IPAS CBL Asset Management

Annual Report

for 2018

Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

CBL Asset Management

CONTENTS

GENERAL INFORMATION

Name of the Company	CBL Asset Management
Legal status	Joint stock investment management company
Registration number with the Register of Enterprises, place and date	40003577500 Riga, 11 January 2002
Legal address	Republikas laukums 2a, Riga, Latvia, LV-1010
Shareholder	AS Citadele banka (100%) Republikas laukums 2a Riga, Latvia, LV-1522
Investment in companies	OOO Mizush Asset Management Ukraina (100%) Gorkogo 172, Kiev, Ukraine AAS CBL Life (100%) Republikas laukums 2a, Riga, Latvia
Members of the Board and their positions	Chairman of the Board – Kārlis Purgailis – appointed on 08.09.2017 Member of the Board – Zigurds Vaikulis – appointed on 19.04.2007 Member of the Board – Andris Kotāns – appointed on 11.05.2015 Member of the Board – Lolita Sičeva – appointed on 11.05.2015
Members of the Supervisory Council and their positions	Chairman of the Supervisory Council – Juris Jākobsons – appointed on 15.09.2016 Deputy Chairman – Vladimirs Ivanovs – appointed on 15.09.2016 Member of the Council – Peter Meier – appointed on 15.09.2016
Reporting year	01 January 2018 – 31 December 2018
Auditors	Valda Užāne Certified Auditor Certificate No. 4 SIA KPMG Baltics Vesetas iela 7 Riga, Latvia, LV-1013 Licence No. 55

MANAGEMENT REPORT

Line of business

IPAS CBL Asset Management (hereinafter – the Company) was established on 11 January 2002. The legal and postal address of the Company is Republikas laukums 2A, Riga, LV-1010, unified registration No. 40003577500. Licence for provision of investment management services – issued on 15 February 2002 and re-registered on 10 December 2004, 30 September 2005, 5 December 2010, 5 August 2014, 19 February 2014 and 19 January 2015 with a No.06.03.07.098/367. Licence for operation of alternative investment fund manager issued on 10 January 2014 and re-registered on 19 January 2015 with a No.06.13.08.098/369. Licence for managing state funded pension scheme funds issued on 20 September 2002.

The Company's operating activity in 2018 was related to the management of state-funded pension scheme funds, establishment and management of investment funds, individual management of customer financial instruments portfolios as well as management of private pension fund pension scheme funds.

The officials of the Company – the management and the council is presented in the general information section of these financial statements.

On basis of the decision made by the Board of the Parent company Citadele banka, three representative offices of the Company were liquidated: in Saint Petersburg and Moscow (Russia) and Minsk (Belarus).

Key events in 2018

After a highly successful 2017, economists and investors expected 2018 to become the year of the most comprehensive and rapid growth since the global crisis. These expectations were partly confirmed – GDP grew in almost all countries of the world, which was a rare phenomenon. The overall growth rate of the global economy also matched the forecasts made by the economists at the beginning of 2018. However, this was mainly due to faster growth in the US, China and India, as development in most other major countries declined sharply last year and in many places significantly lagged behind the initial forecasts. Among the countries presenting disappointing performance in 2018 were the three largest countries of the Eurozone – Germany, France, Italy, while elsewhere in the Eurozone, including the Baltic States, the economy grew faster than previously predicted.

The main reason for the global cooling was the US-initiated protectionism campaign against the major trading partners, particularly China, as well as specific domestic circumstances in Europe – from the automotive industry problems in Germany to the 'yellow vests' movement in France. The more uncertain the outlook for the global economy became, the more stressed the investors were due to the move of the world's major central banks towards a more restrictive monetary policy. The US Federal Reserve system continued to raise interest rates throughout the year and reduced its balance sheet and money in circulation, which gave rise to concerns about a possible policy error – overly restricting monetary policy.

The above-mentioned conditions had adverse impact on the performance of the global financial market in 2018. Already in February, investors' interest in risk ceased, and until the end of the year, global stock markets and higher-risk bond segments were under downward pressure. Also the so-called 'security assets' did not protect balanced portfolios of securities from the decline in risk assets. US government bond prices fell due to multiple base rate increases, while rising risk premiums put additional pressure on investment rating companies' bonds. In 2018, rarely any segment could show positive performance, with the exception of, for example, the low-yield German debt securities.

The very end of 2018 saw slight hope that the situation would get back to normal after the US postponed new trade tariffs and had negotiations with China, and also the FRS became more cautious and started to reduce its rates. The signs of stabilization emerged in the financial markets, creating a possibility of a positive turn.

Taking into account the changing and unstable background of the global economy and financial markets, within a balanced investment strategy, the Company responded to the changes in the situation in the funds, pension plans and individual portfolios managed by the Company in 2018, using both relatively cautious investment tactics and using the opportunity given by the increased market volatility circumstances.

The Latvian economy continued its swift growth in 2018, with GDP growing by 4.8%, despite rising trade conflicts, financial market fluctuations and a fall in growth rates in the Eurozone, with growth being increasingly based on domestic demand. Strong cyclical development in the construction sector and robust domestic demand driven by wage growth and reduced unemployment level helped to balance the slowdown in external demand. In construction, growth exceeded 20% for the second year in a row, facilitated by strong demand from both the private and public sectors. Meanwhile, a more moderate external demand was felt in manufacturing, where growth declined below 3% in 2018 compared to an 8% increase in 2017. Rapid growth in export of services continued – export of information and telecommunications services increased by almost 25% in 2018. After two years of decline, the volume of transit cargo also increased in Latvia in 2018. The outflow of non-residents' deposits had lesser impact on economic growth than predicted. The favourable economic situation contributed to further employment growth. In 2018, the unemployment rate in Latvia decreased to 7.4%, while the average wage increased by 8.4% and for the first time in history exceeded EUR 1000 per month.

In 2018, the Company managed the following investment funds:

CBL Equity Funds:
CBL Baltic Sea Equity Fund
CBL Russian Equity Fund

CBL Bond Funds:
CBL Eastern European Bond Fund Klase R Acc USD
CBL Eastern European Bond Fund Klase R Acc EUR (hedged)
CBL Global Emerging Markets Bond Fund R Acc USD
CBL Global Emerging Markets Bond Fund R Acc EUR (hedged)

CBL Funds of Funds:
As a result of the reorganisation of CBL Strategic Allocation Funds sub-funds and the change of the fund's name, as at the end of 2018 the Company managed:

CBL Prudent Opportunities Fund - EUR
CBL Optimal Opportunities Fund - EUR
CBL Optimal Opportunities Fund - USD

CBL Alternative Investment Fund:

SAIF Baltic Pearl Real Estate Fund

In the reporting year the funds managed by the Company continued to receive high-grade international awards. The internationally renowned financial research company Morningstar, as at the period end rated the performance of CBL Eastern European Bond Fund R Acc USD with the highest possible rating – five stars (overall rating), while the performance of CBL Russian Equity Fund and CBL Global Emerging Markets Bond Fund R Acc EUR was rated with three stars.

During the reporting year, the Company managed three state funded Tier II pension funds: IP CBL Aktīvais ieguldījumu plāns, IP CBL Universālais ieguldījumu plāns and the newly established IP CBL dzīves cikla plāns Millennials whose total amount as at 31 December 2018 was EUR 454 million.

Financial results

The customer base of the Company is diversified as our services are used by both private individuals and companies from Latvia and other countries. At the reporting date, total assets under management by the Company amounted to EUR 698 million, and the largest share of them, 65% or EUR 453 million, were funds of the state funded pension scheme while net assets of the investment funds managed by the Company amounted to EUR 73 million or 10.5% of total net assets. Other assets under management were assets of private individuals, legal persons and insurance companies; in total 465 customer portfolios with a total value of net assets of EUR 127 million and net assets of private pension funds with a total value of EUR 43 million.

Compared to 2017, in 2018 commission income decreased by 28% and amounted to EUR 5.08 million primarily due to reduced state funded pension scheme commission rates. Commission expenses decreased by 84% and amounted to EUR 0.22 million mainly due to reduced commission fee for customer acquisition under state funded pension plans. As a result, net commission income decreased by 15% and amounted to EUR 4.86 million. Total administrative and personnel expenses in 2018 decreased by 9% compared to 2017.

The financial result of the reporting year is a profit of EUR 2.52 million (2017: EUR 2.46 million).

The Company does not plan to distribute dividends in the amount of the entire profit of the reporting year.

As concerns customer acquisition and servicing, the Company maintains close cooperation with parent company Citadele banka. A number of operating processes of the Company are outsourced to the parent company. This approach has contributed to highly satisfactory financial performance in 2018 and it will be continued in the future.

Subsequent events

No significant subsequent events have occurred since the last day of the reporting period that would materially impact the Company's future operation.

Kārlis Purgailis
Chairman of the Board

28 March 2019

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

The Board (hereinafter - the Management) of the Company is responsible for the preparation of the financial statements of JSC Citadele Asset Management in accordance with the laws and regulations of the Republic of Latvia which require that the financial statements of asset management companies be prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements on pages 7 to 28 are prepared based on source documents and present fairly the financial position of the Company as at 31 December 2018 and the results of its operations, and cash flows for the year then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting methods have been consistently applied in the reporting period.

Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statement.

The management of the Company is responsible for the maintenance of a proper accounting system, safeguarding the Company's assets, and the prevention and detection of fraud and other irregularities in the Company. The company is responsible for the fulfilment of the legislation of the Republic of Latvia and regulations by the FCMC applicable to the Company.

Kārlis Purgailis
Chairman of the Board

28 March 2019

STATEMENT OF INCOME

	Note	2018 EUR	2017 EUR
Fee and commission income	3	5 076 346	7 009 691
Commission and fee expense	4	(216 843)	(1 307 723)
Net fee and commission income		**4 859 503**	**5 701 968**
Dividend income		-	27 731
Net foreign exchange transaction result	5	1 297	(64 445)
Other income		306	5 221
Net operating income		**4 861 106**	**5 670 475**
Administrative and other expenses	6	(608 117)	(774 049)
Personnel expenses	7	(1 717 308)	(1 794 691)
Amortisation and depreciation	11, 12	(13 385)	(14 395)
Impairment losses		(5 719)	(118 700)
Profit before taxation		**2 516 577**	**2 968 640**
Corporate income tax for the reporting year	8	-	(511 755)
Profit for the year		**2 516 577**	**2 456 885**
Total comprehensive income for the reporting year attributable to shareholders		**2 516 577**	**2 456 885**

The accompanying notes on pages 11 to 28 form an integral part of these financial statements.

Juris Jākobsons
Chairman of the Council

Kārlis Purgailis
Chairman of the Board

28 March 2019

BALANCE SHEET

	Note	31/12/2018 EUR	31/12/2017 EUR
Assets			
Long-term assets			
Long-term financial investments	10	4 268 615	4 268 615
Intangible assets	11	65 303	36 584
Property and equipment	12	422	4 257
Total long term assets		**4 334 340**	**4 309 456**
Short term assets			
Balances due from credit institutions	9	5 720 128	4 976 632
Deferred expenses and accrued income	13	431 036	1 694 978
Overpaid corporate income tax	20	250 988	34 211
Other assets	14	6 750	46 399
Total short term assets		**6 408 902**	**6 752 220**
Total assets		**10 743 242**	**11 061 676**
Equity and Liabilities			
Share capital	19	5 904 918	5 904 918
Retained earnings		4 063 635	4 003 943
Total equity and reserves		**9 968 553**	**9 908 861**
Accrued liabilities	15	115 964	266 442
Provisions	16	648 351	866 741
Other liabilities	18	10 374	19 632
Total liabilities		**774 689**	**1 152 815**
Total liabilities		**10 743 242**	**11 061 676**
Off balance sheet items			
Assets under management	24	697 828 648	720 763 032

The accompanying notes on pages 11 to 28 form an integral part of these financial statements.

Juris Jākobsons
Chairman of the Council

Kārlis Purgailis
Chairman of the Board

28 March 2019

STATEMENT OF CASH FLOWS

	2018 EUR	2017 EUR
Cash flows from operating activities		
Profit before income tax	2 516 577	2 968 640
Adjustments for		
Amortisation and depreciation	17 401	34 174
Impairment of investment	5 719	118 700
Dividend income	-	(27 731)
Cash flows before changes in assets and liabilities	**2 539 697**	**3 093 783**
Increase / (decrease) in deferred income and accrued expense	(236 773)	66 941
Decrease in deferred expense and accrued income	1 263 942	547 836
Decrease in other assets	39 649	5 311
Increase / (decrease) in other liabilities	(9 258)	12 408
Increase in cash and cash equivalents from operating activities before corporate income tax and received and paid interest	**3 597 297**	**3 726 279**
Corporate income tax paid	(216 777)	(654 212)
Interest received during the period	-	-
Net cash flows from operating activities	**3 380 480**	**3 072 067**
Cash flow from investing activities		
Acquired fixed and intangible assets	(42 285)	(6 231)
Dividends received	-	27 731
Investments in subsidiary	(137 814)	(118 700)
Received from liquidation of subsidiary	-	2 800
Net cash flows from investments activities	**(180 099)**	**(94 400)**
Cash flows from financing activities		
Dividends paid	(2 456 885)	(2 428 626)
Net cash flows from financing activities	**(2 456 885)**	**(2 428 626)**
Net cash flows for the reporting period	**743 496**	**549 041**
Cash and cash equivalents at the beginning of the reporting year (Note 9)	4 976 632	4 427 591
Cash and cash equivalents at the end of the reporting year (Note 9)	**5 720 128**	**4 976 632**

The accompanying notes on pages 11 to 28 form an integral part of these financial statements.

Juris Jākobsons
Chairman of the Council

Kārlis Purgailis
Chairman of the Board

28 March 2019

STATEMENT OF CHANGES TO THE SHAREHOLDERS' EQUITY

	Share capital EUR	Retained earnings EUR	Total equity EUR
Balance as at 31 December 2016	**5 904 918**	**3 975 684**	**9 880 602**
Profit for the reporting year	-	2 456 885	2 456 885
Dividends paid	-	(2 428 626)	(2 428 626)
Balance as at 31 December 2017	**5 904 918**	**4 003 943**	**9 908 861**
Profit for the reporting year	-	2 516 577	2 516 577
Dividends paid	-	(2 456 885)	(2 456 885)
Balance as at 31 December 2018	**5 904 918**	**4 063 635**	**9 968 553**

The Company has distributed all profit for 2017 as dividends. The taxable base in 2018 is EUR 0.

The accompanying notes on pages 11 to 28 form an integral part of these financial statements.

Juris Jākobsons
Chairman of the Council

Kārlis Purgailis
Chairman of the Board

28 March 2019

NOTES TO THE FINANCIAL STATEMENTS

1.GENERAL INFORMATION ABOUT THE COMPANY

Joint stock investment management company Citadele Asset Management (the 'Company') was established on 11 January 2002.

The Company manages securities portfolios on behalf of its customers, issues investment fund certificates and manages those funds, manages state funded pension scheme capital as well as provides customers with investment consulting. The sole shareholder of the Company is AS Citadele banka, the registered office of the joint stock investment management company IPAS CBL Asset Management is Republikas laukums 2a, Riga, LV - 1010, Latvia.

The financial statements were approved by the Board of the IPAS CBL Asset Management on 28 March 2019.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU, which includes standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Accounting Standards (IAS) approved by the International Accounting Standards Committee (IASC) and interpretations of the Standing Interpretations Committee (IFRIC). Certain notes have been prepared in accordance with the requirements of the Financial and Capital Market Commission (FCMC).

The financial statements are prepared on a historical cost basis.

These notes disclose the accounting policies consistently applied in 2017 and 2018, as well as the new standards and interpretations adopted by the Company that have not had effect on these financial statements.

Changes in accounting policies

The Company has consistently applied the accounting policies set out herein to all periods presented in these financial statements, since, as elaborated below, the new and amended standards have not had any effect on these statements.

New standards and interpretations

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 01 January 2018.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018). The main features of the new standard are as follow:

- Financial assets are classified in three measurement categories: those to be measured at amortised cost; those to be measured at fair value with revaluation in other comprehensive income; and those to be measured at fair value with revaluation in income statement.
- Classification of debt instruments depends on the business model of financial assets management, and on whether contractual cash flows only consist of principal and interest payments (SPPI). If a debt instrument is held to collect cash flows, it can be measured at amortised cost if in compliance with SPPI requirements. Such debt instruments which comply with SPPI requirement, however which are held to both collect asset cash flows and sell, can be classified as FVOCI. Financial assets whose cash flows do not comply with SPPI requirements, have to be measured FVTPL (for example, derivatives). Embedded derivatives are not unbundled from financial assets, however they are included after considering SPPI requirements.
- Equity instruments are always measured at fair value. However the management has an option to make an irrevocable choice to present the change in fair value through other comprehensive income, if the instrument is not held for trading. If equity instrument is held for trading, changes in fair value are recognised in income statement.
- Most of IAS 39 requirements regarding classification and measurement of financial assets remained unchanged also in IFRS 9. The key change relates to the situation where the company has to present in other comprehensive income the effect of changes in credit risk on financial liabilities at fair value with revaluation in income statement.
- IFRS 9 introduces a new model for impairment recognition – expected credit loss model (ECL). The model uses three-stage approach based on changes in the credit quality of the financial asset compared to initial recognition. In practice the new requirements mean that during the initial recognition the company will have to recognise immediate losses equal to 12-month ECL also when financial assets are not impaired (lifetime ECL will have to be recognised for trade receivables). When credit risk significantly increases, impairment is determined applying the asset's lifetime ECL, instead of 12-month ECL. The model includes operational incentives for lease and trade receivables.

- Risk hedging accounting requirements were supplemented to match the accounting with risk management. The standard offers companies accounting policy options: either to implement IFRS 9 risk hedging accounting or continue implementing IAS 39 for all risk hedging instruments, since IFRS 9 currently does not regulates accounting of macro risk hedging instruments.

During the implementation of the standard the Company was working on improving the necessary processes and systems. The new standard established different asset classification preconditions. To classify assets at amortised cost in line with the requirements set by the standard, they have to be assessed in compliance with the principle of Solely Payments of Principal and Interest (SPPI).

In accordance with the requirements of the new standard 'Due from credit institutions' were reclassified from 'Loans and receivables' (IFRS 39) to 'Measured at amortised cost' (IFRS 9). The Company believes that demand deposits with credit institutions, which is the Company's financial instrument, will not incur significant losses considering the low credit risk. Therefore, as of 1 January 2018, IFRS 9 will not have significant impact on the Company's financial statements.

IFRS 15 Revenue from contracts with customers. The new standard introduces a comprehensive framework which helps to determine, whether revenues should be recognised, in what amount and when. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and their interpretations. Initially the Company applied IFRS 15 on 01 January 2018 retrospectively in accordance with IAS 8 without using practical expedients. Adoption of IFRS 15 has not have impact on the timing or the amount in which the Company's revenue from client contracts is recognised.

New standards, amendments to standards and interpretations have been published effective for annual periods beginning after 1 January 2018 or not yet adopted by the EU and not applicable to these financial statements and which may not have significant impact on the Group are described below:

IFRS 16 Leases – (Effective for annual periods beginning on or after 1 January 2019). The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease agreements entitle the lessee to use the asset, and if lease payments are settled in a definite period, also financing component is included. IFRS 16 eliminates the option to classify lease agreements as operative or finance lease as established by IAS 17. Instead, the standard provides a single lessee accounting model. Accordingly the lessee in its accounting recognises: (a) assets and liabilities for all leases with the lease term exceeding 12 months, except for lease assets of low value; and (b) lease asset depreciation costs separately from lease liabilities' interest expenses. Accounting for lessees under IFRS 16 largely coincides with that of IAS 17. Accordingly, lessors continue to classify leases as operative or financial, and different accounting is maintained depending on classification.

The Company expects that the new standard, when initially applied, will have an impact on the financial statements as the Company will be required to recognise on its statement of financial position assets and liabilities relating to lease agreements under which the Company is a lessee. The Company has signed a lease agreement on premises that falls in the scope of IFRS 16. Therefore for the purpose of IFRS 16 it is estimated that the Company has undertaken to lease premises for three more years, which is a term that corresponds with the planning term of internal fixed assets. The amount of right-of-use asset and a respective lease liability to be recognised if the new standard would be adopted before the period end, would be approximately EUR 225 thousand.

Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions' (effective for annual periods beginning on or after 1 January 2018; not yet adopted in the EU).

Amendments to IFRS 17 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021; not yet adopted in the EU).

Improvements to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'. Effective for annual periods beginning on or after 1 January 2021; to be applied retrospectively.

Annual improvements to IFRS

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

IFRIC 23 Uncertainty over Income Tax Treatments

Amendments to references to the conceptual framework of IFRSs

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

Reporting currency

Items included in the financial statements of the investment company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in euro (EUR), which is the Company's presentation and functional currency. Opening balances as at 01 January 2018 agree with the prior year closing balances.

Consolidation

Since the parent company AS Citadele Banka prepares consolidated financial statements comprising also the financial statements of the Company and its subsidiaries, the Company does not prepare its consolidated financial statements. The consolidated financial statements of the parent company AS Citadele Banka will be available at the headquarters of AS Citadele Banka at Republikas laukums 2a, Riga and www.citadele.lv.

Recognition of income and expenses

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commission and fee income related to asset management and trading with fund shares is charged to the income statement as earned.

The Company determines the commission fee for the management of each UCITS (Undertakings Collective Investment in Transferable Securities) investment fund, alternative investment fund and state funded pension scheme, considering the investment policy, region and complexity of transactions of each fund and/or plan. Commission fees and their calculation is established and published in prospectuses of state funded pension schemes, which are approved and registered with FCMC. To determine the commission fees for the management of state funded pension schemes, the Company considers the maximum contribution as set by the Cabinet Regulations No 765 (until 31.12.2017 Cabinet Regulations No 615).

For the service – individual management of investors' financial instruments portfolios in accordance with the investors' authorisation (Portfolio management service), contribution to the company for individual management of portfolio is determined in accordance with the General pricelist of the company published on the website www.cblam.lv. Upon individual agreement, the Company and the Client may establish their special pricelist in the contract on investment portfolio management. Calculation and payment of contribution for the management of investment portfolios is determined in the General investment portfolio managements regulations published on the website www.cblam.lv.
Commission fee for the management of private pension funds established by the Company is included in the individual Pension Plan regulations, considering the investment policy, region and complexity of transactions of each plan. Amount and calculation of contributions to the Company as the pension plan manager is established and published in the Pension plan regulation, approved and registered with FCMC.

Foreign Currency Revaluation

The official currency unit of the Republic of Latvia Euro (EUR) is the functional currency of the Company which is used in these financial statements. Foreign currency transactions are revalued into euros at the official exchange rate set by the Bank of Latvia at the transaction date. All monetary assets and liabilities denominated in foreign currencies are translated to EUR according to the exchange rate of the ECB on the last day of the reporting year. Non-monetary items of assets and liabilities are revalued to euros in accordance with the reference exchange rate published by the European Central Bank on the transaction date. Differences arising on payments in currencies or disclosures of assets and liabilities using exchange rates other than those used for initial booking of transactions are recognized in the profit and loss statement at net amount.

	31/12/2018	31/12/2017
Foreign currency	EUR	EUR
1 USD	1.1450	1.1993

Taxes

Corporate income tax

Current tax

As of 1 January 2018, the new Corporate Income Tax Law adopted on 28 July 2017 comes into effect in the Republic of Latvia setting out a conceptually new regime for paying taxes. The tax rate is 20% (until 1 January 2018 – 15%), the taxation period is one month instead of a year and the taxable base includes:

– distributed profit (dividends calculated, payments equalled to dividends, conditional dividends) and

– conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive expenses which are incurred by entering transactions at prices other than those on the market that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or board (council members) regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

Intangible assets

Intangible assets are carried at historical cost amortized over the useful life of the asset on a straight line basis. The annual rate of amortization is 33%.

Term deposits

Term deposits of the Company are initially recognized at fair value and subsequently carried at amortized cost, which has been determined as the amount of cash placed in term deposit plus capitalized and accrued interest income using effective interest rates. Interest income on term deposits is recognized on an accrual basis, i.e. during the time period that has elapsed from the placement of term deposit until the reporting date.

Investments in subsidiaries and associates

Investments in subsidiaries (i.e. where the Company holds more than 50% of the share capital or exercises control of another type) and associates (i.e. where the Company has significant influence, but less than a controlling interest, which is presumed to exist with 20 to 50% of the share capital of the entity) are carried at cost. Subsequent to the initial recognition, investments in subsidiaries and associates are carried at cost less impairment. Should any events or changes in circumstances indicate that the book value of investments in subsidiaries and associated companies is no longer recoverable the respective investments in subsidiaries and associated companies are reviewed for impairment. Dividends received from the subsidiaries and associates are recognized when the legal right to receive them has been established.

Fixed assets

Property and equipment is carried at cost less accumulated depreciation and impairment. Should the recoverable amount of an asset become lower than its carrying amount for circumstances other than temporary the asset is written down to its recoverable amount.

Depreciation is calculated on a straight-line basis over the useful life of the asset. Depreciation rates range from 20% to 50% p.a.

Maintenance and repair expenses are charged to the income statement as incurred.

Profit or loss from disposal of an asset is calculated as the difference between the carrying amount of the asset and proceeds from sale, and is recognised in the income statement as incurred.

Assets under Management

Assets managed by the Company on behalf of customers, funds and other institutions are not regarded as assets of the Company. Such assets are not reflected on the balance sheet. Assets under management are presented in these financial statements only for information purposes.

Fair value of financial assets and liabilities

Financial assets held by the Company are classified as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables and cash and cash equivalents. Financial liabilities that include trade accounts payable and other financial liabilities arising from the operating activities of the Company are classified as other liabilities measured at amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company have access at that date. The fair value of liabilities represents the risk of default.

IFRS introduces a fair value hierarchy for the measurement of financial assets and liabilities, based on whether or not observable market data are used in the measurement of the fair value of financial assets and liabilities. The balance sheet of the Company does not include assets and liabilities at fair value. Fair values of financial assets and liabilities not measured at fair value may be classified in the following fair value hierarchy levels:

Cash and cash equivalents are included in Level 1. The Company believes that the fair value of these financial assets matches their initial nominal value and the carrying amount at any future date.

The Company has no financial assets and liabilities categorised as Level 2.

All other financial assets and liabilities are classified as level 3 of the fair value hierarchy. As the maturity for these financial assets and liabilities of the Company is largely below six months, so the Company believes that the fair value of these financial assets and liabilities matches their initial nominal value and the carrying amount at any future date.

The Company has the following financial instruments:

	2018	2017
Financial assets		
Balances due from credit institutions	5 720 128	4 976 632
Accrued income	409 668	1 664 302
Other assets	3 199	34 733
Total financial assets	**6 132 995**	**6 675 667**

Financial liabilities		
Provisions and other liabilities	119 402	280 920
Total financial liabilities	**119 402**	**280 920**

Cash and cash equivalents

Cash and cash equivalents represent cash in bank and short term deposits with initial maturity of less than 3 months.

Employee benefits

Employee entitlements to the annual leave are recognized when the vacation days have been accrued to the employees. Accruals for employees' annual leave pay are estimated based on days of unused annual leave of the employees up to the reporting date. The Company pays social security contributions to the state funded pension scheme on behalf of its employees in accordance with the laws and regulations of Latvia. The state funded pension scheme is a fixed contribution plan under which the Company pays contributions as defined in the legislation. The Company has no additional legal or constructive obligations to pay further contributions if the state funded pension scheme is unable to honour its liabilities towards the employees. Social security costs are recognized as expenses on an accrual basis and form a part of employee expenses.

Other receivables

Trade receivables are recognized and carried at amounts according to contractual provisions less allowances for any non-collectable amounts. A doubtful debt allowance is recognized when the recovery of the full amount is no longer probable. Bad debts are written off when recovery is deemed impossible.

Operating lease - the Company as a lessee

Lease in which a significant portion of the risks and rewards of ownership is retained by the lessor is classified as operating lease. Lease payments and prepayments for lease (less financial incentives received by the lessor) are in included in the income statement on a straight-line basis over the period of lease.

Use of estimates in the preparation of financial statements

In the preparation of the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and as adopted by the EU, the management has relied on certain estimates and assumptions that impact certain balance sheet and income statement items, and the amount of potential liabilities. The significant areas of estimation used in the preparation of the accompanying financial statements relate to impairment of subsidiaries, depreciation, amortization and accruals for unused vacations.

Below are presented the key assumptions concerning the key sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

Impairment of investments in subsidiaries is calculated based on the recoverable amount of the investment. Impairment is recognized for investments whose recoverable amount is lower than the carrying amount.

Future events may impact the assumptions used as the basis for estimates. The effect of any changes in estimates will be recorded in the financial statements when determinable. Due to the decision made by Citadele group to liquidate its subsidiary in Ukraine, the liquidation of the company is in progress and for that reason the Ukrainian subsidiary generates no revenue that could be used to cover the losses of this company during liquidation. Accordingly, the Company compensates the liquidation expenses by making investments in subsidiary. As it will not be possible to recover these investments, a 100% allowance was recognised for the amount of these investments (see Note 10).

Financial risk management

The Company has approved a risk management policy that forms the basis for the management and hedging of risks.

The conditions that underlie stress testing of capital adequacy were revised in light of instability in the global and Latvian financial markets and economy. The calculation of market risk relies on increasing the reliability of the models.

The key financial risks associated with the Company's financial instruments are currency risk, interest rate risk, credit risk, liquidity risk and capital adequacy.

Currency risk

The Company's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash and cash equivalents, other receivables and other payables. The Company is primarily exposed to currency risk in relation to the US dollar (see Note 22).

The following table demonstrates the sensitivity to a reasonably possible change in the USA dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Company's equity.

2018 EUR

Increase/decrease in USD exchange	Effect on profit/loss before tax	Effect on equity
+11%	5 006	5 006
-11%	(5 006)	(5 006)

2017 EUR

Increase/decrease in USD exchange	Effect on profit/loss before tax	Effect on equity
+11%	4 965	4 220
-11%	(4 965)	(4 220)

Liquidity risk

Liquidity risk relates to the Company's ability to settle its payment liabilities according to the investment management policy. The Company manages liquidity risk by maintaining appropriate amounts of cash and cash equivalents. In order to maintain sufficient cash balances the Company plans its cash flow and analyses the actual performance on a regular basis.

The maturity profile of the Company's financial assets and liabilities as at 31 December 2018 is disclosed in Note 23.

Credit risk

Credit risk is the likelihood of incurring losses if a Client fails to meet its contractual liabilities. The Company is exposed to credit risk in relation to receivables, accrued income, cash and cash equivalents. The maximum credit risk exposure as at 31 December 2018 on these assets was EUR 6 136 547 (2017: EUR 6 687 333).

In accordance with the Company's investment policy, funds are placed in term deposits based on the credit institution's credit rating and the interest rate offered.

Credit risk is managed by the Company by monitoring receivables on an ongoing basis to ensure that the Company's exposure to bad debts is minimized.

2018 EUR

	Neither past due nor impaired	Less than 30 days	31 – 60 days	31 – 60 days	91 – 180 days	More than 180 days	Total
Balances due from credit institutions	5 720 128	-	-	-	-	-	5 720 128
Accrued income (Note 13)	409 669	-	-	-	-	-	409 669
Other assets (Note 14)	6 750	-	-	-	-	-	6 750
Total	**6 136 547**						**6 136 547**

2017 EUR

	Neither past due nor impaired	Less than 30 days	31 – 60 days	31 – 60 days	91 – 180 days	More than 180 days	Total
Balances due from credit institutions	4 976 632	-	-	-	-	-	**4 976 632**
Accrued income (Note 13)	1 664 302	-	-	-	-	-	**1 664 302**
Other assets (Note 14)	46 399	-	-	-	-	-	**46 399**
Total	**6 687 333**						**6 687 333**

Interest rate risk

The Company is not exposed to a significant interest rate risk. The Company generates interest income from cash in term deposits at fixed interest rates.

Capital adequacy

The Company maintains an adequate amount of capital to be able to compensate losses that may be incurred by customers through the Company's fault. The equity requirements are determined in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013. As at 31 December 2018, the minimum ratio of equity against risk weighted assets and memorandum items as laid down by the Financial and Capital Market Commission of the Republic of Latvia is disclosed in Note 21.

3.NOTE FEE AND COMMISSION INCOME

	2018 EUR	2017 EUR
Management of investment funds	3 937 277	5 664 183
Management of individual portfolios	1 023 251	1 097 084
Commission income from counterparties	103 337	237 457
Issuance of investment certificates	4 778	10 435
Commission income from investment consultations	7 703	532
Total	**5 076 346**	**7 009 691**

4. NOTE FEE AND COMMISSION EXPENSES

	2018 EUR	2017 EUR
Distribution of investment certificates and other products	201 499	1 290 142
Custodian bank fees	163	3 815
Servicing of accounts	15 181	13 766
	216 843	**1 307 723**

5.NOTE FOREIGN EXCHANGE TRANSACTION RESULT, NET

	2018 EUR	2017 EUR
Profit/(loss) from revaluation of foreign currency	(1 142)	(63 304)
(Loss)/profit from foreign exchange transactions, net	2 439	(1 141)
Total	**1 297**	**(64 445)**

6.NOTE ADMINISTRATIVE AND OTHER EXPENSES

	2018 EUR	2017 EUR
Rent of premises	126 928	235 767
Advertising	34 944	30 304
Business trips	31 964	42 319
Non-deductible VAT	37 884	45 410
IT and communication expenses	129 132	138 200
Representation and marketing expenses	27 903	64 770
FCMC charges	93 014	87 545
Professional services	19 696	11 753
Other expenses	106 652	117 981
Total	**608 117**	**774 049**

The Company does not have any non-cancellable rent liabilities.

7.NOTE PERSONNEL COSTS

	2018 EUR	2017 EUR
Remuneration	1 125 840	1 189 430
Remuneration to the board members	267 154	262 577
Compulsory state social security contributions	324 110	342 473
Business risk state duty	204	211
Total	**1 717 308**	**1 794 691**

	2018	2017
The average number of staff in the reporting year	49	55

8.NOTE CORPORATE INCOME TAX

	2018 EUR	2017 EUR
Corporate income tax	-	(462 012)
Deferred tax	-	(49 743)
Total	**-**	**(511 755)**

Effective versus theoretical corporate income tax

	2018 EUR	2017 EUR
Profit before tax	-	2 968 640
Theoretical corporate income tax, 15%	-	445 296
Non-deductible expenses on the provisions for impairment of investments in subsidiaries and other non-deductible expenses	-	5 013
Other permanent differences and write-off of deferred tax asset	-	61 446
Actual corporate income tax for the reporting year	**-**	**511 755**

9.NOTE BALANCES DUE FROM CREDIT INSTITUTIONS

	31/12/2018 EUR	31/12/2017 EUR
Demand deposits with credit institutions*	5 720 128	4 976 632
Cash and cash equivalents	5 720 128	4 976 632
Balances due from credit institutions	**5 720 128**	**4 976 632**

* Interest is not calculated on cash deposits on demand with AS Citadele banka.

10.NOTE LONG TERM FINANCIAL INVESTMENTS

Related parties	Holding 31/12/2018 %	31/12/2018 EUR	Holding 31/12/2017 %	31/12/2017 EUR
OOO Mizush Asset Management Ukraina (Ukraine)	100%	2 124 105	100%	1 986 291
Provision recognized OOO Mizush Asset Management Ukraina (Ukraine)		(2 124 105)		(1 986 291)
AAS CBL Life (Latvia)	100%	4 268 615	100%	4 268 615
Total related parties		**4 268 615**		**4 268 615**

Provisions as at 31.12.2017	**1 986 291**
Increase in provisions:	137 814
Provision recognized OOO Mizush Asset Management Ukraina (Ukraine)	137 814
Provisions as at 31.12.2018	**2 124 105**

In 2012, the Company made the decision to liquidate subsidiary OOO Mizush Asset Management Ukraina (Ukraine) and (formerly OOO Citadele Asset Management).

In 2018, the Company made a contribution of EUR 137 814 into share capital and of OOO Mizush Asset Management Ukraina (Ukraine). As at 31.12.2017, EUR 132 095 from the contribution and EUR 5 719 in 2018 were recognised as investment impairment of OOO Mizush Asset Management Ukraina (Ukraina).

The Ukrainian company was engaged in the management of customer assets and funds. The company is expected to be liquidated during 2019.
Insurance joint-stock company CBL Life offers life insurance services.

Unaudited performance of related companies for 2018 is as follows:

Related parties	Total assets EUR	Total liabilities EUR	Total operating income or (loss) EUR	Profit or (loss) of the reporting period EUR
OOO Mizush Asset Management Ukraina (Ukraine)				
2017	39 968	10 994	-	(53 689)
2018	25 729	29 724	(7 808)	(171 763)
AAS CBL Life (Latvia)				
2017	46 834 760	41 980 817	1 538 347	274 054
2018	48 451 689	43 864 471	492 298	(42 171)

11.NOTE INTANGIBLE ASSETS

Licences and software

	2018 EUR	2017 EUR
Historical cost		
As at the beginning of the year	**103 079**	**101 414**
Additions	41 761	1 665
Disposals	(139)	-
Year-end	**144 701**	**103 079**
Accumulated amortisation		
As at the beginning of the year	**66 495**	**55 202**
Amortization	12 903	11 293
Disposals	-	-
Year-end	**79 398**	**66 495**
Carrying amount		
As at the beginning of the year	**36 584**	**46 212**
Year-end	**65 303**	**36 584**

12.NOTE PROPERTY AND EQUIPMENT

	2018 EUR			2017 EUR		
	Equipment and machinery	**Other fixed assets**	**Total**	**Equipment and machinery**	**Other fixed assets**	**Total**
Historical cost						
As at the beginning of the year	-	**31 473**	**31 473**	**29 668**	**29 591**	**59 259**
Additions	-	524	524	-	4 566	4 566
Disposals	-	(12 413)	(12 413)	(29 668)	(2 684)	(32 352)
Year-end	-	**19 584**	**19 584**	-	**31 473**	**31 473**
Accumulated amortisation						
As at the beginning of the year	-	**27 216**	**27 216**	**7417**	**29 270**	**36 687**
Amortization	-	482	482	2 472	630	3 102
Disposals	-	(8 536)	(8 536)	(9 889)	(2 684)	(12 573)
Year-end	-	**19 162**	**19 162**	-	**27 216**	**27 216**
Carrying amount						
As at the beginning of the year	-	**4 257**	**4 257**	**22 251**	**321**	**22 572**
Year-end	-	**422**	**422**	-	**4 257**	**4 257**

13.NOTE DEFERRED EXPENSES AND ACCRUED INCOME

	31/12/2018 EUR	31/12/2017 EUR
Financial assets		
Accrued fee and commission income	409 669	1 664 302
Non-financial assets		
Prepaid expenses	21 367	30 676
Total financial and non-financial assets	**431 036**	**1 694 978**

14.NOTE OTHER ASSETS

	31/12/2018 EUR	31/12/2017 EUR
Financial assets		
Guarantee deposits	71	34 437
Other receivables	3 128	296
Non-financial assets		
Prepayments to staff	-	3 275
Prepayments	2 839	7 929
Overpaid social security contributions, personal income tax	712	462
Total financial and non-financial assets	**6 750**	**46 399**

15.NOTE ACCRUED LIABILITIES

	31/12/2018 EUR	31/12/2017 EUR
Financial liabilities		
Professional services	115 964	266 442
Total	**115 964**	**266 442**

16.NOTE PROVISIONS

	31/12/2018 EUR	31/12/2017 EUR
Non-financial liabilities		
Accrued liabilities for vacations	50 208	81 531
Accruals for bonuses	215 586	265 558
Provisions for liquidation expenses of the subsidiary	382 557	387 557
Provisions for investments in subsidiary	-	132 095
Provisions	**598 143**	**785 210**
Total	**648 351**	**866 741**

17.NOTE OTHER LIABILITIES (PROVISIONS)

Provisions as at 31.12.2017	**785 210**
Increase of provisions	**120 311**
Variable part of remuneration for 2018	102 311
Liquidation of subsidiary	18 000
Decrease of provisions	**307 378**
Variable part of remuneration paid out for 2016/2017	150 049
Variable unpaid part of remuneration for 2017 written off	2 234
Liquidation expenses of the subsidiary used	23 000
Used to increase share capital of subsidiary	132 095
Provisions as at 31.12.2018	**598 143**

18.NOTE OTHER LIABILITIES

	31/12/2018 EUR	31/12/2017 EUR
Financial liabilities		
Accounts payable to suppliers and other companies	3 405	13 333
Due to personnel	33	1 145
Non-financial liabilities		
Due to personnel	-	347
Personal Income Tax	-	127
Value added tax	6 936	4 680
Total financial and non-financial liabilities	**10 374**	**19 632**

19.NOTE SHARE CAPITAL

As at 31 December 2018, share capital of the Company amounted to EUR 5 904 918 and consisted of 5 904 918 ordinary name shares. The nominal value of one share is EUR 1. AS Citadele banka is the sole shareholder of the Company. All shares are fully paid up.

20.NOTE TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS

	Value added tax EUR	Compulsory state social security contributions EUR	Personal Income Tax EUR	Corporate income tax EUR	Business risk duty EUR	Total EUR
Payable/(overpaid) 31.12.2017	4 680	109	(97)	(34 211)	-	**(29 519)**
Calculated for 2018	**80 266**	**485 925**	**263 714**	**0**	**204**	**830 109**
Paid in 2018	**(78 010)**	**(486 745)**	**(263 618)**	**(216 777)**	**(204)**	**(1 045 354)**
Payable/(overpaid) 31.12.2018	**6 936**	**(711)**	**(1)**	**(250 988)**	**-**	**(244 764)**

Assets and liabilities of compulsory state social security contributions and personal income tax paid in Latvia and other jurisdictions are presented separately.

21.NOTE CAPITAL ADEQUACY

Capital adequacy ratio calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the European Council of 26 June 2013 and the requirements of the FCMC as at 31 December 2018 and 2017 was as follows:

	31/12/2018 EUR	31/12/2017 EUR
Tier I capital		
Paid-up share capital	5 904 918	5 904 918
Audited retained earnings (not subject to dividend payment)	-	1 547 058
Audited profit for the reporting period	2 516 577	-
Intangible assets	(65 303)	(36 584)
Total Tier I capital	**8 356 192**	**7 415 392**
(Decrease) in equity		
Significant investments in other credit and financial institutions, insurance companies	(4 268 615)	(4 268 615)
Total (Decrease) in equity	**(4 268 615)**	**(4 268 615)**
Equity to be utilised in the capital adequacy ratio calculation	**4 087 577**	**3 146 777**
Summary of calculations		
Capital requirement equal to 25% of total recurring expenses of the previous year	**(645 784)**	**(756 075)**
Cover of capital requirement	**3 441 793**	**2 390 702**
Capital adequacy ratio %	**50.6%**	**33.3%**
FCMC minimum capital adequacy ratio requirement %	8.0%	8.0%

22.NOTE CURRENCY ANALYSIS

The following table presents certain balance sheet items by their currency profile as at 31 December 2018:

	EUR	USD	Other currencies	Total
Assets				
Balances due from credit institutions	5 717 190	351	2 587	**5 720 128**
Deferred expenses and accrued income	364 511	45 158	-	**409 669**
Other assets	3 199	-	-	**3 199**
Total financial assets as at 31.12.2018	**6 084 900**	**45 509**	**2 587**	**6 132 996**
Liabilities				
Accrued liabilities	(115 964)	-	-	**(115 964)**
Other liabilities	(3 438)	-	-	**(3 438)**
Total financial liabilities as at 31.12.2018	(119 402)	-	-	**(119 402)**
Net long/(short) position as at 31.12.2018	**5 965 498**	**45 509**	**2 58**	**6 013 594**

The following table presents certain balance sheet items by their currency profile as at 31 December 2017:

	EUR	USD	Other currencies	Total
Assets				
Balances due from credit institutions	4 954 410	629	21 593	**4 976 632**
Deferred expenses and accrued income	1 619 798	44 504	-	**1 664 302**
Other assets	1 861	-	32 872	**34 733**
Total financial assets as at 31.12.2017	**6 576 069**	**45 133**	**54 465**	**6 675 667**
Liabilities				
Accrued liabilities	(265 770)	-	(672)	**(266 442)**
Other liabilities	(13 333)	-	(1 145)	**(14 478)**
Total financial liabilities as at 31.12.2017	(279 103)	-	(1 817)	**(280 920)**
Net long/(short) position as at 31.12.2017	**6 296 966**	**45 133**	**52 648**	**6 394 747**

23.NOTE ASSETS AND LIABILITIES' CONTRACTUAL MATURITY STRUCTURE

The following table presents certain balance sheet items by their remaining maturity as at 31 December 2018:

	Up to 1 month	1 – 6 months	6 – 12 months	1 – 5 years	Over 5 years and with unlimite d term	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Assets						
Balances due from credit institutions	5 720 128	-	-	-	-	**5 720 128**
Deferred expenses and accrued income	409 668	-	-	-	-	**409 668**
Other assets	3 128	-	-	-	71	**3 199**
Total financial assets as at 31.12.2018	**6 132 924**	**-**	**-**	**-**	**71**	**6 132 995**
Liabilities						
Accrued liabilities	(36 372)	(38 592)	-	(40 000)	-	**(114 964)**
Other liabilities	(3 438)	-	-	-	-	**(3 438)**
Total financial liabilities as at 31.12.2018	**(39 810)**	**(38 592)**	**-**	**(40 000)**	**-**	**(118 402)**
Net long/(short) position as at 31.12.2018	**6 093 114**	**(38 592)**	**-**	**(40 000)**	**71**	**6 014 593**

The following table provides presents certain balance sheet items by their remaining maturity as at 31 December 2017:

	Up to 1 month	1 – 6 months	6 – 12 months	1 – 5 years	Over 5 years and with unlimited term	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Assets						
Balances due from credit institutions	4 976 632	-	-	-	-	**4 976 632**
Deferred expenses and accrued income	460 942	1 203 360	-	-	-	**1 664 302**
Other assets	296	-	-	-	34 437	**34 733**
Total financial assets as at 31.12.2017	**5 437 870**	**1 203 360**	**-**	**-**	**34 437**	**6 675 667**
Liabilities						
Accrued liabilities	(200 064)	-	(66 378)	-	-	**(266 442)**
Other liabilities	(14 478)	-	-	-	-	**(14 478)**
Total financial liabilities as at 31.12.2017	**(214 542)**	**-**	**(66 378)**			**(280 920)**
Net long/(short) position as at 31.12.2017	**5 223 328**	**1 203 360**	**(66 378)**	**-**	**34 437**	**6 394 747**

24.NOTE RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of AS Citadele banka. Other companies referred to as related parties are Citadele Group companies.

As at 31 December 2018 and 2017 balances due to and from related parties were as follows:

	31/12/2018	31/12/2017
	EUR	EUR
Assets		
Balances due from AS Citadele banka	5 720 128	4 964 117
SIA Citadele līzings un faktorings	-	20
Balances due to AAS CBL Life	3 505	2 540
Total	**5 723 633**	**4 966 677**
Liabilities		
Balances due to AS Citadele banka	1 802	167 729
Balances due to AAS CBL Life	7 904	6 400
Balances due to AB Citadele bankas	2 254	2 095
Total liabilities	**11 960**	**176 224**

Income and expense from related parties were as follows:

	2018	2017
Income	**EUR**	**EUR**
Other income from AS Citadele banka	-	5 221
Commission income from AAS CBL Life	34 080	31 448
Dividend income from SIA PR Speciālie Projekti	-	27 731
Total income	**34 080**	**64 400**
Expenses		
Commission expenses to AS Citadele banka	142 249	1 254 580
Commission expenses to AB Citadele bankas	26 598	15 761
Commission expenses to AAS CBL Life	33 588	24 733
Other expenses to AS Citadele banka	50 976	51 163
Lease and maintenance of premises expense to SIA Citadeles moduļi	100 167	100 494
Total expenses	**353 578**	**1 446 731**

As at 31 December 2017 and 2018 related party assets under management were as follows:

	31/12/2018	31/12/2017
	EUR	**EUR**
AAS CBL Life	21 636 434	16 130 386
Total	**21 636 434**	**16 130 386**

The table below provides an analysis of the total assets managed (including investment funds and pension plans managed by the Company) on behalf of the customers by investment type (thous. EUR):

	31/12/2018 THOUS. EUR	%	31/12/2017 THOUS. EUR	%
Debt securities				
Securities of credit institutions	20 945	3.00%	17 651	2.45%
Companies' securities	105 229	15.08%	71 777	9.96%
Central government bonds	71 568	10.26%	143 518	19.91%
Financial institution bonds	14 124	2.02%	18 006	2.50%
Municipality bonds	-	0.00%	-	0.00%
Total debt securities and other fixed income securities:	**211 866**	**30.36%**	**250 952**	**34.82%**
Other investments				
Investment funds	417 897	59.89%	347 350	48.19%
Shares	26 593	3.81%	27 634	3.83%
Cash	29 371	4.21%	77 738	10.79%
Term deposits	7 982	1.14%	12 267	1.70%
Real estate property	4 219	0.60%	4 310	0.60%
Derivatives	-99	-0.01%	512	0.07%
Total other investments:	**485 963**	**69.64%**	**469 811**	**65.18%**
Total debt securities and other investments	**697 829**	**100.00%**	**720 763**	**100.00%**

The table below provides an analysis of the funds managed (including investment funds and pension plans managed by the Company) on behalf of the customers by customer profile (thous. EUR):

	31/12/2018 THOUS. EUR	%	31/12/2017 THOUS. EUR	%
Residents				
Insurance companies, investment and pension funds	97 538	13.98%	91 127	12.64%
Pension plans	498 009	71.37%	476 231	66.07%
Other companies	1 385	0.20%	70 462	9.78%
Private individuals	63 337	9.08%	45 448	6.31%
Total residents	**660 269**	**94.62%**	**683 268**	**94.80%**
Total non-residents	**37 560**	**5.38%**	**37 495**	**5.20%**
Total residents and non-residents	**697 829**	**100.00%**	**720 763**	**100.00%**

The table presents the investment funds and state funded pension plans established and managed by the Company by their net assets (thous. EUR):

	31/12/2018 THOUS. EUR	%
State funded pension schemes		
CBL Aktīvais ieguldījumu plāns	338 154	64.09%
CBL Universālais ieguldījumu plāns	115 943	21.97%
CBL dzīves cikla plāns "Millennials"	863	0.16%
Total state funded pension schemes	**454 960**	**86.24%**
Investment funds		
IF CBL Eastern European Bond Fund R Acc EUR (hedged)	21 258	4.03%
IF CBL Eastern European Bond fund R Acc USD	7 533	1.43%
IF CBL Russian Equity Fund	3 568	0.68%
IF CBL Prudent Opportunities fund EUR *	915	0.17%
IF CBL Optimal Opportunities fund EUR **	5 559	1.04%
IF CBL Optimal Opportunities fund USD **	384	0.07%
SAIF Baltic Pearl Real Estate Fund	4 215	0.80%
IF CBL Baltic Sea Equity Fund	3 097	0.59%
IF CBL Global Emerging Markets Bond Fund Klase R Acc EUR (hedged)	22 939	4.35%
IF CBL Global Emerging Markets Bond Fund Klase R Acc USD	3 149	0.60%
Total investment funds	**72 617**	**13.76%**
Total pension plans and investment funds	**527 577**	**100.00%**

* Change of name from CBL Universal Strategy Fund EUR to CBL Prudent Opportunities Fund EUR

** Domestic merger of CBL Strategic Allocation Funds sub-funds

	31/12/2017 THOUS. EUR	%
State funded pension schemes		
CBL Aktīvais ieguldījumu plāns	321 955	64.21%
CBL Universālais ieguldījumu plāns	109 978	21.93%
Total state funded pension schemes	**431 933**	**86.14%**
Investment funds		
IF CBL Eastern European Bond Fund R Acc EUR (hedged)	19 192	3.83%
IF CBL Eastern European Bond fund R Acc USD	9 983	1.99%
IF CBL Russian Equity Fund	4 059	0.81%
IF CBL Universal Strategy Fund EUR	994	0.20%
IF CBL Universal Strategy Fund USD	227	0.04%
IF CBL Active Strategy Fund EUR	315	0.06%
IF CBL Active Strategy Fund USD	108	0.02%
IF CBL Balanced Strategy Fund EUR	5 250	1.05%
IF CBL Balanced Strategy Fund USD	144	0.03%
SAIF Baltic Pearl Real Estate Fund	4 489	0.90%
IF CBL Baltic Sea Equity Fund	3 966	0.79%
IF CBL Global Emerging Markets Bond Fund	20 767	4.14%
Total investment funds	**69 495**	**13.86%**
Total pension plans and investment funds	**501 428**	**100%**

25.NOTE SUBSEQUENT EVENTS

No significant subsequent events have occurred since the reporting date that would materially impact the Investment Company's financial position as at 31 December 2018.

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Independent Auditors' Report

To the shareholders of IPAS CBL Asset Management

Report on Audit of financial statements

Our opinion on the financial statements

We have audited the accompanying financial statements of IPAS CBL Asset Management ("Company") as set out on pages 7 to 28 of the accompanying Annual Report. The accompanying financial statements include:

- the balance sheet as at 31 December 2018,
- the statement of income for the year then ended,
- the statement of changes to shareholders' equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of IPAS CBL Asset Management as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not express a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

Existence and accuracy of revenue

The Company's revenue for the year ended 31 December 2018 amounted to EUR 5 076 346 (2017: EUR 7 009 691).

Reference to the financial statements: Note 2 'Income and expense recognition' on page 13 (accounting policy); Note 3 'Commission and fee income' on page 17 (Notes to the financial statements).

Key Audit Matter	*Our response*
As discussed in Note 1 to the financial statements, the Company provides asset management services to a number of investment funds it has set up and to state funded pension scheme funds, as well as manages individually managed portfolios for the benefit of third parties. The related revenue is generated as a fixed fee for management services and a variable fee depending on achievement of certain return criteria (performance fee). Fixed management fees are calculated at a fixed percentage of net assets of funds under management or individually managed portfolios, while performance fees are based on a formula set in the fund prospectus and are linked to the appreciation of assets held by the funds. We focused on this area due to the high daily volume of underlying transactions with an effect on the amount of revenue, coupled with the operational complexity involved in terms of the number of investment vehicles under management and the variety of fee rates and arrangements to be applied.	Our audit procedures included, among others: • Documenting, assessing and testing the design, implementation and operating effectiveness of the Company's key internal controls relating to the calculation and recognition of fee revenue, and of internal controls over daily revaluation of the net asset values of the investment vehicles under management. • Tracing fee rates applied by the Company in its computations of the fees and related fee calculation formulas to the prospectus of the funds managed by the Company. • For the year ended 31 December 2018: - Developed an independent forecast of fixed fee revenue by analytically estimating the fees to be recognized by reference to the contractual arrangements and the value of assets under management as reported by the custodian bank; - Tested the accuracy of the calculation of fixed fee revenue by reference to the provisions of the fund and plan prospectus and the value of assets under management disclosed in custodian bank reports. • Tested, on a sample basis, revenue other than that generated from the management of investment vehicles by reference to applicable provisions, primarily with regard to individually managed portfolios

or commission fees applicable to services such as sale or redemption of fund units.

- Assessed the accuracy and completeness of disclosures related to revenue recognition against the requirements of the relevant financial reporting standards.

Reporting on Other Information

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

- General Information about the Company, as set out on page 3 of the accompanying Annual Report,
- Management Report, as set out on pages 4 and 5 of the accompanying Annual Report.
- Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report.

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

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

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

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of Regulation No. 46 'Regulation on the preparation of annual reports, consolidated annual reports and interim reports of an investment fund and open alternative investment fund' issued by the Financial and Capital Market Commission.

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of Regulation No. 46 of the Financial and Capital Market Commission of the Republic of Latvia.

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

The Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the IFRS as adopted by the European Union and for the maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

We provide a statement to those charged with governance regarding the fact that we have fulfilled the binding ethical requirements regarding independence and objectivity and to inform on any relationship and other matters that could be reasonably considered to impair our independence and, if necessary, on safety measures to limit such effect.

Of all the matters that we have reported to those charged with governance, we determine the matters that we consider to be the most significant for the audit of the financial statements and that are therefore considered as key audit matters. We address these issues in the auditor's report, unless the law prevents public disclosure of such information, and in very rare cases, when we consider that the respective matter should not be addressed in our report, as it can be reasonably foreseen that the public benefit from the disclosure of such information would not outweigh the negative consequences arising from such disclosure.

Report on Other Legal and Regulatory Requirements

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by those charged with governance on 03 April 2018 to audit the financial statements of IPAS CBL Asset Management for the year ended 31 December 2018. Our total uninterrupted period of engagement is 6 years, covering the periods ended 31 December 2013 to 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia we have not provided to the Company any prohibited non-audit services (NASs) referred to in Article 5(1) of the EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, we have not provided any services to the Company in addition to the audit, which have not been disclosed in the Management Report or in the financial statements of the Company.

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/Ondrej Fikrle/
Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia

/Valda Užāne/
Valda Užāne
Certified Auditor
Certificate No. 4

28 March 2019

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