

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

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

HALF-YEAR REPORT 2014 (UNAUDITED)

(at June 30th, 2014)

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

Translation from Latvian original*

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

Riga, 2014

**OIF “Citadele Eastern European Bond Fund - USD”
Half-year report 2014
Table of contents**

Information on the investment fund	3
Investment management company report	5
Financial statements:	
Statement of financial position	6
Statement of comprehensive income	7
Statement of changes in net assets	8
Notes	9

OIF "Citadele Eastern European Bond Fund - USD"
Half-year report 2014
Information on the investment fund

Name of fund:	Citadele Eastern European Fixed Income Funds (Parex Eastern European Fixed Income Funds – until 01.08.2010.)
Type of fund:	Open-end investment fund with sub-funds
Registration date of the fund:	20 July 2009
Number of the fund:	06.03.05.098/50
Name of the sub-fund:	Citadele Eastern European Bond Fund – USD (Citadele Eastern European Bond Fund – until 16.09.2011.) (Parex Eastern European Bond Fund – until 01.08.2010.)
Name of the investment management company:	"Citadele Asset Management" IPAS („Parex Asset Management" IPAS – until 01.08.2010.)
Registered office of the investment management company:	Republikas laukums 2a, Riga, LV-1010, Latvia
Registration number of the investment management company:	40003577500
Licence number of the investment management company:	06.03.07.098/285
Name of the custodian bank:	"Citadele banka" JSC („Parex banka" JSC– until 01.08.2010.)
Registered office of the custodian bank:	Republikas laukums 2a, Riga, LV-1010, Latvia
Registration number of the investment management company:	40103303559
Names and positions of Council Members and Board Members of the investment management company::	<p><i>Council of the investment management company:</i> Chairman of the Council – Juris Jākobsons – appointed on 06.11.2012. Deputy Chairman of the Council – Vladimirs Ivanovs – appointed on 06.11.2012. Member of the Council – Philip Nigel Allard – appointed on 06.11.2012. Member of the Council – Philip Nigel Allard – resigned on 04.07.2014 Member of the Council – Aldis Paegle – appointed on 06.11.2012.</p> <p><i>Board of the investment management company:</i> Chairman of the Board – Uldis Upenieks – appointed on 06.11.2012. Member of the Board – Zigurds Vaikulis – appointed on 30.04.2013.</p>
The related rights and obligations of the management of the investment fund:	All the duties of the Council and Board members stated in the legislation of the Republic of Latvia and the Statutes of the investment management company are performed by the Council and Board members.
Names of Fund Managers:	Andris Kotāns – appointed on 27.10.2008. Edgars Lao – appointed on 16.09.2011.
The related rights and obligations of the management of the fund:	All the duties of the Fund managers stated in the legislation of the Republic of Latvia, Statutes of the investment management company and Fund prospectus are performed by the Fund managers.

OIF "Citadele Eastern European Bond Fund - USD"
Half-year report 2014
Information on the investment fund

Auditor:

KPMG Baltics SIA
Certified audit company licence No. 55
Vesetas street 7
LV-1013, Riga

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

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

During the reporting period the Fund's total assets declined by 20.00% to EUR 9,849,827 (USD 13,454,456). The Fund's net asset value denominated in euro declined by 19.91% (by 19.93% in US dollars) and amounted to EUR 9,831,778 (USD 13,433,126) at the end of the reporting period. The decline in the net asset value was due to outflow of the managed assets that was partially compensated by the profit earned on investments. During the reporting period the value of a Fund's share increased by EUR 0.49 (USD 0.67) up to EUR 15.42 (USD 21.07) at the end of the reporting period. The profitability of the Fund in the reporting period was 3.28% (6.73% per annum) in euro and in the functional currency. At the end of the reporting period the fund research company Morningstar listed the Fund among 32.5% best funds in the given category and awarded the Fund with the high four-star overall rating.

The largest positive contribution to the Fund's performance in the first half of 2014 was provided by the largest countries of the investments - Russia and Kazakhstan, as well as by Croatia. At the same time the largest negative performance was demonstrated by investments in Czech and Ukrainian debt securities markets. At the beginning of the period the Fund's performance was still affected by Czech New World Resources eurobonds. Given the growing concerns about the company's ability to serve its debt the Fund disposed of these securities in the reporting period. At the same time negative performance of Ukrainian debt securities market was due to military action in the Eastern part of the country significantly affecting activities of particular issuers and economic indicators of the country in general.

In the reporting period the most significant changes in the Fund's structures were due to disposal of all investments in Slovenian debt securities market as their values in Management Company's view reached adequate levels to realize profit. At the end of the reporting period the Fund no longer comprises investments in Czech debt securities market. At the same time the proportion of the Fund in Bulgaria was increased from 3.27% to 8.98% as attractive investment opportunities were identified there. As at the end of the reporting period the assets of the Fund were diversified among debt securities markets in 10 countries. At the end of the reporting period the average yield-to-maturity on debt securities was 6.2% with an average duration of 2.9, the weighted average of the credit ratings was Ba3/BB-. The share of the cash and cash equivalents at the end of reporting period comprised 5.70% from the Fund's net assets.

Management costs amounting to 135,113 USD or 1,81% of the average value of net assets in the period were covered from the Fund's assets which does not exceed the limit of 3% set forth in the Fund's Prospectus.

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

The team of managers at IPAS "Citadele Asset Management" closely monitors the developments both on the domestic and global scale, including sustainability of economic growth monetary and fiscal policies of leading economies as well as potential inflationary and political risks in light of their material impact on the economic and capital market dynamics of the Eastern European region. A critical selection of instruments will continue to play a decisive role in the process of the Fund's investments.

Uldis Upenieks
Chairman of the Board

Andris Kotāns
Member of the investment committee

Edgars Lao
Member of the investment committee

OIF "Citadele Eastern European Bond Fund - USD"
Half-year report 2014
Statement of financial position
(EUR)

Note		<u>30.06.2014.</u>	<u>31.12.2013.</u>
	Assets		
1	Demand deposits with credit institutions	559,953	376,563
	Financial assets held for trading		
2	Debt securities and other fixed income securities	9,285,662	11,932,961
3	Derivatives	4,212	3,187
	Total assets	<u>9,849,827</u>	<u>12,312,711</u>
	Liabilities		
	Financial liabilities held for trading		
3	Derivatives	(2,431)	(17,543)
	Accrued liabilities	(15,618)	(18,929)
	Total liabilities	<u>(18,049)</u>	<u>(36,472)</u>
	Net assets	<u>9,831,778</u>	<u>12,276,239</u>

The accompanying notes set out on pages 10 to 12 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga, 28 August 2014

OIF "Citadele Eastern European Bond Fund - USD"
Half-year report 2014
Statement of comprehensive income
(EUR)

	<u>01.01.2014.- 30.06.2014.</u>	<u>01.01.2013.- 30.06.2013.</u>
Income		
Interest income	432,171	483,250
Total income	432,171	483,250
Expenses		
Investment management company fee	(83,745)	(113,114)
Custodian bank fee	(10,049)	(13,197)
Other fund management expenses	(1,585)	(2,510)
Total expenses	(95,379)	(128,821)
Increase in investment value		
Realised increase in investment value	(46,216)	11,811
Unrealised (decrease) / increase in investment value	28,787	(524,261)
Total (decrease) / increase in investment value	(17,429)	(512,450)
Foreign currency revaluation gain	(40,376)	175,055
Total comprehensive income	278,987	17,034

The accompanying notes set out on pages 10 to 12 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga, 28 August 2014

OIF "Citadele Eastern European Bond Fund - USD"
Half-year report 2014
Statement of changes in net assets
(EUR)

	01.01.2014.- 30.06.2014.	01.01.2013.- 30.06.2013.
Net assets as at the beginning of the period	12,276,239	14,886,799
Total comprehensive income	278,987	17,034
Transactions with investment certificates:		
Inflow from sale of investment certificates	222,255	1,012,390
Outflow on redemption of investment certificates	(2,945,703)	(3,113,170)
(Decrease)/ increase in net assets from transactions with investment certificates	(2,723,448)	(2,100,780)
Decrease in net assets for the reporting period	(2,444,461)	(2,083,746)
Net assets as at the end of the reporting period	9,831,778	12,803,053
Issued investment certificates as at the beginning of the reporting period	822,467	994,097
Issued investment certificates as at the end of the reporting period	637,578	854,297
Net asset value per investment certificate as at the beginning of the reporting period	14.93	14.98
Net asset value per investment certificate as at the end of the reporting period	15.42	14.99

The accompanying notes set out on pages 10 to 12 form an integral part of these financial statements.

Uldis Upenieks
Chairman of the Board

Riga, 28 August 2014

OIF "Citadele Eastern European Bond Fund - USD"

Half-year report 2014

Notes
(EUR)**1. Demand deposits with credit institutions**

	30.06.2014.	31.12.2013.	% no Fonda neto aktiviem 30.06.2014.
Demand deposits with credit institutions, JSC Citadele banka	559,953	376,563	5.70%
Total demand deposits with credit institutions	559,953	376,563	5.70%

The Fund receives interest on demand deposits at fixed rates.

2. Debt securities and other fixed income securities

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

All fixed income securities are listed, except for securities with the book value EUR 559,694 (2013: EUR 560,784).

The table below presents debt securities by the issuer's country of residence as at 30 June 2014:

Financial instrument	ISIN	Currency	Amount	Acquisition value	Carrying amount as at 30.06.2013.	% of Fund's net assets as at 30.06.2013.
Financial instruments traded on regulated markets				9,359,411	8,725,968	88.76%
Russian issuers:				4,506,632	4,103,307	41.73%
CREDIT BANK OF MOSCOW	XS0879105558	USD	550	417,788	421,279	4.28%
GAZPROM	XS0424860947	USD	450	449,663	404,274	4.11%
SIBUR SECURITIES LTD	XS0878855773	USD	550	399,178	394,370	4.01%
RASPADSKAYA	XS0772835285	USD	500	382,240	367,837	3.74%
EDC	XS0918604496	USD	500	322,123	361,460	3.68%
RUSSIA RENAISSANCE CREDIT LLC	XS0114288789	USD	600	376,490	354,848	3.61%
POLYUS GOLD	XS0922301717	USD	450	352,951	330,440	3.36%
ALFA BANK	XS0620695204	USD	400	330,830	320,728	3.26%
BORETS FINANCE LTD	XS0974469206	USD	400	286,936	299,335	3.04%
SEVERSTAL	XS0841671000	USD	350	279,535	254,680	2.59%
VTB BANK	XS0772509484	USD	300	247,736	234,557	2.39%
AMURMETALL	RU000A0GN9D1	RUR	10,000	275,021	10,781	0.11%
Kazakhstan issuers:				1,173,656	1,202,250	12.23%
NOSTRUM OIL & GAS	USN64884AA29	USD	550	402,967	431,114	4.38%
KAZMUNAYGAS	XS0373641009	USD	450	415,210	411,727	4.19%
INTERGAS	USN45748AB15	USD	450	355,479	359,409	3.66%
Ukrainian issuers:				1,025,394	993,170	10.10%
METINVEST BV	XS0591549232	USD	550	370,791	363,929	3.70%
AVANGARD	XS0553088708	USD	500	359,619	359,037	3.65%
FIRST UKRAINIAN INTERNATIONAL BANK	XS0287015787	USD	400	294,984	270,204	2.75%
Financial instrument	ISIN	Currency	Amount	Acquisition	Carrying	% of Fund's net

OIF "Citadele Eastern European Bond Fund - USD"

Half-year report 2014

Notes
(EUR)

				value	amount as at 30.06.2013.	assets as at 30.06.2013.
Bulgarian issuers:				853,433	883,120	8.98%
BULGARIAN ENERGY HOLDING EAD	XS0989152573	EUR	450	450,870	462,192	4.70%
VIVACOM	XS0994993037	EUR	400	402,563	420,928	4.28%
Georgian issuers:				480,870	487,254	4.97%
BANK OF GEORGIA	XS0783935561	USD	600	480,870	487,254	4.97%
Azerbaijani issuers:				333,640	352,623	3.59%
AZERBAIJAN RAILWAYS	XS0592514144	USD	450	333,640	352,623	3.59%
Hungarian issuers:				392,351	405,557	4.12%
MOL	XS0834435702	USD	500	392,351	405,557	4.12%
Croatian issuers:				267,585	298,687	3.04%
ZAGREBACKI HOLDING	XS0309688918	EUR	6	267,585	298,687	3.04%
Latvian issuers:				325,850	-	0.00%
CAPITAL DEPARTMENT STORE SC	LV0000800761	EUR	325,850	325,850	-	0.00%
<u>Financial instruments not traded on regulated markets</u>				<u>557,340</u>	<u>559,694</u>	<u>5.69%</u>
Azerbaijani issuers:				307,340	307,166	3.12%
MUGAN BANK	LV0000801157	USD	400	307,340	307,166	3.12%
Estonian issuers:				250,000	252,528	2.57%
CREDITSTAR GROUP	EE3300110436	EUR	250	250,000	252,528	2.57%
Total securities and other fixed income securities				9,916,751	9,285,662	94.45%

3. Derivatives

The following table presents the notional amounts and fair values of foreign exchange contracts. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

	30.06.2014.			31.12.2013.			% of Fund's net assets as at 30.06.2013.
	Notional amount	Fair value		Notional amount	Fair value		
		Assets	Liabilities		Assets	Liabilities	
Foreign exchange contracts:							
Swaps	1,456,049	4,212	(2,431)	1,950,194	3,187	(17,543)	0.02%
Total foreign exchange contracts	1,456,049	4,212	(2,431)	1,950,194	3,187	(17,543)	0.02%

All contracts are concluded with "Citadele banka" JSC

OIF "Citadele Eastern European Bond Fund - USD"
Half-year report 2014
Notes
(EUR)

4. Dynamics of net asset value

	30.06.2014.	31.12.2013.	31.12.2012.	31.12.2011.
Net assets (EUR)	9,831,778	12,276,239	14,886,799	15,378,961
Number of investment certificates	637,578	822,467	994,097	1,153,191
Value of investment fund's shares (LVL)	15.42	14.93	14.98	13.34
Performance on investment fund's shares*	6.73%	(0.33)%	12.26%	1.29%
Net assets (USD)**	13,433,126	16,777,634	19,706,966	19,872,102
Number of investment certificates	637,578	822,467	994,097	1,153,191
Value of investment fund's shares (USD)	21.07	20.40	19.82	17.23
Performance on investment fund's shares*	6.73%	2.93%	14.99%	(0.52)%

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

** The net asset value in USD is determined, based on exchange rates fixed at financial markets at the end of each day.