	3.43%
BGEO Group JSC 6% 07/2023	XS1405775880	USD	1,095,000	1,005,187	1,049,409	3.43%
Debt instruments of Estonian issuers:				1,036,840	1,046,411	3.42%
Luminor Bank AS/Estonia 1.50% 10/2021						
	XS1894121695	EUR	1,030,000	1,036,840	1,046,411	3.42%
Debt instruments of Norwegian issuers:				1,000,708	970,171	3.17%
B2Holding ASA 6.35% 05/2024	NO0010852742	EUR	1,000,000	1,000,708	970,171	3.17%
Debt instruments of Bulgarian issuers:				887,636	923,697	3.02%
Bulgarian Energy Holding 4.875% 08/2021						
	XS1405778041	EUR	850,000	887,636	923,697	3.02%
Debt instruments of Croatian issuers:				802,034	786,266	2.57%
Hrvatska Elektroprivreda 5.875% 10/2022						
	XS1309493630	USD	800,000	802,034	786,266	2.57%
Debt instruments of Moldovan issuers:				548,394	583,064	1.90%
Aragvi Finance International DAC 12.0% 04/2024						
	XS1960552823	USD	600,000	548,394	583,064	1.90%
Debt instruments of Latvian issuers:				551,695	579,921	1.89%
Air Baltic Corp AS 6.75% 07/2024	XS1843432821	EUR	550,000	551,695	579,921	1.89%

Financial instrument	ISIN code	Currency	Nominal amount	Acquisition value (EUR)	Carrying amount 31.12.2019	% of the Fund's net assets 31.12.2019
Debt instruments of Swedish issuers:				601,927	545,037	1.78%
European Lingerie Group AB 7.75% 02/2021	SE0010831792	EUR	600,000	601,927	545,037	1.78%
Debt instruments of Uzbek issuers:				179,605	182,406	0.60%
Uzbek Industrial and Construction Bank ATB 5.75% 12/2024	XS2083131859	USD	200,000	179,605	182,406	0.60%
Financial instruments not traded on regulated markets				1,000,290	1,016,445	3.31%
Debt instruments of Estonian issuers:				1,000,290	1,016,445	3.31%
Mainor Ulemiste 5.5% 04/2023	EE3300111343	EUR	600,000	600,000	607,756	1.98%
Nortal AS 4.75% 05/2024	FI4000383930	EUR	400,000	400,290	408,689	1.33%
Total debt instruments				28,226,101	29,228,408	95.42%

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.

	31.12.2019				31.12.2018			
	Notional amount	Fair value		% of the Fund's net assets 31.12.2018	Notional amount	Fair value		% of the Fund's net assets 31.12.2018
		Assets	Liabilities			Assets	Liabilities	
Swaps	38,005,903	138,532	(91,285)	0.15%	32,087,284	158,407	(220,374)	(0.22%)
Forwards	533,915	664	(979)	(0.00%)	-	-	-	-
Total derivative financial instruments	38,539,818	139,196	(92,264)	(0.15%)	32,087,284	158,407	(220,374)	(0.22%)

All derivative financial instruments are concluded with AS Citadele Banka.

NOTE 5 ACCRUED EXPENSES

	31.12.2019	31.12.2018
Accrued expenses for investment management company fees	(40,283)	(33,022)
Accrued expenses for custodian fees	(4,834)	(3,963)
Accrued expenses for professional services	(5,142)	(5,082)
Total accrued expenses	(50,259)	(42,067)

NOTE 6 INTEREST INCOME

	2019	2018
From debt instruments	1,452,270	1,631,988
Total interest income	1,452,270	1,631,988

NOTE 7 REALISED INCREASE/(DECREASE) IN INVESTMENT VALUE

	2019	2018
Proceeds from sale of investments in the reporting period*	14,739,548	18,982,701
Cost of investments sold during the reporting period	(14,696,201)	(19,748,562)
Increase.(decrease) in investment value recognized in prior reporting years	376,823	(78,218)
Total realized increase/(decrease) in investment value	420,170	(844,079)

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 UNREALISED INCREASE/(DECREASE) IN INVESTMENT VALUE

	<u>2019</u>	<u>2018</u>
From debt instruments	1,069,095	(467,935)
Total unrealized increase/(decrease) in investment value	<u>1,069,095</u>	<u>(467,935)</u>

NOTE 9 CHANGES IN INVESTMENTS

The following table shows the changes in investments in 2019:

	<u>31.12.2018</u>	<u>Increase during the reporting period</u>	<u>Decrease during the reporting period*</u>	<u>Fair value revaluation result and interest income recognized</u>	<u>31.12.2019</u>
Debt instruments	27,135,565	15,357,367	(16,563,748)	3,299,224	29,228,408
Derivative financial instruments, net	(61,967)	-	-	108,899	46,932
Total investments	<u>27,073,598</u>	<u>15,357,367</u>	<u>(16,563,748)</u>	<u>3,408,123</u>	<u>29,275,340</u>

* 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 2019:

	<u>31.12.2017</u>	<u>Increase during the reporting period</u>	<u>Decrease during the reporting period*</u>	<u>Fair value revaluation result and interest income recognized</u>	<u>31.12.2018</u>
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	<u>27,222,258</u>	<u>20,311,821</u>	<u>(21,003,692)</u>	<u>543,211</u>	<u>27,073,598</u>

* 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.

2019	<u>Level 1:</u>	<u>Level 2:</u>	<u>Level 3:</u>	<u>Total</u>
Financial assets				
Financial assets at fair value through profit or loss:				
Debt instruments and other fixed income instruments	27,398,598	1,829,810	-	29,228,408
Derivative financial instruments	-	139,196	-	139,196
	<u>27,398,598</u>	<u>1,969,006</u>	<u>-</u>	<u>29,367,604</u>
Financial liabilities				
Financial instruments at fair value through profit or loss	-	(92,264)	-	(92,264)
	<u>27,398,598</u>	<u>1,876,742</u>	<u>-</u>	<u>29,275,340</u>

2018	Level 1:	Level 2:	Level 3:	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Debt instruments and other fixed income instruments	25,395,533	1,185,200	554,832	27,135,565
Derivative financial 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

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 2019	554,832	554,832
Total profit or loss:		
in the statement of income and expenses	58,418	58,418
Additions	-	-
Settlement	(613,250)	(613,250)
Balance as at 31 December 2019	-	-
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)
Additions	900,050	900,050
Settlement	(1,875,119)	(1,875,119)
Balance as at 31 December 2018	554,832	554,832

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)

	Impact on the statement of income and expenses	
	Increase	(Decrease)
As at 31 December 2018		
Discount rate (2% change)	4,514	(4,573)

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 (2019, EUR)					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	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	12,830	(1,259,969)	(1,247,139)	EUR	100	11,121	(327,580)	(316,459)
USD	100	-	(1,175,329)	(1,175,329)	USD	100	-	(692,364)	(692,364)
Total		12,830	(2,435,298)	(2,422,468)	Total		11,121	(1,019,944)	(1,008,823)

Changes in the market value of fixed income securities and interest income (2019, % of net assets)					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	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%	-4.11%	-4.07%	EUR	100	0.04%	(1.14%)	(1.10%)
USD	100	-	-3.84%	-3.84%	USD	100	-	(2.41%)	(2.41%)
Total		0.04%	-7.95%	-7.91%	Total		0.04%	(3.55%)	(3.51%)

Changes in the market value of fixed income financial instruments and interest income (2019, 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)	(12,830)	1,259,969	1,247,139
USD	(100)	-	1,175,329	1,175,329
Total		(12,830)	2,435,298	2,422,468

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 securities and interest income (2019, % 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%)	4.11%	4.07%
USD	(100)	-	3.84%	3.84%
Total		(0.04%)	7.95%	7.91%

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%

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 the Fund's assets and liabilities by currency profile as at 31 December 2019.

	USD	EUR	Total
Assets			
Due on demand from credit institutions	238,232	1,168,040	1,406,272
<i>Financial assets at fair value through profit or loss</i>			
Debt instruments	15,335,078	13,893,330	29,228,408
Derivative financial instruments	(23,430,887)	23,570,083	139,196
Total assets	(7,857,577)	38,631,453	30,773,876
Liabilities			
Accrued expenses	(45,117)	(5,142)	(50,259)
Derivative financial instruments	15,108,933	(15,201,197)	(92,264)
Total liabilities	15,063,816	(15,206,339)	(142,523)
Net assets	7,206,239	23,425,114	30,631,353
Net long position	23.53%	76.47%	100.00%

The following table shows the breakdown of the Fund's assets and liabilities 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
<i>Financial assets at fair value through profit or loss</i>			
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 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 (2019)				Effect of exchange rate fluctuations (2018)			
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	76.47%	5.01%	3.83%	EUR	73.12	7.22%	5.28%
USD	23.53%	0.00%	0.00%	USD	26.88%	0.00%	0.00%
Total	100.00%		3.83%	Total	100.00%		5.28%

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 2019.

	Investment grade financial instruments	Higher risk financial instruments	Speculative financial instruments	No rating	Total
Due on demand from credit institutions	-	1,406,272	-	-	1,406,272
Financial assets at fair value through profit or loss					
Debt instruments	11,625,461	8,516,520	6,847,928	2,238,499	29,228,408
Derivative financial instruments	-	139,196	-	-	139,196
Total investments	11,625,461	10,061,988	6,847,928	2,238,499	30,773,876

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

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 2019.

	Latvia	Other OECD countries	Non - OECD countries	Total
Assets				
Due on demand from credit institutions	1,406,272	-	-	1,406,272
Financial assets at fair value through profit or loss				
Debt instruments	579,921	12,578,853	16,069,634	29,228,408
Derivative financial instruments	139,196	-	-	139,196
Total assets	2,125,389	12,578,853	16,069,634	30,773,876
Liabilities				
Derivative financial instruments	(92,264)	-	-	(92,264)
Accrued expenses	(50,259)	-	-	(50,259)
Total liabilities	(142,523)	-	-	(142,523)
Net assets	1,982,866	12,578,853	16,069,634	30,631,353

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

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

Sector	Carrying amount	% of the Fund's net assets	Carrying amount	% of the Fund's net assets
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Commodities	4,992,859	16.30%	3,902,186	13.56%
Utilities	4,897,365	15.99%	2,813,710	9.77%
Commercial banks	3,413,846	11.14%	2,116,050	7.35%
Consumer staples	2,918,120	9.53%	2,699,917	9.38%
Financial services	2,729,982	8.91%	4,626,302	16.07%
Government	2,729,574	8.91%	3,021,919	10.50%
Energy	2,495,347	8.15%	4,738,282	16.46%
Telecommunications services	1,768,493	5.77%	1,643,494	5.71%
Consumption services	1,506,761	4.92%	1,573,705	5.47%
Manufacturing	1,367,372	4.47%	-	-
IT services	408,689	1.33%	-	-
Total	29,228,408	95.42%	27,135,565	94.27%

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

Country	Carrying amount	% of the Fund's	Carrying amount	% of the Fund's
	31.12.2019	net assets	31.12.2018	net assets
Russia	4,229,560	13.81%	4,111,596	14.28%
Romania	2,681,084	8.75%	2,580,668	8.96%
Poland	2,194,895	7.17%	973,107	3.38%
Ukraine	2,144,730	7.00%	1,728,045	6.00%
Czech Republic	2,128,127	6.95%	-	-
Azerbaijan	2,081,216	6.79%	1,897,649	6.60%
Estonia	2,062,856	6.73%	1,796,066	6.24%
Latvia	1,982,866	6.46%	1,649,264	5.73%
Turkey	1,849,546	6.04%	2,754,272	9.57%
Lithuania	1,741,076	5.68%	989,005	3.44%
Kazakhstan	1,408,202	4.60%	2,530,779	8.79%
Hungary	1,087,145	3.55%	1,068,614	3.71%
Georgia	1,049,409	3.43%	1,126,918	3.92%
Norway	970,171	3.17%	935,968	3.25%
Bulgaria	923,697	3.02%	925,971	3.22%
Croatia	786,266	2.57%	1,381,697	4.80%
Moldova	583,064	1.90%	-	-
Sweden	545,037	1.78%	1,405,237	4.88%
Uzbekistan	182,406	0.60%	-	-
Belarus	-	-	929,973	3.23%
Total	30,631,353	100%	28,784,829	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 2019:

	Up to	1-3	3-6	6-12	1-5 years	More than 5	Total
	1 month	months	months	months		years and indefinite	
Assets							
Due on demand from credit institutions	1,406,272	-	-	-	-	-	1,406,272
<i>Financial assets at fair value through profit or loss</i>							
Debt instruments	-	-	-	-	21,648,033	7,580,375	29,228,408
Derivative financial instruments	30,229	108,967	-	-	-	-	139,196
Total assets	1,436,501	108,967	-	-	21,648,033	7,580,375	30,773,876
Liabilities							
Derivative financial instruments	(23,839)	(68,425)	-	-	-	-	(92,264)
Accrued expenses	(45,117)	-	(5,142)	-	-	-	(50,259)
Total liabilities	(68,956)	(68,425)	(5,142)	-	-	-	(142,523)
Net assets	1,367,545	40,542	(5,142)	-	21,648,033	7,580,375	30,631,353
<i>Net position, %</i>	<i>4.47%</i>	<i>0.13%</i>	<i>(0.02%)</i>	<i>-</i>	<i>70.67%</i>	<i>24.75%</i>	<i>100.00%</i>

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
<i>Financial assets at fair value through profit or loss</i>							
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%	-	73.38%	18.51%	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:

	31.12.2019	% of the total number	31.12.2018	% of the total number
CBL Eastern European Bond fund: Class R Acc USD				
Share certificates held by related parties	50,630	16.86%	48,991	13.75%
Share certificates held by third parties	249,713	83.14%	307,191	86.25%
Number of share certificates issued at the end of the reporting period	300,343	100.00%	356,182	100.00%
CBL Eastern European Bond fund: Class R Acc EUR (hedged)				
Share certificates held by related parties	185,209	15.15%	183,578	15.55%
Share certificates held by third parties	1,036,917	84.85%	996,639	84.45%
Number of share certificates issued at the end of the reporting period	1,222,126	100.00%	1,180,217	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 and in 2018, 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	31.12.2019	31.12.2018	31.12.2017
Net assets (EUR)	7,124,184	7,531,567	9,983,212
Number of share certificates	300,343	356,182	488,880
Value of the unit of the investment fund (EUR)	23.72	21.15	20.42
Return of the investment fund *	12.15%	3.57%	(6.76%)
Net assets (USD)**	8,003,308	8,623,645	11,972,866
Number of share certificates	300,343	356,182	488,880
Value of the unit of the investment fund (EUR)	26.65	24.21	24.49
Return of the investment fund *	10.08%	(1.14%)	6.11%
CBL Eastern European Bond fund: Class R Acc EUR (hedged)	31.12.2019	31.12.2018	31.12.2017
Net assets (EUR)	23,507,176	21,253,257	19,191,715
Number of share certificates	1,222,126	1,180,217	1,022,346
Value of the unit of the investment fund (EUR)	19.23	18.01	18.77
Return of the investment fund *	6.77%	(4.05%)	4.28%
Net assets (EUR)***	23,507,176	21,253,257	19,135,188
Number of share certificates	1,222,126	1,180,217	1,022,346
Value of the unit of the investment fund (EUR)	19.23	18.01	18.72
Return of the investment fund *	6.77%	(3.79%)	3.71%

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

* Return 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, while in 2018 and 2017 – using exchange rates fixed by Reuters at the end of the day.

NOTE 16 EVENTS AFTER THE END OF THE REPORTING PERIOD

Recent Covid-19-related events

The operations and functions of IPAS CBL Asset Management have been changed to a remote working mode and thus it continues ensuring the continuity of the processes related to the management of the Fund. The information at the disposal of IPAS CBL Asset Management reveals that the Bank has reacted similarly – no interruptions in the services provided by the Bank have been observed.

A significant event as of the last day of the reporting year until the date of signing these financial statements that may have a material impact on the financial situation of the Fund and its performance and which should be mentioned is the spread of coronavirus first in China and afterwards in developed economies. Financial market participants reacted to the virus spread outside China in February with very rapid sales of almost all types of assets. For example, from the beginning of the year to the second half of April, the emerging market countries bond segment experienced a drop of approximately 7-13%. The overall negative impact on various global economy sectors is impossible to estimate while the virus spread continues.

From 1 March to mid-April 2020, the inflow of funds into CBL Eastern European Bond Fund reached EUR 1,249,513 or 4.03% of assets. We believe that where considerable cash outflow from the fund takes place, which is unlikely, but if any, there will be no difficulties in realizing the portfolio positions to the extent necessary, given the high liquidity of the portfolio and the fact that no subsequent cash outflow has been observed.



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Independent Auditors' Report

To the shareholders of investment fund 'CBL Eastern European Bond Fund'

Report on Audit of financial statements

Our opinion on the financial statements

We have audited the financial statements of investment fund 'CBL Eastern European Bond Fund' ("the Fund") managed by IPAS 'CBL Asset Management' ("the Asset Manager") as set out on pages 8 to 26 of the accompanying Annual Report. The accompanying financial statements include:

- Overview of assets and liabilities as at 31 December 2019,
- Report on income and expenses for the year then ended,
- Statement of changes to net assets 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 2019, and of its financial performance and changes in net assets and 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 (hereinafter – ISAs) adopted in the Republic of Latvia. 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 the Fund Manager in accordance with the Code of Ethics for Professional Accountants (IESBA Code) by the International Ethics Standards Board for Accountants and the 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.

Emphasis of Matter

We draw attention to Note 16 to the financial statements which describes significant subsequent events in relation to the pandemic caused by Covid-19 which have no impact on the financial statements and contains commentary by the Asset Manager as to the potential impact of these developments on the daily operations of the Asset Manager and the financial position and performance of the Fund. Our opinion is not qualified in respect of this matter.



Reporting on Other Information

The management of the Asset Manager is responsible for the other information. The other information comprises:

- Information about the investment plan, as set out on page 3 of the accompanying Annual Report,
- Asset Manager's Report, as set out on pages 4 and 5 of the accompanying Annual Report.
- Statement of responsibility of the board of the Asset Manager, as set out on page 6 of the accompanying Annual Report.
- Custodian Bank Report, as set out on page 7 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 entity 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, our responsibility is to express an opinion on whether the Asset Manager's Report is prepared in accordance with the requirements of Regulation No. 99 'Regulation on the preparation of annual reports, consolidated annual reports and interim reports of an investment fund and open alternative investment fund' issued by the Financial and Capital Market Commission.

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

- the information presented in the Asset Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Asset Manager's Report has been prepared in accordance with the requirements of Regulation No. 99 of the Financial and Capital Market Commission of the Republic of Latvia.

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

The Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the IFRS as adopted by the European Union and for the maintenance of 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, the management of the Fund 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 on 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 judgement 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 Asset Manager'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 the 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.



*Translation from Latvian
In case of discrepancies, the text in Latvian prevails.*

We communicate with those charged with governance of the Fund and the Asset Manager 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 AS

Licence No. 55

Rainers Vilāns
Certified Auditor of Latvia
Certificate No.200
Partner pp KPMG Baltics AS
Riga, Latvia
29 April 2020