



**IMJSC “Citadele Asset Management”**

Republikas square 2a,  
Riga, LV 1010, Latvia

### **Open-end investment fund**

## **“Citadele Eastern European Fixed Income Funds”**

# **PROSPECTUS**

The Fund is registered in the Republic of Latvia

Registered with the Financial and Capital Market Commission  
The Fund was registered on 20.07.2009.  
with the registration number 06.03.05.098/50

#### Amendments to the Prospectus:

Registered on 05.10.2009, effective as of 05.10.2009.  
Registered on 08.10.2009, effective as of 09.11.2009.  
Registered on 29.01.2010, effective as of 29.01.2010.  
Registered on 27.07.2010, effective as of 02.08.2010.  
Registered on 10.08.2010, effective as of 10.08.2010.  
Registered on 09.12.2010, effective as of 09.12.2010.  
Registered on 26.01.2011, effective as of 26.01.2011.

Custodian: JSC “Citadele banka”

Sworn Auditor: SIA “PricewaterhouseCoopers”

The Prospectus, the Fund Rules, the annual and semi-annual reports of the Fund as well as other information on the Fund and the Company is available free of charge at the office of the IMJSC “Citadele Asset Management” at the following address:  
Republikas square 2a, Riga, LV 1010, Latvia  
on business days from 08:30 to 17:30

#### Distributor of Investment Certificates:

In Latvia:

JSC “Citadele banka”  
Republikas square 2a, Riga, LV-1010, Latvia  
as well as branches and customer service units of the  
JSC “Citadele banka”

## IMPORTANT INFORMATION

“Citadele Eastern European Fixed Income Funds”, in accordance with the Republic of Latvia "Law on Investment Management Companies", is an open-end investment fund with 2 sub-funds – “Citadele Eastern European Balanced Fund” and “Citadele Eastern European Bond Fund”, and it operates in accordance with UCITS Directive 85/611/EC, taking into account amendments to the Directive 2001/107/EC and 2001/108/EC. The activities of the IMJSC “Citadele Asset Management”, which manages assets of this fund, are regulated by the Republic of Latvia laws.

Investment Certificates of the Sub-funds are distributed in accordance with this Prospectus and documents referred to in this Prospectus.

**Prevention of money laundering.** According to the Republic of Latvia law, the Company or the Distributor has the right to request that Investors submit documents confirming their identity or copies of such documents duly approved by a notary.

Where the investor refuses to submit to the Company the required documents, the Company has the right to reject the application for investment certificates without explanation. Further information about such requirements is available at the Company.

**Market timing.** The Company deliberately prevents investments that constitute market-timing practice; as such practice is detrimental to the interests of all investors. Market timing practice takes advantage of the potential time difference between changes in the value of the fund’s securities portfolio and reflection of such changes in the fund’s share value. The Company uses various methods to reduce the risk of market timing:

- Control of frequent purchase/sale transactions involving the fund’s investment certificates;
- Selective detailed investigation of cases involving active trade with the Fund’s investment certificates.

Although assessment based on such method is rather subjective and arbitrary, the Company strives to apply this method in the interests of Investors. The Company cannot ensure that it has sufficient information to identify market-timing practice. Even though the Company strives to detect market-timing practices, it cannot guarantee that this practice is completely eliminated.

**Data protection.** The Investor (natural person) agrees that the Company, the Custodian, or the Distributor processes personal data about the Investor. That includes also requesting and receiving Investor’s personal data from any third persons and databases established in accordance with procedure prescribed in the Republic of Latvia law, where the Company, the Custodian, or the Distributor deems it necessary for ensuring compliance with the requirements prescribed by the Republic of Latvia law and/or country in which the Fund’s investment certificates are distributed, for establishing legal relationship between the Investor and the Company, the Custodian, or the Distributor, or for meeting obligations.

**Distribution of the Sub-fund’s investment certificates.** The Sub-fund’s shares shall not be distributed in countries where the Fund is not registered or where the relevant state authorities have not been duly informed about the distribution. Thus, this Prospectus shall not be regarded as a public offer or an advertisement in countries where the Fund is not registered or where the relevant state authorities have not been duly informed about the distribution.

Investment certificates of the Sub-funds of “Citadele Eastern European Fixed Income Funds” are quoted on the investment fund list of the Riga Stock Exchange.

### Risk note

Despite the fact that the Company operates in accordance with the principles of diversification, general risks related to activities of investment companies remain. Investors should be aware that specific investment strategy aimed at investments in Eastern European region is subject to particular risks, especially liquidity risk and issuer’s default risk. Investors should carefully study the information on risks contained in this Prospectus. Prior to making investments, Investors without relevant experience should consult an independent financial adviser to make an informed decision on the offered fund’s investment strategy and to ensure that the fund’s strategy, including potential risk, is appropriate for the investor’s financial condition.

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**DEFINITION OF ABBREVIATIONS AND TERMS USED IN THE PROSPECTUS****Sub-fund**

Separate set of fund’s assets, consisting of investments made against investment certificates, as well as of assets acquired from transactions with this property and rights arising thereof.

**JSC “Citadele banka” and/or the Custodian**

The custodian of the open-end investment fund “Citadele Eastern European Fixed Income Funds”.

**JSC** Joint stock company operating under the Latvian law.

**Redemption**

Redemption of investment certificates by the Company upon the request of the Fund’s investors for the current price determined in accordance with Paragraph 9.2 hereof.

**Repurchase**

Repurchase of investment certificates by the Company with compensation for losses (where the Company is responsible for errors or omissions in information stated in the Prospectus).

**Derivatives**

Financial instruments whose value changes depending on respective interest rate, security price, currency exchange rate, price or interest rate index, credit rating or similar variable and by which one or several financial risks inherent in derivative’s primary underlying financial instrument are transferred between individuals involved in the transaction. No or minor initial investment is required for the purchase of a derivative compared to other contracts that also depend on changes in market environment, moreover, settlement for the contract takes place in the future.

**Open-End Investment Fund**

An investment fund whose investment management company is under obligation to redeem investment certificates upon request of the fund’s investors.

**Eastern European countries**

For the purposes of this Prospectus the Eastern European countries are: Latvia, Lithuania, Estonia, CIS countries (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia, Moldova, Tajikistan, Ukraine, Uzbekistan, Turkmenistan), as well as Albania, Bosnia and Herzegovina, Bulgaria, Czech Republic, Montenegro, Serbia, Croatia, Macedonia, Poland, Romania, Slovakia, Slovenia, Hungary, Turkey, Georgia.

**Member Country**

A member country of the European Union or the European Economic Area.

**Group of Ten**

Countries which have concluded the General Arrangements to Borrow (GAB) with the International Monetary Fund.

**EEA** European Economic Area.

**EU** The European Union.

**EUR** Euro - currency unit of the European Monetary Union.

**Financial Instruments**

Agreements that simultaneously give rise to financial assets for one person and financial liabilities or equity securities for another person. The definition of **Financial Assets** in this Prospectus shall be construed in accordance with International Accounting Standards 39 and 32.

**Financial and Capital Market Commission and/or the Commission and/or the FCMC**

An independent public institution, which, in compliance with its goals and objectives, enjoys full rights to regulate and supervise the financial and capital market and activities of its participants. The FCMC makes independent decisions within the limits of its authority, performs functions assigned to it by law, and is responsible for their execution.

**Fund Manager**

The Investment Committee, appointed by the Executive Board of the Company, to perform functions of the Fund Manager, observing provisions of the Prospectus, resolutions of the Executive Board of the Company, investment policy of the Fund and in accordance with procedures prescribed by current normative acts of the Republic of Latvia and the Fund Rules.

**IF** Investment Fund

**Fund**

The open-end investment fund “Citadele Eastern European Fixed Income Funds” founded by the IMJSC “Citadele Asset Management”.

**Investment Sub-fund’s Share**

IF share represents the right of claim attached to one investment certificate in proportion to the value of the sub-fund’s share. The sub-fund’s share value is the sub-fund’s net asset value divided by the number of investment certificates in circulation.

**Investor**

A person who has invested money in the sub-fund of investment fund, also a potential investor.

**Investment Certificate**

A transferable security that represents sub-fund investor’s interest in the investment sub-fund and rights attached to such interest.

**IMJSC** Investment management joint stock company

**Equity securities**

Securities representing ownership interest in issuer’s capital (e.g., stocks and similar securities).

**Account Holder**

A legal person entitled to open, hold and close financial instruments accounts in accordance with the Law “On the Financial Instruments Market” and regulations of the Latvian Central Depository or a legal person which can ensure keeping of financial instruments in the LCD through inter-bank or central depository correspondent relations.

**Latvian Central Depository and/or LCD**

A joint stock company which performs booking and accounting of financial instruments issued in public circulation in the Republic of Latvia and provides for financial instrument and cash settlements in transactions with financial instruments on the regulated market as well as financial instrument settlements among financial instruments account holders.

**RL** The Republic of Latvia

**LVL** Currency unit of the Republic of Latvia - Latvian lats.

**Money Market Instruments**

Highly liquid short-term debt securities whose value can be determined at any time (treasury bills, certificates of deposit, commercial paper etc.) usually traded on the money market.

**CIS** Commonwealth of Independent States.

**OECD** Organisation for Economic Co-operation and Development.

**Base Currency**

The currency in which the sub-fund’s net asset value and the sub-fund’s share value is expressed.

**Debt securities**

Securities representing issuer’s liability to repay the debt to the holder of such security (e.g., bonds, promissory notes etc.)

**Transferable securities**

Securities with unrestricted rights to transfer them.

**Publicly Available Information**

Detailed information about the Fund, the Company and the Custodian available, pursuant to the normative acts of the Republic of Latvia, to all Investors. Publicly Available Information is: the Prospectus and the Simplified Prospectus, the Fund rules, Sub-fund’s annual and semi-annual report,

time and places of distribution of the Investment certificates, the Sub-fund’s total value and the Sub-fund’s share value, sales and redemption prices of Sub-fund’s Investment certificates, information about the Company, and information about the Custodian.

**Riga Stock Exchange and/or the RSE**

A joint stock company that organises public and regular closing of public circulation securities transactions in the Republic of Latvia.

**Company**

IMJSC "Citadele Asset Management".

**Company’s Interested Persons**

Members of the Council and officers of the investment management company, shareholders who own 10 and more percent of the Company’s voting shares, as well as spouses, parents or children of such persons.

**Custodian**

A person responsible for custody of, accounting for and effecting transactions with the Fund’s assets, as well as for other obligations prescribed by the RL legislation and the custody agreement between the Custodian and the Company.

**Custodian’s Interested Persons**

Members of the Council and the Executive Board of the Custodian, shareholders who own 10 and more percent of the Custodian’s voting shares, as well as spouses, parents or children of such persons.

**Custody Agreement**

Written agreement between the Company and the Custodian, whereby the Custodian undertakes to keep in custody the Fund’s property, to perform transactions with the Fund’s property, and to service the Fund’s accounts in accordance with the RL law, the Prospectus and upon instructions from the Company.

**USD** Dollar of the United States of the America (USA) – currency unit of the United States of America.

## **1. GENERAL INFORMATION ON THE INVESTMENT FUND**

### **1.1. Objective of the Fund's Activities**

The open-ended investment fund "Citadele Eastern European Fixed Income Funds" aims to achieve long term capital growth through investments mainly in debt and equity securities issued or guaranteed by the states, municipalities, central banks and credit institutions, as well as issued by corporations, of the Eastern Europe. Investment portfolios of the Sub-funds are diversified across investments in capital and debt securities, as well as across currencies and countries, thus ensuring highest investment security and protection against fluctuations in the asset value of Sub-funds characteristic to securities of only one class, currency or country.

### **1.2. The Fund and the Legal Status of Its Property**

**The Investment fund** is a pool of assets formed by investments made against investment certificates as well as assets obtained in transactions with the investment fund's property and on the basis of rights owned thereby.

**The Sub-fund** is a separated part of the investment fund's property formed by investments made against investment certificates as well as assets obtained in transactions with such property and on the basis of rights owned thereby.

The base currencies of the Sub-funds of the open-ended fund "Citadele Eastern European Fixed Income Funds" are as follows:

The base currency of "Citadele Eastern European Balanced Fund" is the Euro (hereinafter, the EUR).

The base currency of "Citadele Eastern European Bond Fund" is the US dollar (hereinafter, the USD).

The investment fund is not a legal person.

"Citadele Eastern European Fixed Income Funds", in accordance with the Republic of Latvia "Law on Investment Management Companies", is an open-end investment fund with sub-funds, and it operates in accordance with UCITS Directive 85/611/EC, taking into account amendments to the Directive 2001/107/EC and 2001/108/EC. The Company that manages the Fund is required to redeem investment certificates upon the request from the Investors.

The fund's property is a joint property of investors of the Sub-funds to be held, booked and managed separately from the property of the Company and other funds or their sub-funds under its management, as well as separately from the Custodian's property.

The Fund's property is a joint property of the Sub-funds. The Fund may not have property, which does not belong to any of the Sub-funds.

Should the Company or the Custodian be declared insolvent or liquidated, the Fund's property shall not be included in the property of the Company or the Custodian.

### **1.3. Fiscal Year of the Sub-funds**

The reporting period of the Sub-funds is 12 months, and it coincides with the fiscal year of the Company. The fiscal year of the Sub-funds coincides with the calendar year.



## 2. SUMMARY OF EXPENSES RELATED TO TRANSACTIONS WITH INVESTMENT CERTIFICATES AND MANAGEMENT OF THE SUB-FUNDS

### 2.1. Commission on Transactions with Investment Certificates

The commission for the sale of investment certificates is calculated as a percentage of the Sub-fund's share value. The sales commission for the Sub-funds of “Citadele Eastern European Fixed Income Funds” shall be determined in the following amount from the Sub-fund's share value:

“Citadele Eastern European Balanced Fund”	up to 3.0%
“Citadele Eastern European Bond Fund”	up to 3.0%

There is no commission for redemption of investment certificates.

The commission for exchange of investment certificates of the Sub-funds is determined up to 1.0% of the Sub-fund's share value.

### 2.2. Fees to the Company, the Custodian and Third Persons Whose Fees are Payable from the Property of the Sub-funds

Fees in relation to the Sub-funds of “Citadele Eastern European Fixed Income Funds” are as follows:

#### “Citadele Eastern European Balanced Fund”

Beneficiary	Amount of the Fee
Company	1.50% per year of the Sub-fund's asset value
Custodian	0.175% per year of the Sub-fund's asset value
Sworn Auditor	Shall not exceed 0.10% per year of the Sub-fund's average asset value per year
Third parties (for holding of financial instruments, fee to the LCD, charge for including in and quoting of investment certificates on the lists of the stock exchanges, etc.)	In accordance with source documents or actual costs
<p>Sub-fund's total annual management costs shall not exceed 3.0% per year of the Sub-fund's average asset value per year.</p> <p>The amount is determined pursuant to the European Commission April 27, 2004 Recommendation No. 2004/384/EC on the content of the simplified prospectus set out in Section C of Appendix 1 of the European Council Directive 85/611/EC, taking into account amendments to the Directive 2001/107/EC and 2001/108/EC, is in line with the definition of Total Expense Ratio (TER), and does not include payments referred to in Paragraph 2.3 of the Prospectus.</p>	

#### “Citadele Eastern European Bond Fund”

Beneficiary	Amount of the Fee
Company	1.50% per year of the Sub-fund's asset value
Custodian	0.175% per year of the Sub-fund's asset value
Sworn Auditor	Shall not exceed 0.10% per year of the Sub-fund's average asset value per year

Third parties (for holding of financial instruments, fee to the LCD, charge for including in and quoting of investment certificates on the lists of the stock exchanges, etc.)	In accordance with source documents or actual costs
<p>Sub-fund’s total annual management costs shall not exceed 3.0% per year of the Sub-fund’s average asset value per year.</p> <p>The amount is determined pursuant to the European Commission April 27, 2004 Recommendation No. 2004/384/EC on the content of the simplified prospectus set out in Section C of Appendix 1 of the European Council Directive 85/611/EC, taking into account amendments to the Directive 2001/107/EC and 2001/108/EC, is in line with the definition of Total Expense Ratio (TER), and does not include payments referred to in Paragraph 2.3 of the Prospectus.</p>	

In the interests of Investors the Company is entitled to decrease the fee to the Company for the management of the Sub-funds of “Citadele Eastern European Fixed Income Funds”, and it is authorized to pay fees to the Custodian, the Sworn Auditor and third parties from the Company’s resources. The Company is entitled to additional commission fee only if it is not paid from the assets of the Sub-funds.

### 2.3. Other Payments from the Property of Sub-funds

Other expenses shall be covered from the property of Sub-funds if such expenses are justified by external source documents and the RL legal acts regulating activities and accounting procedures of investment management companies and investment funds.

Other payments comprise such expenses as transaction charges, broker fees, and interest on loans.

In the interests of Investors the Company is entitled to make at its own discretion other payments from the Company’s funds.

*The purpose of the above information is to provide a general estimate of total expenses to be covered directly or indirectly by the Investor who purchases investment certificates of the Fund. Further information on procedures for calculating and paying such expenses is explained hereinafter as well as in the Fund Rules.*

### 3. INVESTMENT POLICY AND INVESTMENT RESTRICTIONS

#### 3.1. Investment Objective

The open-end investment fund “Citadele Eastern European Fixed Income Funds” aims to achieve long term capital growth through investments mainly in debt and equity securities issued or guaranteed by the states, municipalities, central banks and credit institutions, as well as issued by corporations, of the Eastern European region. The investment portfolios of the Fund’s sub-funds are diversified across investments in capital and debt securities, as well as across currencies and countries, thus ensuring highest investment security and protection against fluctuations in the Fund’s asset value characteristic to securities of only one class, currency or country.

The policy of “**Citadele Eastern European Balanced Fund**” sets out the following investment portfolio allocation:

- Up to 100% of the Sub-fund’s assets can be invested in debt securities issued or guaranteed by government, municipalities and credit institutions as well as debt securities issued by corporations;
- Up to 50% of the Sub-fund’s assets can be invested in money market instruments issued or guaranteed by government, municipalities and credit institutions as well as money market instruments issued by corporations;
- Up to 30% of the Sub-fund’s assets can be invested in term deposits with credit institutions;
- Up to 50% of the Sub-fund’s assets can be invested in equity securities issued by corporations;
- Up to 10% of the Sub-fund’s assets can be invested in investment certificates of open-end funds or similar collective investment undertakings or similar securities (hereinafter, the investment certificates of investment funds).
- Up to 60% of the Sub-fund’s assets may be invested in securities and money market instruments issued or guaranteed by issuers, who are registered or whose main activities take place in one country, that includes securities and money market instruments issued or guaranteed also by the state or a municipality of such country;
- Up to 25% of the Sub-fund’s assets can be invested in securities and money market instruments not issued or guaranteed by governments, municipalities of the Eastern European countries, or corporations registered in the Eastern European countries.

The base currency of Sub-fund “Citadele Eastern European Balanced Fund” is EUR.

The policy of “**Citadele Eastern European Bond Fund**” sets out the following investment portfolio allocation:

- Up to 100% of the Sub-fund’s assets can be invested in debt securities issued or guaranteed by government, municipalities and credit institutions as well as debt securities issued by corporations;
- Up to 50% of the Sub-fund’s assets can be invested in money market instruments issued or guaranteed by government, municipalities and credit institutions as well as money market instruments issued by corporations;
- Up to 50% of the Sub-fund’s assets can be invested in term deposits with credit institutions;
- Up to 10% of the Sub-fund’s assets can be invested in investment certificates of open-end funds or similar collective investment undertakings or similar securities (hereinafter, the investment certificates of investment funds).
- Up to 60% of the Sub-fund’s assets may be invested in securities and money market instruments issued or guaranteed by issuers, who are registered or whose main activities take place in one country, that includes securities and money market instruments issued or guaranteed also by the state or a municipality of such country;
- Up to 25% of the Sub-fund’s assets can be invested in securities and money market instruments not issued or guaranteed by governments, municipalities of the Eastern European countries, or corporations registered in the Eastern European countries.

The base currency of Sub-fund “Citadele Eastern European Bond Fund” is USD.

### 3.2. Investment Objects and Types

The assets of the Sub-funds can be invested in the following financial instruments:

- 1) Debt securities and money market instruments issued or guaranteed by central banks, governments and municipalities of Latvia, other member countries, or OECD member countries;
- 2) Debt securities and money market instruments issued or guaranteed by government and municipalities of other countries;
- 3) Debt securities and money market instruments issued or guaranteed by credit institutions of, as well as issued by corporations of Eastern European countries, Latvia, other member country, or OECD member countries;
- 4) Debt securities and money market instruments issued by other corporations of other countries;
- 5) Equity securities issued by corporations registered in the Eastern European countries, other member countries, or other countries;
- 6) Deposits with credit institutions licensed in Latvia, other member countries, or OECD member countries;
- 7) Investment certificates (shares) of open-end funds or similar collective investment undertakings registered in Eastern European countries, Latvia, other member countries, and other countries which comply with the requirements of paragraph 3.3.5. of Prospectus

To provide protection against the risk of fluctuations in market value of assets of the Sub-funds that may arise due to changes in asset prices or exchange rates, the Fund Manager has the right to invest in derivatives on account of the Sub-funds. Furthermore, the Fund Manager has the right to enter in derivatives transactions on account of the Sub-funds with the purpose to profit. In view of additional risks arising from derivatives transactions, see Chapter 4 "RISKS" hereof.

The Fund Manager can enter into repurchase (repo) agreements on account of the Sub-funds. 'Repo' agreements are transactions whereby one of the parties involved purchases financial instruments from the other under agreement that the other party will repurchase these financial instruments on the agreed time. Thus, under the repurchase agreement, the Fund Manager has the right to sell financial instruments to obtain short-term liquidity or to purchase financial instruments to make a short-term investment in liquid assets.

Where necessary for operations of the Sub-funds, the Fund Manager has the right to keep part of assets of the Sub-funds in liquid assets including cash.

### 3.3. Investment Restrictions

1. Investments of Sub-funds can be made in freely transferable securities and money market instruments that meet at least one of the following criteria:
  - 1) They are included in regulated markets of Latvia, other member country, or OECD countries;
  - 2) They are included in the official listings of stock exchanges or are traded on other regulated and openly accessible markets of financial instruments (hereinafter, the regulated market) that are not located in countries referred to in Subparagraph 1 of Paragraph 3.3.1.;
  - 3) They are not included in the official listings of stock exchanges or are not traded on regulated markets, but the rules governing the issue of such securities and money market instruments provide that an application will be made to include these securities or money market instruments in stock exchanges or regulated markets referred to in Subparagraphs 1 and 2 of Paragraph 3.3.1, and that these securities or money market instruments will be included there within one year from the date when subscription to these securities or money market instruments began.
2. The assets of the Sub-funds can be invested in money market instruments that are not traded on regulated markets if they are freely transferable (no business restrictions apply) and one of the following provisions has become effective:
  - 1) They are issued or guaranteed by Latvia, other member country or municipality of said countries, other country (in federal country – one of the members of federation) or international financial institution if one or several member countries are its members;
  - 2) They are issued or guaranteed by the central bank of Latvia, other member country, by the European Central Bank or the European Investment Bank;
  - 3) They are issued by a corporation whose securities are traded in accordance with Subparagraphs 1 and 2 of Paragraph 3.3.1;

- 4) They are issued or guaranteed by a credit institution which is registered in a member country and subject to supervision by financial supervisory authority in accordance with regulatory requirements of the European Union; or by an issuer whose activities are subject to regulatory requirements at least as strict as in the European Union and comply with at least one of these requirements:
  - a) It is registered in OECD member country that is part of Group of Ten countries;
  - b) It has been awarded an investment grade rating;
  - c) Detailed analysis of regulatory requirements indicate that such regulatory requirements relating the issuer’s activities are at least as strict as those imposed by the European Union.
- 5) They are issued by a corporation whose capital and reserves are 10 million Euros or more and which prepares and publishes audited annual report in accordance with requirements for preparing and publishing equal to requirements of the European Union. Such corporation belongs to group with one or several corporations, whose shares are traded on a regulated market, and is designed to raise funds for such group, or is a special purpose vehicle that specialises in securitisation and has a liquidity agreement with a bank that complies with requirements of Sub-paragraph 2 of Paragraph 3.3. Investments in these money instruments are subject to investor protection equal to protection described in Sub-paragraphs 1, 2, 3 and 4 of the second part of this Paragraph.
3. Where the amount invested does not exceed 10% of the Sub-fund’s assets, Sub-fund’s investments can be made in transferable securities and money market instruments other than those referred to in Paragraphs 3.3.1 and 3.3.2.
4. The Sub-fund’s assets can be invested in investment certificates of investment funds registered in Latvia and other member countries.
5. The Sub-fund’s assets can be invested in investment certificates of investment funds of countries other than those referred to in Paragraph 3.3.4 if these investment funds meet the following requirements:
  - 1) They are registered in a country whose legal regulations provides state supervision over such undertakings equivalent to the supervision prescribed by the Law;
  - 2) Their principles of operation are analogous to the regulations on activities of open-end investment funds prescribed by the Law;
  - 3) They prepare and publish annual and semi-annual reports to make it possible to assess their assets, liabilities, income and activities during the reporting period.
6. The Sub-fund’s investments in transferable securities or money market instruments of a single issuer may not exceed 5% of the Sub-fund’s assets. This restriction can be increased up to 10% of the Sub-fund’s assets, but in that case the aggregate value of investments exceeding 5% may not exceed 40% of the Sub-fund’s assets.
7. The Sub-fund’s investments in transferable securities and/or money market instruments of a single issuer can be increased up to 35% of the Sub-fund’s assets if such transferable securities or money market instruments are issued or guaranteed by:
  - 1) Latvia, other member country or municipality of said countries;
  - 2) OECD member country;
  - 3) An international financial institution, if one or more member countries are its members;
8. The limit specified in paragraph 3.3.7. maybe exceeded if the Sub-fund owns transferable securities or money market instruments from six or more issues and the value of transferable securities or money market instruments of each issue separately does not exceed 30 per cent of the Sub-fund assets; An option has been provided to invest more than 35 per cent of the Sub-fund’s assets in transferable securities or money market instruments issued or guaranteed by government and local governments of Latvia, other member country.
9. The Sub-fund’s investments in transferable securities of a single issuer can be increased up to 25% of the Sub-fund’s assets if they are debt securities issued by a credit institution registered in Latvia, other member country or OECD member country and if the terms of such debt securities provide that acquired funds will be invested in assets that during the entire duration of the debt security fully secure the liabilities arising out of such debt security, and such liabilities have priority fulfilment if the issuer becomes insolvent.
10. If the value of debt securities issued by a single issuer referred to in Paragraph 3.3.9. and owned by the Sub-fund exceeds 5% of the Sub-fund’s assets, the aggregate value of such securities exceeding 5% restriction may not exceed 80% of the Sub-fund’s assets.

11. The Sub-fund’s assets deposited with a single credit institution may not exceed 20% of the Sub-fund’s assets. Such restriction does not apply to on-demand claims against the Custodian.
12. The Sub-fund’s investments in investment certificates of a single open-end investment fund may not exceed 5% of the Sub-fund’s assets. The Sub-funds total investments in investment certificates of investment funds may not exceed 10% of the Sub-funds assets.
13. The Sub-fund’s assets can be invested in derivatives traded on markets referred to Paragraph 3.3.1 or derivatives traded over-the-counter that at the same time meet the following requirements:
  - 1) Their underlying security is a financial instrument referred to in the Prospectus, financial indexes, interest rates, exchange rates or currencies in which the Sub-fund’s assets are invested or could be invested in future.
  - 2) Counterparty to a transaction in OTC derivatives is a credit institution which has received a licence for a credit institution activity in Latvia, other member country or OECD member country that belongs to Group of Ten countries, or an investment brokerage company whose capital and reserves is 10 million Euros or more, which is registered in a member country or OECD member country that belongs to Group of Ten countries and whose activities are subject to supervision by financial supervisory authority;
  - 3) There is a credible and verifiable valuation of the over-the-counter derivative on daily basis, and at any time upon the Company’s initiative the derivative can be sold or liquidated at its fair value with a liquidating transaction.
14. Total risks arising from derivatives transactions, including derivatives embedded in transferable securities or money market instruments, may not exceed the net asset value of the Sub-fund’s investment portfolio, and thus the Sub-fund’s overall risk exposure may not exceed 200% of the net asset value of the Sub-fund’s investment portfolio. The Sub-fund’s overall risk exposure arising from transactions with derivatives and the amount of loans stated in Paragraph 3.5. shall not exceed 210% of the net asset value of the Sub-fund’s investment portfolio.
15. Risk exposure from transactions with over-the-counter derivatives may not exceed:
  - 1) 10% of the Sub-fund’s assets if the counterparty is a credit institution licensed in Latvia, other member countries, or OECD member countries that belong to the Group of Ten.
  - 2) 5% of the Sub-fund’s assets in other cases.
16. Notwithstanding investment restrictions separately established in Paragraphs 3.3.6, 3.3.11, 3.3.14 and 3.3.15, the total Sub-fund’s investments in transferable securities and money market instruments, investment fund’s deposits and derivatives transactions where the issuer, guarantor, attractor of the deposit, or counterparty is the same person may not exceed 20% of the Sub-fund’s assets.
17. Investment restrictions separately established in above paragraphs 3.3.6, 3.3.7, 3.3.9, 3.3.10, 3.3.11, 3.3.14 and 3.3.15 cannot be aggregated, which means that the total Sub-fund’s investments in transferable securities and money market instruments, investment funds deposits and derivatives transactions where the issuer, guarantor, attractor of the deposit, or counter-party is the same person may not exceed 35% of the Sub-fund’s assets.
18. The Sub-fund’s investments in separate investment objects may not exceed:
  - 1) 10% of the nominal value of shares (without voting rights) issued by a single issuer;
  - 2) 10% of the total amount of debt securities issued by a single issuer;
  - 3) 10% of the total value of money market instruments issued by a single issuer;
  - 4) 25% of investment certificates of a single open-end fund or collective investments undertaking.
19. All investments of assets of funds under the Company’s management directly or indirectly may not exceed 10% of any of the following:
  - 1) Equity capital of a single issuer;
  - 2) Total number of voting rights of a single issuer.
20. The Sub-fund’s assets may not be given out in loans or invested in real estate, precious metals and derivatives with precious metals or commodities as an underlying asset.
21. The Sub-fund’s deposits with credit institutions are permissible if they are repayable on demand or they can be withdrawn before maturity and their maturity does not exceed 12 months.

### **3.4. Exceeding the Investment Restrictions**

Exceeding the investment restrictions is permissible if such situation arises from exercising the subscription rights associated with transferable securities or money market instruments belonging to the Sub-fund's property or from other conditions that the Company was unable to foresee. To correct exceeding the restrictions the Company has to sell securities in accordance with the risk reduction principle and interests of the Investors.

Investment restrictions referred to in Paragraph 3.3.18 can be exceeded at the moment of investing if at that moment it was not possible to determine or calculate the value or quantity of issued securities with inherent liabilities or the value or quantity of investment certificates in circulation.

The Company shall immediately inform the Commission about exceeding the investment restrictions and the corrective measures to be taken.

### **3.5. Loans on Account of the Sub-funds**

To accommodate requests to redeem investment certificates or to meet other Sub-fund's liabilities, including settling such expenses of the Sub-fund that, if not paid on time, may cause losses to the Sub-fund, the Company can borrow on the Sub-fund's account in total up to 10% of the Sub-fund's asset value, but only for short-term up to 3 months.

The decision about borrowing on the Sub-fund's account shall be taken by the Fund Manager in accordance with the Prospectus, the Fund Rules and resolutions of the Executive Board of the Company.

### **3.6. General Provisions**

The Company conducts business with the Sub-fund's property in accordance with the Law, this Prospectus, the Fund Rules and other legal acts in force in the Republic of Latvia.

The Company has no right to take on liabilities at the expense of the Sub-fund's property, if these liabilities are not directly related to the Sub-fund. The Company may not conduct transactions without compensation with the Sub-fund's property. Claims against the Company and claims inherent in the Sub-fund's assets shall not be netted.

The Sub-fund's property shall not be pledged or otherwise encumbered except in cases provided for in the Law and the Prospectus.

The Company is not allowed to sell securities or to commit to sell securities on the Sub-fund's account if these securities are not the Sub-fund's property at the time of the transaction.

Upon evaluation of compliance of the Sub-fund's investment portfolio with investment restrictions, the investment value determined by using procedures described in Chapter 7 of the Prospectus “METHODS AND PROCEDURES FOR DETERMINING THE SUB-FUND'S NET ASSET VALUE” shall be used.

### **3.7. Selection of Investment Objects**

Investment objects shall be chosen in accordance with the principles of the Sub-fund's investment policy and investment restrictions as well as in accordance with procedure prescribed by the Fund Rules, observing the principles of diversification and risk reduction.

The Investment Committee, appointed by the Executive Board of the Company manages the Sub-fund's property, makes decisions and issues orders. The Investment Committee performs functions of the Fund Manager in accordance with provisions of the Prospectus, resolutions of the Executive Board of the Company, investment policy of the Fund and procedures stated by the effective RL legal acts and Fund Rules.

## 4. RISKS

### 4.1. Investor Profile

The Fund was set up for professional and experienced investors as well as for those who are not familiar with capital market opportunities and wish to participate in the rapid economic development of the Eastern European countries. Such strategy comprises risk of issuer’s default, political risk, economic risk and currency risk that can adversely affect the value of the Sub-fund’s shares or investment certificates.

Name of the Sub-fund	Investor’s profile	Recommended investment horizon
”Citadele Eastern European Balanced Fund”	Investors who prefer medium term capital growth with moderate volatility in Sub-fund’s share value and balanced investment strategy.	A minimum of 3 years
”Citadele Eastern European Bond Fund”	Investors who prefer medium term capital growth with moderate volatility in Sub-fund’s share value and balanced investment strategy.	A minimum of 3 years

### 4.2. Investment-Related Risks

The operations of the Sub-fund of the Investment Fund involve risks that arise from various factors. Each type of risk can adversely affect the operational results of the Sub-fund and, thus, the value of each of the Sub-fund’s shares. The following risks must be distinguished in this respect:

**Basic risk** – Investors should be aware that the price of securities as well as income from securities is subject to fluctuations that directly affect the value of investment certificates owned by the Investor.

**Liquidity risk** – refers to the ability at any point in time to dispose of (sell or liquidate) any of the Sub-fund’s assets. If financial instruments or other assets can be sold or liquidated so that the average bid (in comparison to transaction volume in the particular market) does not create significant movements in price, this market can be regarded as liquid.

**Investments in the Eastern European markets are subject to increased risk that markets for various assets are illiquid in the short-term. Consequently, a situation may occur that financial instruments or other assets cannot be sold or must be sold for a reduced value.**

**Issuer’s default risk** – related to the securities issuer’s inability to fulfil its obligations against the securities holder. While planning the Sub-fund’s investment policy the Company takes into account investment safety of each particular country, security and bank term deposit, i.e., analyses credit ratings of each country, bank or enterprise. Occurrence of this risk can create partial or full default on liabilities with respect to a particular financial instrument and affect the Sub-fund’s net asset value and, thus, the value of each share of the Sub-fund.

**Legal or regulatory risk** – risk of possible changes in national and foreign laws and regulations (including tax policy) resulting in additional expenses to the Sub-fund.

**Information risk** – inaccessibility or lack of securities market information on issuer’s true condition.

**As there may not always be a common standard for disclosure in the Eastern European markets, there is an increased risk that despite prudent management the Fund Manager may fail to notice insufficiency of information and, consequently, may take an adverse investment decision.**

**Financial risk** – financial risk of investment funds is primarily related to situations when, due to external factors (beyond the Company’s control), Investors simultaneously request redemption of their investment certificates which results in decreased efficiency of the Sub-fund’s operations.

**Fund management quality risk**– risk of losses or foregone income resulting from Fund manager’s action or inaction.

**Derivatives risk** – Investors should be aware that investments in derivatives are subject to high risk. Liabilities or claims from such transactions may decrease or cease to exist. The risk of loss in certain situations may not be estimated and may exceed the value of collateral. If loans are used to cover liabilities arising from derivatives or if liabilities or claims from such transactions are denominated in foreign currency, the risk of loss may increase.



**Derivatives transactions may result in insolvency and encumber the Sub-fund's properties, without the possibility to estimate losses in advance.**

**Main Foreign Investment Risks:**

- Political risk – risk that investment countries get involved in military conflicts and warfare, as well as risk of major changes in political environment of investment countries, for example, military coup d'état, overturns. Such factors usually have a major impact on financial markets of the respective country and, thus, on the Sub-fund's performance;
- Economic risk – risk of changes in economic situation of investment regions, such as economic recession, excessive inflation, banking crisis, etc.;
- Accounting risk and risk of multiple tax collection – use of different accounting principles for securities accounting and registration systems in different countries may cause additional burdens on investments, such as higher tax rates being set for non-resident investments abroad; thus, the Sub-fund's property may be burdened more than if investments were made on the local market;
- Currency risk – this risk pertains to possible losses which the holder of the fund's investment certificates may incur due to adverse currency fluctuations. The Sub-fund's assets may be placed in financial instruments denominated in currencies which differ from the Sub-fund's base currency, consequently, there is a risk of change in the value of foreign currency relative to the Sub-fund's base currency.

**Particular risks related to investments in the Eastern European countries**

**The Fund's specialisation in investments in the Eastern European countries creates broad opportunities, which, however, entail increased risk. Asset prices in markets and stock exchanges are rather volatile. Moreover, investment performance may be affected by fluctuations of local currencies against the Sub-fund's base currency. Even with accurate securities market information which reflects the issuer's true condition investments are subject to a certain credit risk. Political changes, currency exchange restrictions, stock exchange regulations, taxes, restrictions of foreign investor activities, income repatriation, asset placement etc. can influence the Sub-fund's investment performance.**

**4.3. Risks Related to Business Activities of the Investment Company**

Activities of investment management companies, like any other profit driven business activities, are subject to risk of decrease in profits or incurrence of losses.

Current norms of the RL legal acts regulating activities of investment management companies have a substantial and positive impact on possible risks arising for investment management companies.

Normative acts regulating activities of investment management companies contain provisions protecting interests of investors and promote risk reduction, as well as entitle the state executive authority, the Financial and Capital Market Commission, to act on behalf of the RL regulating activities of securities market participants, including investment management companies, and controlling public circulation of financial instruments, including investment certificates, in the Republic of Latvia.

The RL normative acts provide an important norm protecting the interests of investors: should the rights of the investment management company to manage funds expire (for example, insolvency or bankruptcy), investment funds under its management shall not be liquidated, but, instead, the managing company of such funds shall be replaced.

Risks related to business activities of the Investment Company are as follows:

**State regulation** – an external risk related to stability of the state legislation and normative acts. The revision of normative acts regulating business activities of investment companies is a substantial state regulation risk factor.

**Changes in political situation** - the investment company is a business entity acting in the RL, and its activities are closely related to the political situation in the country. Changes in the political situation may directly affect activities of the investment company and dynamics of the Fund's net asset value.

**Changes in economic situation** – these are external risks that may affect attractiveness of the investment company's sphere of activity – banking crisis, changes in consumer demands, and changes in inflation.

**Competition risk** – competition on the part of Latvian investment companies and foreign fund management companies is to be taken into account as it may increase as this market niche develops. Consequently, the investment management company may terminate its activities and transfer responsibility for the Fund’s management to another investment management company or custodian.

**Other risks** – activities of the investment company may also be affected by other risks such as natural disasters, ecological changes, crime, etc., which the investment company can not fully predict or control.

#### 4.4. Potential Measures for Risk Reduction

In order to decrease investment risks, the Fund is managed following the principles of diversification and risk reduction.

When making investments on the Sub-fund’s account, the Company obtains sufficient information on potential or acquired investment objects, and it also monitors the financial and economic situation of issuers of securities in which the Sub-fund’s property is or will be invested.

When developing the Sub-fund’s investment strategy and investment restrictions within the scope of the Sub-fund’s investment policy set out in this Prospectus, the Company conducts analysis of the Sub-fund’s investments and their classification by maturity, geographic allocation, currencies, etc. and evaluates the degree of risk attributable to each of these factors. The Company strictly observes norms and restrictions established in the Prospectus, the Fund Rules and laws and regulations of the Republic of Latvia.

In order to reduce risk the Company conducts the following assessments:

- The country assessment by international credit rating agencies;
- Review of the political situation in the country;
- Review of the economic situation in the country.

In case of losses arising as a result of registrar’s negligence or intentional failure to fulfil obligations, the Company shall have to enforce its rights by turning directly against the issuer and/or its appointed registrar. The Company and the Custodian will exercise all the necessary skills and precaution in selecting, appointing and monitoring its local agents.

The Sub-fund’s investment strategy is developed to minimize risks referred to in Subparagraphs 4.2 and 4.3, but the Company does not guarantee that it will be possible to fully avoid these risks in the future.

## **5. RIGHTS AND LIABILITY OF INVESTORS**

### **5.1. Rights of Investors**

- 1) To sell without limitation their investment certificates at or outside the stock exchange;
- 2) To participate, in proportion to the number of investment certificates held, in the distribution of income earned from transactions with the Sub-fund’s property;
- 3) To participate, in proportion to the number of investment certificates held, in the distribution of the Sub-fund’s liquidation income;
- 4) To demand that the Company redeems their investment certificates;
- 5) To demand that the Company repurchase investment certificates it has issued if the Company is responsible for errors or omissions in information stated in the Prospectus, which is important for proper valuation of the investment certificates;
- 6) To demand and receive free of charge the Sub-fund’s annual and semi-annual reports, to have access to all publicly available information about the IMJSC “Citadele Asset Management” and about persons related to the Fund’s activities. The content of such information and the procedure for obtaining it is stated in the Fund Rules.
- 7) The Investor has no right to request the Sub-fund’s division. This restriction applies as well to the pledge of the property pledged by Investor, creditor, or administrator in the event of the Investor’s insolvency.

Rights and obligations of owners of publicly issued investment certificates are stated in accordance with the RL Laws “On the Financial Instruments Market”, “On Investment Management Companies” and other RL legal acts.

### **5.2. Liability of Investors**

The Investor is not responsible for the Company’s liabilities. The Investor’s liability for claims that may be lodged against the Sub-fund’s property is limited to the value of the Sub-fund’s shares owned.

Arrangements contrary to the above provisions shall be invalid as from the moment of signing. Claims against the Investor concerning his liabilities may be lodged against his investment certificates, but not against the Sub-fund’s property.

## 6. FUND MANAGEMENT

### 6.1. Investment Management Company

**Name of the Company:** IMJSC “Citadele Asset Management”  
**Registered address:** Republikas square 2a,  
 Riga, LV 1010, Latvia  
 Tel. (+371)67010810, fax (+371)67778622

The location of the executive body of the Company is the same as its registered address.

**The Company was founded on:** January 11, 2002

**Common Registration Number:** 40003577500

**Company’s Founding, Registered and Paid-Up Capital:** LVL 4,150,000

**Company’s shareholders:** JSC “Citadele banka”  
 Common Registration Number: 40103303559  
 Number of Shares: 4,150,000 with voting rights  
 Portion of the Capital: 100.00%

#### **Licences and Special Permits:**

Licence for Investment Management Services No. 06.03.07.098/285- reregistered on December 10, 2004, September 30, 2005, December 5, 2005 and August 5, 2010.

Licence for Management of State Funded Pension Scheme Assets No.06.03.09.098/284– reregistered on December 10, 2004, December 7, 2005 and August 5, 2010.

#### **6.1.1. Company’s Rights, Obligations and Liability for the Management of the Fund**

##### **Rights**

The Company shall manage on its own behalf and at the expense of Investors the Fund’s property and rights attached thereto, investing the Fund’s property in accordance with risk reduction principle in investment objects allowed by the RL “Law on Investment Management Companies” and the Prospectus.

In providing management services the Company shall act in the same manner a careful and attentive owner would do, and only in the best interests of Investors and other customers of the Company.

The Company does not need the consent of Investors for performing actions related to the Fund’s management.

The Company is entitled to a fee for the management of the Fund, including charges and reimbursement for expenses.

The Company has the right to set up and manage more than one fund.

##### **Obligations**

The Company shall be obliged to lodge claims of Investors on its behalf against the Custodian or third parties should the circumstances so require. This, however, shall not restrict the rights of Investors to lodge such claims on their own behalf.

The Company shall be obliged to notify the Commission in writing about any amendments to the lists of Company’s Interested Persons and Custodian’s Interested Persons, as well as of any amendments and supplements to documents and information submitted to the Commission within a week from the date of making such amendments.

##### **Responsibility**

The Company is not allowed to invest its funds in another investment company or to purchase the shares of the fund managed itself.

The Company is responsible for losses caused to Investors or third parties by the Company’s executives or authorised persons as a result of infringement of provisions of the RL law, the Prospectus or the Fund Rules or due to misuse of powers or negligent performance of their duties.

#### **6.1.2. Executive Board of the Company**

**The Executive Board** is the Company’s executive body responsible for managing the Company’s property and using its capital in accordance with the provisions of the law and articles of association and instructions of general meetings of shareholders.

**Rights and Obligations Related to the Management of the Fund**

1. The Executive Board is in charge of and manages all matters of the Company. It is also responsible for all business activities of the Company, as well as for accounting in conformity with the requirements of the law. The Executive Board represents the Company. The Executive Board shall manage the property of the Company and use its capital in accordance with the law and articles of association and instructions of the general meetings of shareholders.
2. The Executive Board shall submit quarterly reports on its activities to the Council, and an annual report at the end of each year to the general meeting of shareholders. The Chairman of the Executive Board (the President) shall notify the Chairman of the Council on each important aspect of the Company’s activities.
3. While managing funds founded or acquired by the Company, as well as while making investments on the Fund’s account, the Executive Board shall conduct due-diligence on potential or acquired investment objects and also monitor the financial and economic situation of issuers of securities in which the Fund makes or will make its investments.
4. The Executive Board shall ensure a comprehensive day-to-day internal control system for the Company and a separate one for each fund managed.
5. The Executive Board shall perform the following actions, independently or with involvement of competent persons:
  - accounting of investment funds, keeping separate accounting for each fund/sub-fund;
  - prepare annual and semi-annual reports on investment funds/sub-funds;
  - approve annual and semi-annual reports of each fund/sub-fund;
  - appoint and approve the Auditor who audits the annual report of each fund/sub-fund;
  - other actions prescribed by the law and binding resolutions of the Commission in relation to accounting for the fund/sub-funds assets.

**Composition of the Executive Board:**

<b>Vladimirs Ivanovs</b>	Chairman of the Executive Board
<b>Raimonds Vesers</b>	Member of the Executive Board
<b>Zigurds Vaikulis</b>	Member of the Executive Board

**6.1.3. Council of the Company**

**The Council** is an institution elected by shareholders and consisting of 4 persons as at the moment of approval of the Prospectus.

**Rights and Obligations of the Council Related to the Management of the Fund:**

- at any time the Council is entitled to request from the Executive Board a report on the Company’s condition, including the Fund’s condition;
- the Council is entitled to examine registers and documents, as well as securities and other property of the Company, including the Fund’s property;
- the Council may entrust any of its members to carry out such examination, or entrust an external expert with elucidation of individual issues.

**Composition of the Council:**

<b>Juris Jākobsons</b>	Chairman of the Council
<b>Philip Nigel Allard</b>	Member of the Council
<b>James R.Breiding</b>	Member of the Council
<b>Anatolijs Fridmans</b>	Member of the Council

**6.1.4. Fund Manager**

The Executive Board of the Company shall appoint the Fund’s Investment Committee consisting of at least two members. The Investment Committee performs functions of the Fund Manager, manages and is empowered to give orders concerning the property managed by the sub-fund in accordance with the Prospectus, the Fund Rules and resolutions of the Executive Board of the

Company. The Fund Rules shall regulate the procedures for passing resolutions and orders by the Investment Committee.

Members of the Investment Committee shall only be allowed to work in one Investment Company.

Employees of Company’s Portfolio management division **Andris Kotāns** and **Kristiāna Ķiete** have been appointed to the Investment Committee.

#### **6.1.5. Names of Other Funds, Private Pension Fund Plans and State Funded Pension Scheme Asset Investment Plans Managed by the Company**

The Company manages the following state funded pension scheme asset investment plans:

- “Citadele Universal Pension Plan”,
- “Citadele Active Pension Plan”.

The Company manages assets of the following investment funds:

- “Citadele Russian Equity Fund”,
- “Citadele Baltic High Yield Fund”,
- “Citadele Baltic Real Estate Fund - II”,
- “Citadele Caspian Sea Equity Fund”,
- “Citadele Strategic Allocation Funds”,
- “Citadele Ukrainian Equity Fund”.

**The Company manages the following private pension scheme asset investment plans:**

- Pension Plan “Citadele – Active” of the JSC “Citadele Open Pension Fund”;
- Pension Plan “Citadele – Active USD” of the JSC “Citadele Open Pension Fund”,
- Pension Plan “Citadele – Active EUR” of the JSC “Citadele Open Pension Fund”,
- Pension Plan “Citadele – Balanced” of the JSC “Citadele Open Pension Fund”,
- First Pension Plan of the JSC “First Closed Pension Fund”.

#### **6.1.6. Fee to the Company, Procedure for Determining and Payment of Such Fee**

The Company shall receive a fee for the Sub-fund’s management:

“Citadele Eastern European Bond Fund” - 1.50% per year of the Sub-fund’s asset value, as well as the sales commission.

“Citadele Eastern European Balanced Fund” - 1.50% per year of the Sub-fund’s asset value, as well as the sales commission.

The amount of sales commission is determined pursuant to Chapter 8 of the Prospectus, and fees to Distributors are paid from this source.

Fee to the Company for the Sub-fund’s management shall be calculated on daily basis and accrued throughout the month. The fee is paid from the Sub-fund’s property once a month. The Company calculates, but the Custodian verifies, accepts and transfers the fee to the Company.

When calculating the fee payable to the Company for the Sub-fund’s management on the current day of calculation of the Sub-fund’s net asset value, the Company assumes that the year of the Sub-fund consists of 365 days:

$$SA_t = FAV_t * \frac{L_1}{365 * 100} * N$$

$SA_t$	–	fee payable to the Company for the Sub-fund’s management on the current Sub-fund’s net asset value calculation day;
$FAV_t$	–	the Sub-fund’s asset value at the Sub-fund’s net asset value calculation day;
$N$	–	number of calendar days from the last day of calculation of the Sub-fund’s net asset value;
$L_1$	–	the rate at which a fee payable to the Company is calculated.

**The Sub-fund’s asset value** is calculated in accordance with Paragraph 7.1 of the Prospectus.

The amount of the **monthly** fee payable to the Company for the Sub-fund’s management is calculated by summing all the daily fees payable to the Company for the Sub-fund’s management:

$$SA_K = \sum_{t=1}^K SA_t$$

- SA<sub>k</sub> - fee for the current month payable to the Company for the Sub-fund’s management;  
 SA<sub>t</sub> - fee payable to the Company for the Sub-fund’s management on each Sub-fund’s net asset value calculation day;  
 K - number of days the Sub-fund’s net asset value was calculated.

## 6.2. Custodian

<b>Name of the Custodian:</b>	Joint Stock Company “Citadele banka”
Founded on:	June 30, 2010
Common Registration Number:	40103303559
Licences:	Licence for Credit Institution Activities No.06.01.05.405/280

**Registered Address of the Custodian:** Republikas square 2a, Riga LV 1010, Latvia

The location of the executive body of the Custodian is the same as its registered address.

### 6.2.1. Rights and Obligations of the Custodian

#### Rights

The Custodian shall act independently from the Company and only in the best interests of Investors, provided it is not contrary to the Law “On Investment Management Companies” and other RL normative acts, regulations of the Commission, the Prospectus and the Fund Rules.

The Custodian shall be entitled to a fee for services agreed upon in the Custody Agreement.

The Custodian shall have the right to assign to third persons the custody of the Sub-fund’s property, servicing of the Sub-fund’s accounts, and performance of broker’s duties (execution of intermediary transactions on securities market).

#### Transfer of Rights to Manage the Fund to the Custodian

If the Company’s rights to manage the Fund expire, the rights to manage the Fund shall be transferred to the Custodian, except where such rights are assigned to another company.

The Custodian to which the rights to manage the Fund have been transferred enjoys all rights of the Company, except for the rights of issue and/or redemption of the Fund’s investment certificates.

Within the term prescribed by the RL legal acts from the date of transfer of the rights to manage the Fund, the Custodian shall transfer the rights to manage the Fund to another investment company. If the Custodian does not transfer the rights to manage the Fund to another investment company within the prescribed term, the Custodian shall liquidate the Fund.

#### Obligations

The Custodian shall keep the Fund’s property in accordance with the RL legal acts and the Custody Agreement.

The Custodian shall ensure that Investment Certificates are issued, sold, and redeemed on behalf of the Company and in accordance with the Law “On Investment Management Companies”, applicable RL normative acts, the Prospectus and the Fund Rules.

The Custodian shall ensure that the Sub-fund’s net asset value is calculated in accordance with the RL normative acts, regulations of the Commission, the Prospectus and the Fund Rules.

The Custodian shall act upon the orders of the Company or persons authorised by the Company, unless they are contrary to the RL normative acts, regulations of the Commission, the Prospectus, the Fund Rules or the Custody Agreement.

The Custodian shall ensure that the Sub-fund’s income is used in accordance with the Law “On Investment Management Companies”, applicable RL normative acts, the Prospectus and the Fund Rules.

The Custodian shall ensure proper payments related to transactions with the Sub-fund’s property.

The Custodian shall be obliged to lodge claims of Investors on its behalf against the Company should the circumstances so require. This shall not restrict the rights of Investors to lodge such claims on their own behalf.

The Custodian shall immediately notify the Commission and the Council of the Company about the Company’s actions known to the Custodian, which contradict the RL normative acts, the Prospectus, the Fund Rules or the Custody Agreement.

### Responsibility

Where the Custodian has deliberately or negligently broken the law or the Custody Agreement, the Custodian shall be fully responsible to the Fund’s Investors, the Company and third parties for the losses caused.

Where the Custodian has granted its consent for a transaction that fails to conform to the Law “On Investment Management Companies” and applicable provisions of the RL normative acts, or has failed to lodge a claim in respect of default on such provisions, the Custodian and the Company shall be jointly responsible for losses caused to the Fund.

Transfer of the Custodian’s obligations to third parties shall not release the Custodian from liability stated by the RL normative acts and the Custody Agreement.

### 6.2.2. Fee to the Custodian, Procedure for Determining and Payment of Such Fee

Fee to the Custodian shall be covered from the Sub-fund’s property in accordance with the Prospectus, the Fund Rules and the Custody Agreement.

“Citadele Eastern European Balanced Fund”

1) For custody and supervision of the Sub-fund’s property the Custodian shall receive a fee amounting to 0.175% per year of the Sub-fund’s average asset value per year.

2) The fee for pledging securities and/or releasing the pledge on securities – EUR 20.00.

“Citadele Eastern European Balanced Fund”

1) For custody and supervision of the Sub-fund’s property the Custodian shall receive a fee amounting to 0.175% per year of the Sub-fund’s average asset value per year.

2) The fee for pledging securities and/or releasing the pledge on securities – EUR 20.00.

The total amount of fees payable to the Custodian for Sub-fund’s custody and other services, including those mentioned above, shall not exceed 0.5% per year of the Sub-fund’s average asset value per year.

**The Sub-fund’s asset value** is calculated in accordance with Paragraph 7.1 of the Prospectus.

Calculation of the fee payable to the Custodian is included in the Sub-fund’s asset value calculation on every business day. In calculation of the **daily** fee payable to the Custodian, the Company assumes that the Sub-fund’s reporting year consists of 365 days:

$$TA_t = FAV_t * \frac{L_2}{365 * 100} * N$$

$TA_t$	–	fee payable to the Custodian on the current Sub-fund asset valuation day;
$FAV_t$	–	the Sub-fund’s asset value on the current Sub-fund asset valuation day;
$N$	–	number of calendar days since the last Sub-fund asset valuation day;
$L_2$	–	the rate at which a fee payable to the Custodian is calculated.

Fee to the Custodian for the custody and supervision of the Sub-fund’s property is paid once a month.

**Monthly fee** to the Custodian is calculated as a sum of fees to the Custodian for each day of the Sub-fund’s value calculation:

$$TA_k = \sum_{t=1}^k TA_t$$

$TA_k$	–	fee payable to the Custodian for the current month;
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$TA_t$  - fee payable to the Custodian for each day of the Sub-fund's net asset value calculation;  
 $k$  - number of days of the Sub-fund's asset value calculation.

### 6.3. Sworn Auditor

**Name of the Sworn Auditor:** SIA “PricewaterhouseCoopers”

**Registration Number:** 40003142793

**Registered address:** Riga, K.Valdemara street 19, LV-1010, Latvia

The location of the executive institution of SIA “PricewaterhouseCoopers” is the same as registered address.

**Licences:** Latvian Sworn Auditors' Association Licence No. 5 for auditing services.

SIA “PricewaterhouseCoopers” is one of the largest audit, management and tax consulting companies in Latvia.

The total fee to the Sworn Auditor shall not exceed 0.10% per year of the Sub-fund's average asset value per year.

Fee payable to the Sworn Auditor shall be included in calculation of the Sub-fund's asset value gradually – in similar proportions every day. When calculating the Auditor's fee on the current day, the Company assumes that the Sub-fund's reporting year is 365 days. Fee for the Sub-fund's audit shall be accrued and paid to the Sworn Auditor once a year.

## 7. METHODS AND PROCEDURES FOR DETERMINING THE SUB-FUND’S NET ASSET VALUE

### 7.1. Principles for Valuation of the Sub-fund’s Assets

The Fund shall keep its accounting in accordance with the Law “On Investment Management Companies”, “Regulations on Preparation of Financial Statements of Investment Funds” issued by the Financial and Capital Market Commission, as well as other RL normative acts. International Accounting Standards issued by the Board for International Accounting Standards shall be applied in valuation of items of financial statements.

The Sub-fund’s assets shall be valued in accordance with the following accounting concepts:

- 1) it is assumed that the Sub-fund will continue to exist in the future;
- 2) the same valuation methods as in the previous accounting year shall be applied;
- 3) valuation shall be prudent:
  - the Sub-fund’s financial statements shall comprise revenues derived only until the date of preparation of financial statements,
  - all possible costs shall be taken into account regardless of the time of their occurrence (i.e. those that relate to the accounting year and to the previous operational periods);
- 4) revenues and expenses related to the accounting period shall be taken into account regardless of the date of payment and the date of receipt or issue of the invoice;
- 5) all items with material impact on the valuation or decision-making of persons using the financial statements shall be disclosed;
- 6) items of assets and liabilities and their components shall be valued separately;
- 7) all transactions shall be booked and disclosed in the financial statement, taking into account their economic content and nature rather than their legal form.

In exceptional cases deviations from the above accounting principles can be made. Any such case shall be explained in appendices to the financial statement, stating its impact on the Sub-fund’s assets and liabilities, financial position and financial results.

For the purposes of the Fund’s accounting, transactions in foreign currency shall be converted into the RL monetary unit at the relevant exchange rate stated by the Bank of Latvia on the date of such transaction. When determining the net asset value of the Fund’s Sub-fund and the share value of the Fund’s Sub-fund, assets and liabilities in currency other than the base currency of the Fund’s Sub-fund shall be converted to the base currency of the Fund’s Sub-fund in accordance with Paragraph 7.1.7 of the Prospectus. Gains or losses from exchange rate fluctuations, increasing or reducing the value of the assets and liabilities of the Fund’s Sub-fund, accordingly increases or reduces the net asset value of the Fund Sub-fund’s.

The Company shall keep bookkeeping of the Fund’s Sub-fund in the fund's base currency. In order to comply with the Republic of Latvia law, the Company shall ensure bookkeeping in LVL. Transactions in the Sub-fund's base currency are recalculated in LVL in accordance with the Bank of Latvia exchange rate at the moment of the transaction.

**The Sub-fund’s net asset value** is the value of the Sub-fund’s assets less the value of the Sub-fund’s liabilities.

**The Sub-fund’s share value** is the Sub-fund’s net asset value divided by the number of investment certificates in circulation.

**The number of investment certificates in circulation** is the number of investment certificates issued less the number of investment certificates redeemed upon the investor’s request.

The Sub-fund’s net asset value, including the value of its assets and liabilities, and the Fund’s share value shall be determined on a regular basis – on every business day after 17:30.

In accordance with the Prospectus and requirements of the Republic of Latvia normative acts, assets of “Citadele Eastern European Fixed Income Funds” may comprise only financial assets (see definition of “Financial instruments”).

The Fund Manager shall divide all financial assets included in the Fund in the following categories:

- financial assets held for trading purposes;
- financial assets held to maturity.

Financial assets held **for trading purposes** are financial assets purchased or incurred mainly for the purpose of deriving profit from short-term price fluctuations.

Financial assets held **to maturity** are financial assets with fixed or determinable payments and fixed maturity, which may and are meant to be held to maturity.

The Fund Manager shall be entitled to include financial assets with fixed or determinable payments and fixed maturity in the category of financial assets held to maturity if he intends to hold such financial assets to maturity and is able to do so.

The Fund Manager shall classify financial assets with fixed maturity at the moment of purchase and shall revise the asset classification on a regular basis (at the end of each month).

The valuation of the Sub-fund’s assets is done prudently. In valuation of financial assets the Fund Manager shall use the following principles:

- financial assets held for trading purposes and available for sale shall be valued at their fair value. Fair value is the amount of money for which an asset may be exchanged or liabilities may be fulfilled in a transaction between well informed, concerned and financially independent persons;
- financial assets held to maturity with fixed maturity shall be valued at depreciated acquisition value, applying the accrued interest rate method (see Paragraph 7.1.2).

Financial assets initially recognised in financial statements should be valued at their acquisition value, which is the fair value of remuneration paid for the asset. The transaction costs directly related to the purchased asset are included in the acquisition value.

#### **7.1.1. Valuation of Debt Securities Held for Trading Purposes**

The fair value of debt securities held for trading purposes that are quoted on stock exchanges or other regulated markets shall be based on the last published market prices known to the Custodian.

Where the security’s income is paid out in form of coupon payment and the stock exchange price does not include accrued interest or coupon portion, it is added in amount that corresponds to the time period from the starting date of coupon calculation to the date of the Sub-fund’s net asset value calculation.

#### **7.1.2. Valuation of Debt Securities Held to Maturity and Debt Securities not Traded Publicly**

Debt securities held to maturity and debt securities not traded publicly on stock exchanges or other regulated markets are valued at their depreciated acquisition value, which is calculated using the accrued interest rate method, i.e., security’s book value is the sum of its acquisition value and depreciated discount or mark-up (Agió, Disagio) value. Income is recognised and accounting value reduced using the rate that precisely discounts the flow of anticipated future payments (until the financial asset’s maturity or until the date of interest rate revision) to the financial asset’s current accounting value.

If the yield on securities is paid out as a coupon, the accrued interest or coupon portion shall be added to the amount conforming to the period of time from the starting date of such coupon calculation until the date of Sub-fund’s net asset value calculation.

#### **7.1.3. Valuation of Equity Securities**

The value of equity securities quoted on stock exchanges or other regulated market is based on the last published market prices known to the Custodian.

Equity securities not traded on stock exchanges or other regulated markets shall be valued at their acquisition value. In accordance with the prudence principle, such assets are valued at the lower price, if known to the Custodian from transactions performed by its customers or in the market. Information on transactions performed in the market is available in official and public data sources (e.g., newspapers, news agencies).

#### **7.1.4. Valuation of Certificates of Other Investment Funds**

The value of certificates of open-end investment funds or other similar securities is based on the investment certificate’s last available redemption price on the Sub-fund’s net asset value calculation day.

#### 7.1.5. Valuation of Term Deposits

All term deposits shall be classified as financial assets held to maturity and valued by adding accrued interest (which is calculated over the period from the last date of interest payment to the date of the Sub-fund’s net asset value calculation) to the principal amount of such term deposit.

#### 7.1.6. Valuation of Derivatives

Derivatives quoted on stock exchanges or other regulated markets are valued at a price for which the instrument can be sold (the last purchase price at market close on the Sub-fund’s net asset value calculation day).

Over-the-counter derivatives that are not quoted on stock exchanges or other regulated markets are valued at their repurchase price or at compensating transaction price confirmed in writing by the partner on the day of Sub-fund’s net asset value calculation, or at a price that is calculated on the basis of the market price of the underlying security. Compensating transaction is a transaction, which liquidates the derivative.

**Securities futures** shall be valued at the exercise price on the respective stock exchange or the regulated market where the same have been concluded, as of the moment of the stock exchange closing on the date of the Sub-fund’s net asset value calculation.

**Currency forwards** shall be valued at fair value applying the position-closing cost method. The fair value of a currency forward is the difference between the value of currency purchased and the value of currency sold, revaluated at the compensating forward rate as of the date of the Sub-fund’s net asset value calculation. Where the rate confirmed by transaction partner is not available, the transaction shall be valued at a price that is calculated on the basis of the market price of the underlying security, i.e., applying the current exchange rate and the market interest rates.

**SWAP (currency swap transaction)** is an instrument that consists of two parts - spot transaction and currency forward transaction. Therefore, each part of the transaction is valued separately, applying methods used for valuation of the relevant instrument.

#### 7.1.7. Revaluation of Assets in Currencies Other than the Base Currency of the Sub-fund

In accordance with the International Accounting Standards and the International Financial Reporting Standards assets in currencies other than the Base Currency of the Fund’s Sub-fund shall be valued in the Base Currency of the Fund’s Sub-fund at the exchange rate of respective currencies stated by the News and Information Agency “Bloomberg”, “Reuters” or other equivalent source of information as of the date of the Fund’s net asset value calculation.

### 7.2. Calculation of the Value of the Sub-fund’s Liabilities

**The value of liabilities** shall be calculated by adding up all payments charged to the Sub-fund’s account, including fees payable from the Sub-fund’s property to the Company, the Custodian, the Auditor and third parties, liabilities ensuing from the Sub-fund’s loans, and other liabilities.

Liabilities in currencies other than the base currency of the Sub-fund shall be revaluated in the Base Currency of the Fund at the exchange rate of respective currencies stated by the News and Information Agency “Bloomberg”, “Reuters” or other equivalent source of information as of the date of the Sub-fund’s net asset value calculation.

### 7.3. Revenue and Expense Accounting

Revenues and expenses related to the accounting period shall be disclosed in the Sub-fund’s Statement of Investment Income, regardless of the date of receipt or payment thereof. Accrued income shall only be included in the Sub-fund’s Statement of Investment Income if there is no doubt that it has been received.

### 7.4. Responsibility

The Company is fully responsible for conformity of calculation of the Sub-fund’s net asset value and the Sub-fund’s share value to the Law, the Prospectus, and the Fund Rules.

The Custodian shall control conformity of calculation of the Sub-fund’s net asset value and the Sub-fund’s share value to the Law, regulations of the Financial and Capital Market Commission, the Prospectus and the Fund Rules. Assets shall be valued on the basis of information on condition of the Fund’s property (cash accounts, securities portfolio and other property) supplied by the Custodian, and in accordance with procedures stated in Chapter 7 of the Prospectus.

**7.5. Frequency of Determining the Net Asset Value of the Sub-funds and Disclosing Information on the Net Asset Value of the Sub-funds**

The net asset value of the Sub-funds is determined on each business day after the Company receives from the Custodian the statement on the portfolio of the Sub-funds, which is submitted on each business day after 17.30.

At 10.00 the Company discloses information on the net asset value of the Sub-funds, determined for the previous business day, and the information can be obtained by phone calling numbers stated in the Prospectus, or directly at the Company's or Distributors office.

## 8. SALE OF INVESTMENT CERTIFICATES

Investment certificates are issued in public circulation in accordance with RL laws and regulations of the Latvian Central Depository.

The number of and time period for the issued investment certificates of the Sub-funds are not limited.

Investment certificates representing whole shares of the Fund can be divided with up to four decimals.

### 8.1. Procedures for and Places of Submitting Applications for Purchase of Investment Certificates of the Sub-funds of the Open-end Investment Fund

Each investor can apply for an unlimited number of investment certificates. The minimum investment in the Sub-fund is 1(one) investment certificate.

Applications for purchase of investment certificates of the Sub-funds may be submitted at the Company's office at Republikas square 2a, Riga, LV 1010, tel. (+371)67010810, fax (+371) 67778622 or by contacting Distributors.

The Distributor of investment certificates of the Sub-funds in Latvia is:

- JSC “Citadele banka” Republikas square 2a, Riga, LV 1010  
tel. (+371) 67010000, fax (+371) 67010001

as well as

- branches and customer service units of the JSC “Citadele banka”. Addresses of branches and customer service units are available at the Company’s office, by calling the JSC “Citadele banka”, or on the bank’s website: [www.citadele.lv](http://www.citadele.lv).

Applications for purchase of investment certificates of the Sub-funds of the open-end investment fund may be submitted to the Company or the Distributors on each business day during their business hours.

If the Company has received and accepted the application until 17:30 Latvian time, it is executed at the price of the Sub-fund's investment certificates, which is determined, after 17:30, for the day when the application was received.

If the Company has received and accepted the application after 17:30 Latvian time, such application can be regarded at the Company's discretion as received on the next business day.

The Distributors shall be entitled to engage in organising the distribution of the Sub-fund's investment certificates third persons, including intermediaries, dealers, and other persons authorised to provide this type of services. The Distributor shall organise and ensure that sale and redemption of the Fund's investment certificates is carried out in accordance with laws of the Republic of Latvia and/or country, in which the Sub-fund's investment certificates are sold, provisions of the Prospectus and the Fund rules. Delegation of the Distributor's duties to third persons does not discharge the Distributor from responsibility defined in the RL law.

In order to apply for the Sub-fund's investment certificates, an Investor shall open a financial instruments account with an account holder who is a member of the Latvian Central Depository (if the Sub-fund's investment certificates are purchased in Latvia), or with an account holder who can ensure, through inter-bank or central depository correspondent relationships, that financial instruments are kept with the Latvian Central Depository. Investors shall fill out and submit to the Company or the Distributor an Application for purchase of investment certificates of the Sub-funds of the open-end investment fund. By signing the Application the Investor certifies that he has studied the Prospectus and the Fund Rules and agrees to their provisions.

The Application for purchase of investment certificates shall contain information stated in Paragraph 8.2 of the Fund Rules. In the Application for purchase of investment certificates of the Sub-funds of the open-end investment fund the Investor shall indicate at his discretion his preferred *purchase mode*: fixed number of investment certificates or designated amount of money for the purchase of investment certificates.

Applications for purchase of investment certificates of the Sub-funds of the open-end investment fund are accepted and registered in accordance with the Fund Rules.

The Company shall be obliged to execute only accurately filled and prepared applications for purchase of investment certificates of the open-end investment fund. The Investor shall be responsible for the accuracy and completeness of the stated information.

## 8.2. Methods for and Frequency of Calculating the Sales Price of Investment Certificates

The sales price of the Sub-fund’s investment certificates is variable and is determined on each business day simultaneously with the Sub-fund’s share value.

**The sales price of the investment certificate** consists of the Sub-fund’s share value and the sales commission.

The Sub-fund’s share values are determined on each business day, and information about it is available at the Company’s office, or by calling the Company’s telephone numbers during its business hours. Such information is also available from the Distributors, at the stated Distributor’s address, or by calling the Distributor’s telephone numbers stated in Paragraph 8.1.

**The Sub-fund’s share value** is the Sub-fund’s net asset value divided by the number of investment certificates in circulation.

**The Sub-fund’s net asset value** is the value of the Sub-fund’s assets less the value of the Sub-fund’s liabilities.

The commission for the sale of investment certificates is calculated as a percentage of the Sub-fund’s share value. According to Paragraph 2.1 of the Prospectus, the maximum sales commission is 3.0% of the Sub-fund’s share value.

Calculations of the sales price of investment certificates are based on the Sub-fund’s share value, which was determined on the day when the application for purchase of investment certificates of the Sub-fund of the open-end investment fund was received, but which is published on the next business day.

## 8.3. Procedure for Settlements

Investment certificates are issued only against full payment of the price of certificates in cash.

The Sub-fund’s investment certificates are sold for the price determined for that day when the Company received and accepted the application for purchase of investment certificates of the open-end investment fund.

In accordance with Paragraph 8.1 of the Prospectus, the Company or the Distributor calculates, depending on the *purchase mode* chosen by the Investor, the number of investment certificates corresponding to the designated amount of money or the amount of money corresponding to the designated number of investment certificates.

Within five business days after submission of the Application for purchase of investment certificates of the Sub-funds of the open-end investment fund to the Company or to the Distributor, the Investor shall pay the price for investment certificates to the Sub-fund’s account with the Custodian. If within the prescribed time period the relevant amount of money for purchase of investment certificates has not been credited to the Sub-fund’s settlement account, the application is considered to be void.

If the Custodian holds settlement and financial instruments accounts for the Investor, submission of the Application for purchase of investment certificates of the Sub-fund of the open-end investment fund to the Company or to the Distributor shall be equivalent to the order to purchase financial instruments. The Custodian, on the basis of Application for purchase of investment certificates of Sub-fund of the open-end investment fund, shall effect cash and securities settlements. The Custodian shall debit the amount of money necessary for purchase of investment certificates from the Investor’s account and shall credit it to the Sub-fund’s settlement account with the Custodian. After receipt of the money on the Sub-fund’s settlement account with the Custodian, the Company shall issue new investment certificates and immediately credit them to the Investor’s financial instruments account with the Custodian.

If the Investor’s settlement and financial instruments accounts are held with another account holder, the Investor shall personally credit the amount of money necessary for purchase of the Sub-fund’s investment certificates to the Sub-fund’s settlement account with the Custodian. The Investor can choose to receive a transaction confirmation containing exact amount of money that Investor shall credit to the Sub-fund’s settlement account with the Custodian either at the Company’s office or by fax, or from the Distributor in accordance with its procedures.

The Company shall issue new investment certificates only after the Investor has credited the amount of money necessary for purchasing investment certificates to the Sub-fund’s settlement account with the Custodian. Investment certificates are credited to the Investor’s financial instruments account not later than within three business days after their receipt on the Sub-fund’s settlement account.

Settlement for investment certificates is effected in the Sub-fund’s base currency .

Other procedure for settlement with investment certificates may be agreed:

- upon mutual agreement between the Investor and the Company or Distributor;
- upon the Company’s request, where the money to be invested in the Sub-fund by the Investor exceeds 5% of the Sub-fund’s net asset value.

All expenses incurred by the Investor with regard to purchase of investment certificates (bank charges for operations with settlement and financial instrument accounts, etc.) shall be borne by the Investor.

If the Investor fails to credit to the Sub-fund’s account with the Custodian the amount of money necessary for full payment of the price of investment certificates, the Investor shall cover all costs and losses to the Sub-fund incurred as a result of failure to execute the Application for purchase of investment certificates of the Sub-fund of the open-end investment fund.

#### **8.4. Secondary Circulation of Investment Certificates**

The investment certificates of Sub-funds are transferable securities, and investors can dispose of them without limitations. The Company does not determine prices for transactions with investment certificates of the Sub-funds on the secondary market, and the Company shall not be held responsible for fluctuations on the secondary market in the price of investment certificates of the Sub-funds which it has issued.



## 9. REDEMPTION AND REPURCHASE OF INVESTMENT CERTIFICATES

### 9.1. Procedure for and Places of Submitting Applications for Redemption of Open-End Investment Fund Investment Certificates

The Company shall redeem investment certificates upon request from the Investor.

The Company redeems investment certificates in the order in which Applications for redemption are submitted and registered.

In order to request redemption of investment certificates of the Sub-funds of the “Citadele Eastern European Fixed Income Funds” the Investor shall submit to the Company or the Distributor the Application for redemption of investment certificates of the Sub-fund of the open-end investment fund.

The Investor may submit Applications for redemption of investment certificates of the Sub-fund of the open-end investment fund to the Company or the Distributors at the addresses referred to in Paragraph 8.1 during their business hours.

If the Company has received and accepted the application until 17:30 Latvian time, it is executed at the price of the Sub-fund’s investment certificates, which is determined, after 17:30, for the day when the application was received.

If the Company has received and accepted the application after 17:30 Latvian time, such application can be regarded at the Company’s discretion as received on the next business day.

The application for redemption of investment certificates shall contain information stated in Paragraph 8.6 of the Fund Rules.

In the application for redemption of investment certificates of the open-end investment fund the Investor shall indicate at his discretion the preferred *redemption mode*: fixed number of investment certificates to be redeemed, or designated amount of money for the redemption of investment certificates.

Only correctly filled out applications are valid. The Investor shall be responsible for the accuracy and completeness of the stated information.

### 9.2. Methods for and Frequency of Calculating Redemption Price for Investment Certificates

The **redemption price for investment certificate** is equal to the investment Sub-fund’s share value determined for the day when the Company has received and accepted the application for redemption of investment certificates of the open-end investment fund.

The Sub-fund’s net asset value and the Sub-fund’s share value are determined on each business day, and information about them is available at the Company’s office, or by calling the Company’s telephone numbers during its business hours. Such information is also available from the Distributors, at the stated Distributor’s address, or by calling the Distributor’s telephone numbers stated in Paragraph 8.1.

The redemption price for investment certificates is paid in the Sub-fund’s base currency.

No commission is applied to the redemption of investment certificates.

### 9.3. Procedure for Settlements

The Sub-fund’s investment certificates are redeemed at the price determined for the day when the Company has received and accepted the Application for redemption of investment certificates of the Sub-fund of the open-end investment fund.

In accordance with Paragraph 9.1 of the Prospectus, the Company or the Distributor calculates, depending on the *redemption mode* chosen by the Investor, the amount of money corresponding to the designated number of investment certificates or the number of investment certificates corresponding to the designated amount of money.

Within five business days after submission of the Application for redemption of investment certificates of the Sub-fund of the open-end investment fund to the Company or to the Distributor, the Investor shall credit the redeemable investment certificates to the Sub-fund’s issue account with the Custodian. If within the prescribed time period the number of redeemable investment certificates has not been credited to the Sub-fund’s issue account, the application is considered to be void.

If the Custodian holds settlement and financial instruments accounts for the Investor, submission of the Application for redemption of investment certificates of the Sub-fund of the open-end investment fund to the Company or to the Distributor shall be equivalent to the order to sell financial instruments. On the basis of the Application for redemption of investment certificates of the Sub-fund of the open-end investment fund the Custodian performs securities and cash settlement. The Custodian debits from the Investor’s account the redeemable investment certificates of the Sub-fund and credits them to the Sub-

fund's issue account with the Custodian. After receipt of investment certificates on the Fund's issue account, the Custodian shall immediately redeem them and within five business days the Company shall credit to the Investor's settlement account the relevant amount of money, in the Sub-fund's base currency that corresponds to the number of redeemed investment certificates.

If the Investor's settlement and financial instruments accounts are held with another account holder, the Investor shall personally credit the number of redeemable investment certificates of the Sub-fund stated in the Application to the Sub-fund's issue account with the Custodian. If the Investor has stated in the Application the amount of money to be received for redeemable investment certificates, then the Investor can receive transaction confirmation containing the exact number of redeemable investment certificates that the Investor shall credit to the Sub-fund's issue account with the Custodian at his discretion at the Company's office or by fax, or from the Distributor in accordance with the Distributor's prescribed procedure. After receipt of investment certificates on the Sub-fund's issue account with the Custodian, the Company shall immediately redeem them and within five business days shall credit to the Investor's settlement account the relevant amount of money, in the Sub-fund's base currency that corresponds to the number of redeemed investment certificates.

All expenses incurred by the Investor with regard to redemption of investment certificates (bank charges for operations with securities/cash settlement accounts, etc.) shall be borne by the Investor.

Where the Investor or Investors within 3 business days submit applications for redemption of investment certificates of the Sub-fund of the open-end investment fund that on aggregate exceed 10% of the Sub-fund's net asset value and their execution may substantially affect the interests of other Investors of the Sub-fund, the settlement period for redemption may be prolonged to ten business days.

The Company shall be bound to fulfil only those requests that precisely contain all necessary information. The Investor shall be responsible for the accuracy and completeness of the stated information.

If the Investor fails to credit to the Sub-fund's issue account with the Custodian the redeemable investment certificates in accordance with procedure and within the time period referred to in this paragraph, the Investor shall cover all costs and losses to the Sub-fund incurred as a result of the failure to execute the application for redemption of investment certificates of the Sub-fund of the open-end investment fund.

After redemption of investment certificates the Investor loses all rights associated with the ownership of investment certificates, excluding the right to redemption price of investment certificates.

The Sub-fund's investment certificate is a transferable security, and investors can dispose of them without limitations. The Company has no right to determine the price of investment certificates in the secondary market, and the Company is not responsible for fluctuations in the price of issued investment certificates of the Sub-fund in the secondary market.

#### **9.4. Procedures and Rules for Repurchase of Investment Certificates**

If data of material importance for the valuation of investment certificates stated in the Prospectus of the Sub-fund and documents enclosed thereto is incorrect or incomplete due to the Company's fault, the Investor shall be entitled to demand that the Company repurchases his investment certificates and reimburses him for all losses incurred thereof.

Such claim shall be lodged within six months from the date when the Investor has learned that such data is incorrect or incomplete and within three years from the date of purchase of such investment certificates at the latest.

#### **9.5. Conditions for Suspension of Redemption and Repurchase of Investment Certificates**

In case of extraordinary situation in financial markets (temporary shutdown of stock exchanges, banks, brokerages or any other reason preventing transactions in securities) or due to other events of uncontrollable nature, the Company may temporarily suspend trading in the Sub-fund's investment certificates. The Company shall immediately inform every investor directly or shall publish announcement in one of the daily periodicals.

The redemption and repurchase of investment certificates may be suspended in cases when the Commission exercises its right to limit the Company's rights to manage the Sub-fund's bank accounts, and in the event of liquidation of the Sub-fund.

Redemption and repurchase of investment certificates is prohibited after start of the Sub-fund's liquidation.

Upon liquidation of the Sub-fund, claims of the Sub-fund’s creditors and Investors shall be satisfied in accordance with procedures prescribed by the law.

**10. EXCHANGE OF THE FUND SUB-FUND'S INVESTMENT CERTIFICATES**

Upon Investor's request the Company exchanges the investment certificates of the Sub-fund against investment certificates of another Sub-fund of the open-ended investment fund “Citadele Eastern European Fixed Income Funds”.

In order to request the exchange of investment certificates of a Sub-fund of “Citadele Eastern European Fixed Income Funds”, the Investor shall submit to the Company or Distributors an Application for exchange of investment certificates of the Sub-fund of open-end investment fund “Citadele Eastern European Fixed Income Funds” for investment certificates of another Sub-fund.

The Investor can submit the Applications for exchange of the investment certificates of the sub-fund of the open-ended investment fund to the Company or the Distributors at addresses stated in Paragraph 8.1 of the Prospectus, during business hours of the Distributors.

If the Company has received and accepted the Application until 17:30 Latvian time, it is executed at the price of the Sub-fund's investment certificates determined, after 17:30, for the day when the application was received.

If the Company has received and accepted the Application after 17:30 Latvian time, such application can be regarded at the Company's discretion as received on the next business day.

For the purposes of exchange of investment certificates the Application shall contain information referred to in Paragraph 8.6 of the Fund rules.

At his discretion the Investor shall indicate in the Application for exchange of investment certificates of the Sub-fund of the open-ended investment fund the preferred *exchange mode*: fixed number of investment certificates to be exchanged or designated amount of money for the exchange of investment certificates.

The Company shall be bound to execute only correctly filled out Applications. The Investor shall be fully responsible for authenticity and completeness of information stated in the Application.

After receipt of Application for exchange of investment certificates of the Sub-fund of the open-ended fund the Company shall redeem investment certificates of the relevant Sub-fund and shall issue investment certificates of another Sub-fund as indicated by the Investor. In case of exchange of the investment certificates no cash payments to the Investor are made.

The Company shall redeem the investment certificates on the next business day after receipt of the Application for exchange of investment certificates of the Sub-fund of the open-ended fund. Redemption price is calculated in accordance with Paragraph 9.2 of the Prospectus. After receipt of investment certificates in the Sub-fund's issue account with the Custodian, the Company shall immediately redeem them and transfer the amount of money corresponding to the number of redeemed investment certificates to the designated Sub-fund's new account with the Custodian performing currency conversion where necessary. After receipt of the money in the Sub-fund's account with Custodian, the Company shall issue new investment certificates and transfer them to the Sub-fund's financial instruments account with the Custodian. The sales price of the Sub-fund's investment certificates is calculated in accordance with Paragraph 8.2 of the Prospectus.

In case of exchange of investment certificates of the Sub-funds commission fees for redemption and sale of investment certificates, referred to in Paragraph 2.1 of the Prospectus, are not charged, but the Company may apply commission for exchange of investment certificates of the Sub-funds which shall not exceed 1.0% of the share value of the Sub-fund to be exchanged.

Sub-fund's investment certificates are credited to the Investor's financial instruments account not later than within three business days after receipt and acceptance of the Application for exchange of investment certificates of the Sub-fund of the open-end investment fund.

In cases when Investor or Investors within three business days submit Applications for redemption and/or exchange of investment certificates of the Sub-fund of the open-ended fund which in total exceed 10% of the Sub-fund's asset value and their execution can substantially affect the interests of the remaining Investors of the Sub-fund, redemption settlement period can be prolonged up to 7 business days.

**11. DISTRIBUTION OF THE SUB-FUND’S INCOME**

Income received from the Sub-fund’s property is reinvested in the Sub-fund.

The Investor participates in distribution of income derived from transactions with the Sub-fund’s property in proportion to the number of investment certificates owned.

The income of the Investor is reflected in the increase or decrease of value of investment certificates. The Sub-fund’s share value is determined on each business day in accordance with the RL legal acts and provisions of the Prospectus and the Fund Rules.

The Investor can realize the income from the Sub-fund’s shares only by requesting the Company to redeem the security or by selling the investment certificate.

## 12. LIQUIDATION OF THE SUB-FUND

The liquidation of the Sub-fund shall be conducted in accordance with the Law “On Investment Management Companies”. The Sub-fund shall be liquidated by the Liquidator. The Liquidator may be the Company itself, the Custodian, or a person appointed by the Commission.

The Company may initiate the liquidation of the Sub-fund if Investors have been informed thereof at least three months in advance.

The liquidation of the Sub-fund is also carried out if:

- on the next day after expiry of the Custody Agreement a new Custody Agreement has not taken effect;
- within a year after the Sub-fund’s foundation no investment certificates have been issued in circulation;
- all Investors of the open-end fund have exercised the right to request the redemption, and the Company resolves to liquidate the Sub-fund.

The Liquidator shall immediately inform the Commission about the initiation of the Fund’s liquidation and shall publish an announcement to that effect in the official periodical “Latvijas Vēstnesis” and/or shall make an announcement in accordance with legal requirements of the country where the Sub-fund’s investment certificates are sold.

If the Company or the Custodian does not initiate the liquidation of the Sub-fund within a month from the day when the liquidation should have been initiated, the Commission shall appoint the Sub-fund’s liquidator. Such Liquidator shall have all the same rights as the Company if it was performing the liquidation.

The Liquidator of the Sub-fund shall have the right to take only those actions that are related to the Fund’s liquidation. During the liquidation it is prohibited to issue investment certificates, and to distribute to the Investors the Sub-fund’s income, if any, referred to in the Prospectus.

The Liquidator shall act in the interests of creditors and Investors. The Liquidator is fully liable to Investors and third persons for losses caused during the liquidation, if the Liquidator deliberately or inadvertently breaks the law or the Fund Rules or negligently performs his duties.

After initiation of the liquidation, the Liquidator of the Sub-fund shall organize and perform the sale of the Sub-fund’s property, except for the cash in the Sub-fund.

The Custodian or the Liquidator shall distribute the proceeds derived from the sale of property of the Sub-fund in liquidation as well as the cash in the Sub-fund (liquidation proceeds) in the following order:

- 1) claims of the secured creditors;
- 2) claims of creditors who lodged their claims within the term prescribed in the liquidation announcement;
- 3) claims of creditors who lodged their claims after the term prescribed in the liquidation announcement but prior to distribution of the liquidation proceeds.

If liquidation proceeds are insufficient to satisfy the above claims, unsatisfied claims shall be satisfied from the property of the investment Company, except for the claims incurred after the expiry of the Company’s management rights.

If liquidation proceeds are insufficient to satisfy the above claims incurred during the period when the Custodian exercised the management rights, the Custodian shall satisfy them. The remaining liquidation proceeds shall be distributed among the Investors in proportion to the number of investment certificates held.

All payments to creditors and Investors shall be made in cash.

**13. TAXES AND DUTIES**

The Company hereby gives a general survey of tax legislation of the Republic of Latvia as of the moment of registration of the Prospectus and bears no responsibility for procedures of tax application to each specific investor. The Investor should contact a tax advisor to clarify questions concerning procedures of tax application.

**Application of Corporate Income and Individual Income Tax**

According to the RL normative acts, investment funds are not subject to corporate income tax, thus, no corporate income tax shall be levied on funds accumulated by Investors in the Fund and on property owned by the Fund.

The Investors shall independently pay their individual income tax or corporate income tax on the relevant part of income in accordance with procedures stated by the RL Law “On Individual Income Tax” and the RL Law “On Corporate Income Tax”.

According to the RL Law “On Individual Income Tax”, no individual income tax is levied on income from the sale of investment certificates.

According to the RL Law “On Corporate Income Tax”, no corporate income tax is levied on income from the sale of investment certificates.

According to the RL Law “On Corporate Income Tax” and the RL Law “On Individual Income Tax”, no corporate income tax or individual income tax is levied on non-resident income from the sale of investment certificates.

**14. CERTIFICATION OF AUTHENTICITY OF INFORMATION INCLUDED IN THE PROSPECTUS BY THE EXECUTIVE BOARD OF THE COMPANY:**

*"We hereby certify that information contained in this Prospectus is authentic, and no facts that might be detrimental to the interests of possible Investors have been concealed."*

IMJSC "Citadele Asset Management"  
Chairman of the Executive Board

\_\_\_\_\_/V.Ivanovs/

IMJSC "Citadele Asset Management"  
Member of the Executive Board

\_\_\_\_\_/Z.Vaikulis/



**APPENDIX HISTORICAL PERFORMANCE OF THE FUND****Sub-fund “Citadele Eastern European Bond fund”****Description of Operations**

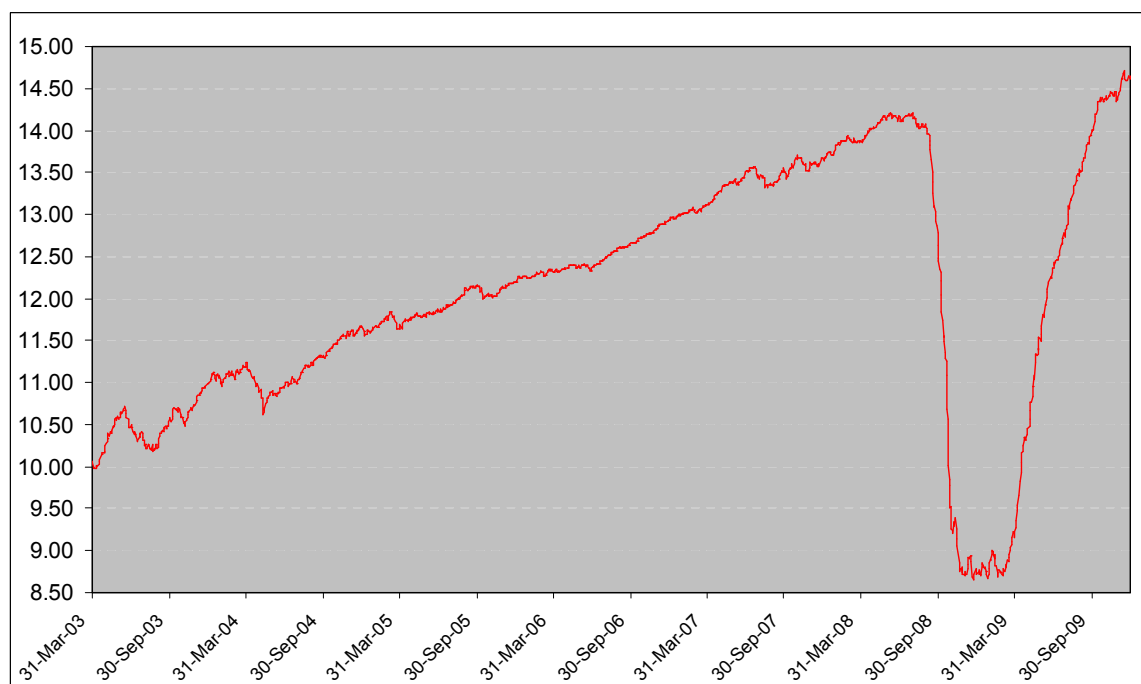
In 2009 net assets of the sub-fund decreased and to December 30, 2009 sub-fund’s net assets was USD 16,832,159.83. But in year 2009 sub-funds share value increased by 67.89 % and on December 30, 2009 it was USD 14.64.

**Financial Indicators**

	USD	30.12.2009
Net assets		16,832,159.83
Number of Investment Certificates		1,149,366.8948
Value of an Investment Certificate		14.64

**Dynamics of the sub-fund’s Share Value**

Period	Year 2009	Since re-registration
Increase/ decrease in the share value	67.89%	15.37 %



Historical performance of the Fund does not determine the Fund’s future performance. The historical dynamics does not guarantee similar dynamics in the future. The Fund’s net asset value can increase and decrease, and the Investor shall be aware that by investing in the Fund’s certificates he might receive back less than he invested.

**Sub-fund "Citadele Eastern European Balanced fund"****Description of Operations**

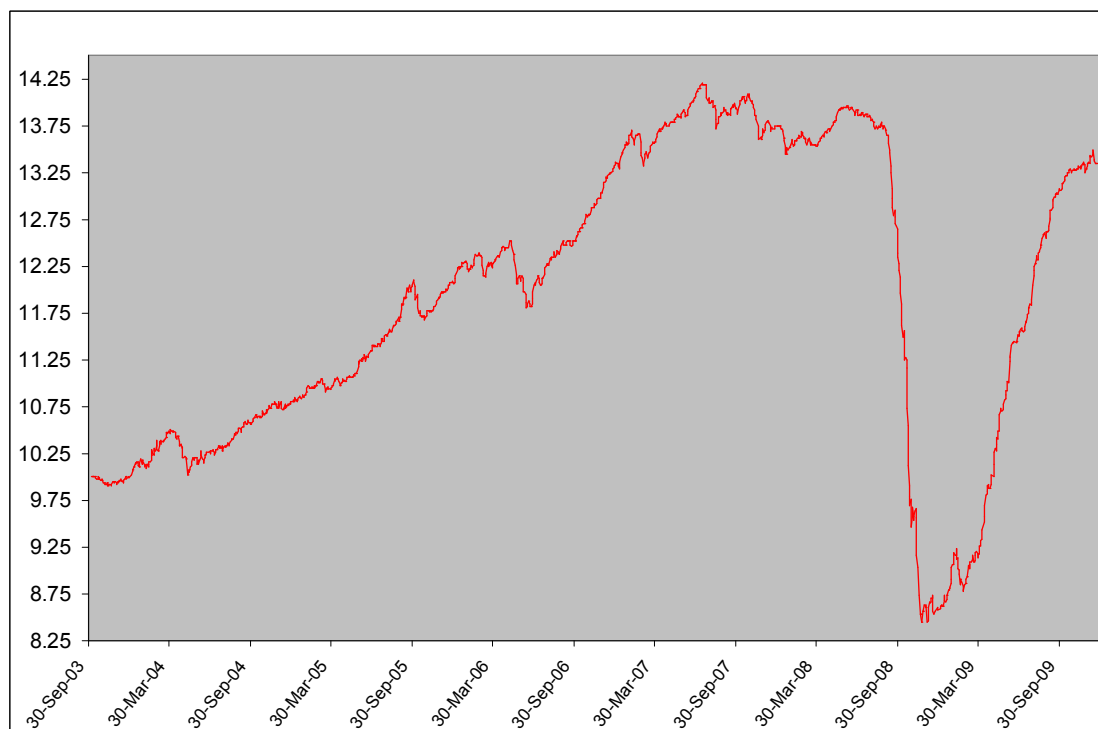
In 2009 net assets of the sub-fund increased and to December 30, 2009 sub-fund's net assets was EUR 12,594,943.53. In year 2009 sub-funds share value increased by 55.83 % and on December 30, 2009 it was EUR 13.37.

**Financial Indicators**

EUR	30.12.2009
Net assets	12,594,943.53
Number of Investment Certificates	942,108.8510
Value of an Investment Certificate	13.37

**Dynamics of the sub-fund's Share Value**

Period	Year 2009	Since re-registration
Increase/ decrease in the share value	55.83%	13.82%



Historical performance of the Fund does not determine the Fund's future performance. The historical dynamics does not guarantee similar dynamics in the future. The Fund's net asset value can increase and decrease, and the Investor shall be aware that by investing in the Fund's certificates he might receive back less than he invested.